

Social Capital and Institutional Success

DILEMMAS OF COLLECTIVE ACTION

Collective life in the less civic regions of Italy has been blighted for a thousand years and more. Why? It can hardly be that the inhabitants prefer solitary and submissive squalor.¹ Foreign oppression might once have been part of the explanation for their plight, but the regional experiment suggests that self-government is no panacea. One is tempted to ask in exasperation: Have people in these troubled regions learned nothing at all from their melancholy experience? Surely they must see that they would all be better off if only everyone would cooperate for the common good.²

David Hume, the eighteenth-century Scottish philosopher, offered a simple parable that captures the essential dilemma that confounds rational public-spiritedness:

Your corn is ripe to-day; mine will be so to-morrow. 'Tis profitable for us both, that I shou'd labour with you to-day, and that you shou'd aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my own account, in expectation of a return, I know I shou'd be disappointed, and that I shou'd in vain depend upon your gratitude. Here then I leave you to labour alone; You treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security.³

Failure to cooperate for mutual benefit does not necessarily signal ignorance or irrationality. Game theorists have studied this fundamental predicament under a variety of guises.

- In *the tragedy of the commons*, no herder can limit grazing by anyone else's flock. If he limits his own use of the common meadow, he alone loses. Yet unlimited grazing destroys the common resource on which the livelihood of all depends.
- A *public good*, such as clean air or safe neighborhoods, can be enjoyed by everyone, regardless of whether he contributes to its provision. Under ordinary circumstances, therefore, no one has an incentive to contribute to providing the public good, and too little is produced, causing all to suffer.
- In the dismal *logic of collective action*, every worker would benefit if all

struck simultaneously, but whoever raises the strike banner risks betrayal by a well-rewarded scab, so everyone waits, hoping to benefit from someone else's foolhardiness.

- In *the prisoner's dilemma*, a pair of accomplices is held incommunicado, and each is told that if he alone implicates his partner, he will escape scot-free, but if he remains silent, while his partner confesses, he will be punished especially severely. If both remained silent, both would be let off lightly, but unable to coordinate their stories, each is better off squealing, *no matter what the other does*.

In all these situations, as in Hume's rustic anecdote, every party would be better off if they could cooperate. In the absence of a credible mutual commitment, however, each individually has an incentive to defect and become a "free rider." Each rationally expects the other to defect, leaving him with the "sucker's payoff." "These models are . . . extremely useful for explaining how perfectly rational individuals can produce, under some circumstances, outcomes that are not 'rational' when viewed from the perspective of all those involved."⁴

This quandary does not arise from malevolence or misanthropy, although those sentiments may be fostered by its grim denouement. Even if neither party wishes harm to the other, and even if both are conditionally predisposed to cooperate—I will, if you will—they can have no guarantee against renegeing, in the absence of verifiable, enforceable commitments. Worse yet, each knows that the other faces the same predicament. "It is necessary not only to trust others before acting cooperatively, but also to believe that one is trusted *by* others."⁵ In such circumstances, each finds cooperation irrational, and all end up with an outcome no one wants—unharvested corn, overgrazed commons, deadlocked government.

The principal problem for Hume's farmers is the absence of credible sanctions against defection: How can each be confident that the other will keep his word in the face of temptation to shirk? More complex contexts, like modern government (or modern markets), bring the added complication of monitoring: How can one agent know whether another did in fact make a "good faith effort" to keep his word, in the face of multiple uncertainties and countervailing pressures? Both accurate information and reliable enforcement are essential to successful cooperation.

The performance of all social institutions, from international credit markets to regional governments to bus queues, depends on how these problems are resolved. In a world of saints, perhaps, dilemmas of collective action would not arise, but universal altruism is a quixotic premise for either social action or social theory. If actors are unable to make credible commitments to one another, they must forgo many opportunities for mutual gain—ruefully, but rationally.

Hobbes, one of the first great social theorists to confront this perplexity, offered the classic solution: third-party enforcement. If both parties concede to the Leviathan the power to enforce comity between them, their reward is the mutual confidence necessary to civil life. The state enables its subjects to do what they cannot do on their own—trust one another. "Everyone for himself and the State for all," as Piotr Kropotkin, the Russian anarchist, skeptically characterized the guiding principle of modern society.⁶

Sadly, the solution is too neat. North puts the problem succinctly:

In principle, third-party enforcement would involve a neutral party with the ability, costlessly, to be able to measure the attributes of a contract and, costlessly, to enforce agreements such that the offending party always had to compensate the injured party to a degree that made it costly to violate the contract. These are strong conditions that obviously are seldom, if ever, met in the real world.⁷

Part of the difficulty is that coercive enforcement is expensive: "Societies which rely heavily on the use of force are likely to be less efficient, more costly, and more unpleasant than those where trust is maintained by other means."⁸ The more basic problem, however, is that impartial enforcement is itself a public good, subject to the same basic dilemma that it aims to solve. For third-party enforcement to work, the third party must itself be trustworthy, but what power could ensure that the sovereign would not "defect"? "Put simply, if the state has coercive force, then those who run the state will use that force in their own interest at the expense of the rest of society."⁹

History has taught southern Italians the improbability of the Hobbesian solution to dilemmas of collective action. "The classic providers of institutions—monarchs—sometimes provided institutions that were welfare enhancing; but they also provided institutions that led to economic decline."¹⁰ In the language of game theory, impartial third-party enforcement is not generally a "stable equilibrium," that is, one in which no player has an incentive to alter his behavior.

In the classic prisoner's dilemma and related dilemmas of collective action, by contrast, defection *is* a stable equilibrium strategy for all parties. "'Defect' is the unique best reply, not only to itself, but *all* strategies, pure or mixed."¹¹ However unfortunate the consequences for all concerned, defection remains rational for any individual.

Yet, as others have observed, this theory proves too much, for it *underpredicts* voluntary cooperation. To Hume's very example of uncooperative neighboring fanners, for example, we must counterpose the *aiutarella* long practiced by sharecroppers in central Italy or the practice of barn-raising on the American frontier, which are all the more puzzling in

light of the compelling logic of collective action. "We should ask why uncooperative behaviour does not emerge as often as game theory predicts."¹²

This question has engaged the creative energies of many scholars in recent years. Game theorists generally agree that cooperation should be easier when players engage in indefinitely repeated games, so that a defector faces punishment in successive rounds. This principle is fundamental to further theorizing in this field. (It is so widely recognized that one version of it is known as the Folk Theorem.)¹³ Other conditions internal to the game itself that can favor cooperation, theoretically speaking, are that the number of players be limited, that information about each player's past behavior be abundant, and that players not discount the future too heavily. Each of these factors is important. They seem to imply, however, that impersonal cooperation should be rare, whereas it seems to be common in much of the modern world. How come?¹⁴

One important line of research, exemplified by the work of economist Oliver Williamson, has emphasized the role of formal institutions in reducing "transaction costs" (that is, the costs of monitoring and enforcing agreements), and thus in enabling agents more efficiently to surmount problems of opportunism and shirking.¹⁵ As we noted in Chapter 1, Elinor Ostrom has recently demonstrated the value of this approach by carefully comparing cooperative attempts to manage common-pool resources, such as grazing grounds, water supplies, and fisheries. Why, she asks, have some institutions succeeded in overcoming the logic of collective action and others failed? Among the principles of institutional design suggested by her comparisons are that the boundaries of the institution be clearly defined, that affected parties participate in defining the rules, that violators be subject to graduated sanctions, that low-cost mechanisms be available for resolving conflicts, and so on.¹⁶

This version of "the new institutionalism" leaves open, however, a crucial question: How and why are formal institutions that help surmount collective action problems actually provided? It would seem that the participants themselves cannot create the institution, for the same reason that they need it in the first place, and an impartial "lawgiver" is as problematical as an impartial Hobbesian sovereign.¹⁷

We cannot write a contract (i.e., a constitution) to abide by our constitution without falling into an infinite regress of such contracts. Formal mechanisms of social control should archetypically be subject to free riding, as ruling cliques whittle away at the constitution, otherwise well-meaning citizens let their neighbors bear the costs of policing these usurpers, and scofflaws cheat on their taxes and run traffic lights."¹⁸

Scofflaws, shirkers, and ruling cliques do afflict many societies, of course, as citizens in the less civic regions of Italy can testify. Yet collab-

orative institutions elsewhere seem to work more effectively. Why? To resolve this puzzle, some hard-nosed theorists recently have turned to what Robert Bates terms "soft" solutions, such as community and trust: "In a world in which there are prisoner's dilemmas, cooperative communities will enable rational individuals to transcend collective dilemmas."¹⁹

SOCIAL CAPITAL, TRUST, AND ROTATING CREDIT ASSOCIATIONS

Success in overcoming dilemmas of collective action and the self-defeating opportunism that they spawn depends on the broader social context within which any particular game is played. Voluntary cooperation is easier in a community that has inherited a substantial stock of social capital, in the form of norms of reciprocity and networks of civic engagement.²⁰

Social capital here refers to features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions:

Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence. . . . For example, a group whose members manifest trustworthiness and place extensive trust in one another will be able to accomplish much more than a comparable group lacking that trustworthiness and trust. . . . In a farming community . . . where one farmer got his hay baled by another and where farm tools are extensively borrowed and lent, the social capital allows each farmer to get his work done with less physical capital in the form of tools and equipment.²¹

Spontaneous cooperation is facilitated by social capital. An instructive illustration of this principle is a type of informal savings institution found on every continent called a *rotating credit association*. A rotating credit association consists of a group "who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation."²² Rotating credit associations have been reported from Nigeria to Scotland, from Peru to Vietnam, from Japan to Egypt, from West Indian immigrants in the eastern United States to Chicanos in the West, from illiterate Chinese villagers to bank managers and economic forecasters in Mexico City. Many U.S. savings and loans reportedly began life as rotating credit associations.²³

In a typical rotating credit association, each of twenty members might contribute a monthly sum equivalent to one dollar, and each month a different member would receive that month's pot of twenty dollars to be used as he or she wished (to finance a wedding, a bicycle, a sewing machine, or new inventory for a small shop).²⁴ That member is ineligible for subse-

quent distributions, but is expected to continue making regular contributions until all members have had a turn at receiving the pot. Rotating credit associations vary widely in size, social composition, organization, and procedures for determining the payout. All combine sociability with small-scale capital formation.

Rotating credit associations, however convivial their meetings, represent something more than social entertainment or altruism. Clifford Geertz reports from Java, for example, that the *arisan* (the term literally means "cooperative endeavor" or "mutual help") reflects "not so much a general spirit of cooperativeness—Javanese peasants tend, like many peasants, to be rather suspicious of groups larger than the immediate family—but a set of explicit and concrete practices of exchange of labor, of capital, and of consumption goods which operate in all aspects of life. . . . Cooperation is founded on a very lively sense of the mutual value to the participants of such cooperation, not on a general ethic of the unity of all men or on an organic view of society."²⁵

Rotating credit associations clearly violate the logic of collective action: Why shouldn't a participant drop out once he has received the pot? Seeing that risk, why would anyone else contribute in the first place? "A rotating credit association obviously cannot function unless all members continue to keep up their obligations."²⁶ Yet rotating credit associations flourish where no legal Leviathan stands ready to punish defection.

The risk of default is well recognized by participants, and organizers select members with some care. Thus, a reputation for honesty and reliability is an important asset for any would-be participant. One important source of reputational information, of course, is previous participation in another rotating credit association, and acquiring a sound reputation is one important side-benefit of taking part. Both reputational uncertainty and the risk of default are minimized by strong norms and by dense networks of reciprocal engagement. So strong can be the norm against defection that members on the verge of default are reported to have sold daughters into prostitution or committed suicide.²⁷

In a small, highly personalized community, such as an Ibo village in Nigeria, the threat of ostracism from the socioeconomic system is a powerful, credible sanction. In the more diffuse, impersonal society of contemporary Mexico City, by contrast, more complex networks of mutual trust must be woven together to support rotating credit associations. Vélez-Ibañez has described a flourishing array of Mexican rotating credit associations extending along social networks, based on *confianza* (generalized reciprocity and mutual trust). "*Confianza* links will be both direct and indirect and will vary in quality and density. In many cases, members must trust in the trust of others to complete their obligations, since they know little about them. As one informant put it, 'mutual trust is lent!'"²⁸

Social networks allow trust to become transitive and spread: I trust you, because I trust her and she assures me that she trusts you.

Rotating credit associations illustrate how dilemmas of collective action can be overcome by drawing on external sources of social capital, for they "use pre-existing social connections between individuals to help circumvent problems of imperfect information and enforceability."²⁹ Like conventional capital for conventional borrowers, social capital serves as a kind of collateral, but it is available to those who have no access to ordinary credit markets.³⁰ Lacking physical assets to offer as surety, the participants in effect pledge their social connections. Thus social capital is leveraged to expand the credit facilities available in these communities and to improve the efficiency with which markets operate there.

Rotating credit associations are often found in conjunction with cooperatives and other forms of mutual aid and solidarity. In part, this is because all these forms of voluntary cooperation are fed by the same underlying stock of social capital. As Ostrom reports of small-scale common-pool resources (CPR), such as Alpine meadows, "When individuals have lived in such situations for a substantial time and have developed shared norms and patterns of reciprocity, they possess social capital with which they can build institutional arrangements for resolving CPR dilemmas."³¹

Mutual aid practices, like rotating credit associations, themselves also represent investments in social capital. The Javanese *arisan* "is commonly viewed by its members less as an economic institution than a broadly social one whose main purpose is the strengthening of community solidarity." In Japan, too, "the *ko* is but one of several traditional forms of mutual aid common in Japanese villages, including exchange labor patterns, reciprocal gift giving, communal house raising and repairing, neighborly assistance in death, illness, and other personal crises and so forth. Thus, as in rural Java, the rotating credit association is more than a simple economic institution: it is a mechanism strengthening the overall solidarity of the village."³²

As with conventional capital, those who have social capital tend to accumulate more—"them as has, gets." "Success in starting small-scale initial institutions enables a group of individuals to build on the social capital thus created to solve larger problems with larger and more complex institutional arrangements. Current theories of collective action do not stress the process of accretion of institutional capital."³³

Most forms of social capital, such as trust, are what Albert Hirschman has called "moral resources"—that is, resources whose supply increases rather than decreases through use and which become depleted if *not* used.³⁴ The more two people display trust towards one another, the greater their mutual confidence.³⁵ Conversely:

Deep distrust is very difficult to invalidate through experience, for either it prevents people from engaging in the appropriate kind of social experiment or, worse, it leads to behaviour which bolsters the validity of distrust itself. . . . Once distrust has set in it soon becomes impossible to know if it was ever in fact justified, for it has the capacity to be *self-fulfilling*.³⁶

Other forms of social capital, too, such as social norms and networks, increase with use and diminish with disuse.³⁷ For all these reasons, we should expect the creation and destruction of social capital to be marked by virtuous and vicious circles.

One special feature of social capital, like trust, norms, and networks, is that it is ordinarily a public good, unlike conventional capital, which is ordinarily a private good. "As an attribute of the social structure in which a person is embedded, social capital is not the private property of any of the persons who benefit from it."³⁸ Like all public goods, social capital tends to be undervalued and undersupplied by private agents. For example, my reputation for trustworthiness benefits you as well as me, since it enables us both to engage in mutually rewarding cooperation. But I discount the benefits to you of my being trustworthy (or the costs to you of my being untrustworthy) and thus I underinvest in trust formation.³⁹ This means that social capital, unlike other forms of capital, must often be produced as a by-product of other social activities.⁴⁰

Trust is an essential component of social capital. As Kenneth Arrow has observed, "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence."⁴¹ Anthony Pagden recalls the insights of a shrewd eighteenth-century Neapolitan economist, Antonio Genovesi:

In the absence of trust, [Genovesi] pointed out, "there can be no certainty in contracts and hence no force to the laws," and a society in that condition is effectively reduced "to a state of semi-savagery." . . . [In Genovesi's Naples] bonds and even money, since so much of it was false, were no longer freely accepted and the Neapolitans were reduced to the condition of the savages described by Genovesi who will only give with the right hand if they simultaneously receive with the left.⁴²

In the civic regions of Italy, by contrast to Naples, social trust has long been a key ingredient in the ethos that has sustained economic dynamism and government performance.⁴³ Cooperation is often required—between legislature and executive, between workers and managers, among political parties, between the government and private groups, among small firms, and so on. Yet explicit "contracting" and "monitoring" in such

cases is often costly or impossible, and third-party enforcement is impractical. Trust lubricates cooperation. The greater the level of trust within a community, the greater the likelihood of cooperation. And cooperation itself breeds trust. The steady accumulation of social capital is a crucial part of the story behind the virtuous circles of civic Italy.

The trust that is required to sustain cooperation is not blind. Trust entails a prediction about the behavior of an independent actor. "You do not trust a person (or an agency) to do something merely because he says he will do it. You trust him only because, knowing what you know of his disposition, his available options and their consequences, his ability and so forth you expect that he will *choose* to do it."⁴⁴ In small, close-knit communities, this prediction can be based on what Bernard Williams calls "thick trust," that is, a belief that rests on intimate familiarity with *this* individual. In larger, more complex settings, however, a more impersonal or indirect form of trust is required.⁴⁵ How does personal trust become social trust?

NORMS OF RECIPROCITY AND NETWORKS OF CIVIC ENGAGEMENT

Social trust in complex modern settings can arise from two related sources—norms of reciprocity and networks of civic engagement.⁴⁶ Social norms, according to James Coleman, transfer the right to control an action from the actor to others, typically because that action has "externalities," that is, consequences (positive or negative) for others. Sometimes externalities can be captured through a market exchange, but often they cannot. Norms arise when "an action has similar externalities for a set of others, yet markets in the rights of control of the action cannot easily be established, and no single actor can profitably engage in an exchange to gain rights of control."⁴⁷ Norms are inculcated and sustained by modeling and socialization (including civic education) and by sanctions.⁴⁸

An example may clarify: Novembers here are windy, and my leaves are likely to end up on other people's yards. However, it is not feasible for my neighbors to get together to bribe me to rake. The norm of keeping lawns leaf-free is powerful in my neighborhood, however, and it constrains my decision as to whether to spend Saturday afternoon watching TV. This norm is not actually taught in local schools, but neighbors mention it when newcomers move in, and they reinforce it in frequent autumnal chats, as well as by obsessive raking of their own yards. Non-rakers risk being shunned at neighborhood events, and non-raking is rare. Even though the norm has no legal force, and even though I prefer watching the Buckeyes to raking up leaves, I usually comply with the norm.

Norms such as those that undergird social trust evolve because they lower transaction costs and facilitate cooperation.⁴⁹ The most important of these norms is reciprocity. Reciprocity is of two sorts, sometimes called "balanced" (or "specific") and "generalized" (or "diffuse").⁵⁰ Balanced reciprocity refers to a simultaneous exchange of items of equivalent value, as when office-mates exchange holiday gifts or legislators log-roll. Generalized reciprocity refers to a continuing relationship of exchange that is at any given time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future. Friendship, for example, almost always involves generalized reciprocity. Cicero (a native, by the way, of central Italy) stated the norm of generalized reciprocity with admirable clarity: "There is no duty more indispensable than that of returning a kindness. All men distrust one forgetful of a benefit."⁵¹

The norm of generalized reciprocity is a highly productive component of social capital. Communities in which this norm is followed can more efficiently restrain opportunism and resolve problems of collective action.⁵² Reciprocity was at the core of the "tower societies" and other self-help associations that eased the security dilemma for citizens in the northern communal republics of medieval Italy, as well as the mutual aid societies that arose to address the economic insecurities of the nineteenth century. The norm of generalized reciprocity serves to reconcile self-interest and solidarity:

Each individual act in a system of reciprocity is *usually* characterized by a combination of what one might call short-term altruism and long-term self-interest: I help you out now in the (possibly vague, uncertain and uncalculating) expectation that you will help me out in the future. Reciprocity is made up of a series of acts each of which is short-run altruistic (benefiting others at a cost to the altruist) but which together *typically* make every participant better off.⁵³

An effective norm of generalized reciprocity is likely to be associated with dense networks of social exchange. In communities where people can be confident that trusting will be requited, not exploited, exchange is more likely to ensue. Conversely, repeated exchange over a period of time tends to encourage the development of a norm of generalized reciprocity.⁵⁴ In addition, certain sorts of social networks themselves facilitate the resolution of dilemmas of collective action. Mark Granovetter has stressed that trust is generated and malfeasance discouraged when agreements are "embedded" within a larger structure of personal relations and social networks.⁵⁵

Personal interaction generates information about the trustworthiness of other actors that is relatively inexpensive and reliable. As the folk theorem from game theory reminds us, ongoing social relations can generate

incentives for trustworthiness. In addition, continuing relations "often become overlaid with social content that carries strong expectations of trust and abstention from opportunism. . . . Prisoner's Dilemmas are . . . often obviated by the strength of personal relations."⁵⁶ The embeddedness approach predicts that the mix of order and disorder, of cooperation and opportunism, in a society will depend on the pre-existing social networks.

Any society—modern or traditional, authoritarian or democratic, feudal or capitalist—is characterized by networks of interpersonal communication and exchange, both formal and informal. Some of these networks are primarily "horizontal," bringing together agents of equivalent status and power. Others are primarily "vertical," linking unequal agents in asymmetric relations of hierarchy and dependence. In the real world, of course, almost all networks are mixes of the horizontal and the vertical: Even bowling teams have captains, while prison guards occasionally fraternize with inmates. The actual networks that characterize an organization may be inconsistent with the ideology that inspires it.⁵⁷ Nominally similar groups may have different types of networks. For example, all religious groups blend hierarchy and equality, but networks within Protestant congregations are traditionally thought to be more horizontal than networks in the Catholic Church.⁵⁸ Nonetheless, the basic contrast between horizontal and vertical linkages, between "web-like" and "may-pole-like" networks, is reasonably clear.

Networks of civic engagement, like the neighborhood associations, choral societies, cooperatives, sports clubs, mass-based parties, and the like examined in Chapters 4 and 5, represent intense horizontal interaction. Networks of civic engagement are an essential form of social capital: The denser such networks in a community, the more likely that its citizens will be able to cooperate for mutual benefit. Why, exactly, do networks of civic engagement have this powerfully beneficial side-effect?

- Networks of civic engagement increase the potential costs to a defector in any individual transaction. Opportunism puts at risk the benefits he expects to receive from all the other transactions in which he is currently engaged, as well as the benefits from future transactions. Networks of civic engagement, in the language of game theory, increase the iteration and interconnectedness of games.⁵⁹
- Networks of civic engagement foster robust norms of reciprocity. Compatriots who interact in many social contexts "are apt to develop strong norms of acceptable behavior and to convey their mutual expectations to one another in many reinforcing encounters." These norms are reinforced by "the network of relationships that depend on the establishment of a reputation for keeping promises and accepting the norms of the local community regarding behavior."⁶⁰

- Networks of civic engagement facilitate communication and improve the flow of information about the trustworthiness of individuals. Networks of civic engagement allow reputations to be transmitted and refined.⁶¹ As we have seen, trust and cooperation depend on reliable information about the past behavior and present interests of potential partners, while uncertainty reinforces dilemmas of collective action. Thus, other things being equal, the greater the communication (both direct and indirect) among participants, the greater their mutual trust and the easier they will find it to cooperate.⁶²
- Networks of civic engagement embody past success at collaboration, which can serve as a culturally-defined template for future collaboration. "The cultural filter provides continuity so that the informal solution to exchange problems in the past carries over into the present and makes those informal constraints important sources of continuity in long-run social change."⁶³

As we observed in Chapter 5, the civic traditions of northern Italy provide a historical repertoire of forms of collaboration that, having proved their worth in the past, are available to citizens for addressing new problems of collective action. Mutual aid societies were built on the razed foundations of the old guilds, and cooperatives and mass political parties then drew on the experience of the mutual aid societies. The contemporary Italian environmental movement draws on these earlier precedents. Conversely, where no prior example of successful civic collaboration exists, it is more difficult to overcome barriers of suspicion and shirking. Faced with new problems requiring collective resolution, men and women everywhere look to their past for solutions. Citizens of civic communities find examples of successful horizontal relationships in their history, whereas those in less civic regions find, at best, examples of vertical supplication.

A vertical network, no matter how dense and no matter how important to its participants, cannot sustain social trust and cooperation. Vertical flows of information are often less reliable than horizontal flows, in part because the subordinate husbands information as a hedge against exploitation. More important, sanctions that support norms of reciprocity against the threat of opportunism are less likely to be imposed upwards and less likely to be acceded to, if imposed.⁶⁴ Only a bold or foolhardy subordinate, lacking ties of solidarity with peers, would seek to punish a superior.

Patron-client relations, for example, involve interpersonal exchange and reciprocal obligations, but the exchange is vertical and the obligations asymmetric. Pitt-Rivers calls clientelism "lopsided friendship."⁶⁵ Furthermore, the vertical bonds of clientelism "seem to undermine the hori-

zontal group organisation and solidarity of clients and patrons alike—but especially of the clients."⁶⁶ Two clients of the same patron, lacking direct ties, hold nothing hostage to one another. They have nothing to stake against mutual defection and nothing to fear from mutual alienation. They have no occasion to develop a norm of generalized reciprocity and no history of mutual collaboration to draw on. In the vertical patron-client relationship, characterized by dependence instead of mutuality, opportunism is more likely on the part of both patron (exploitation) and client (shirking). The fact that vertical networks are less helpful than horizontal networks in solving dilemmas of collective action may be one reason why capitalism turned out to be more efficient than feudalism in the eighteenth century, and why democracy has proven more effective than autocracy in the twentieth century.

Kinship ties have a special role in the resolution of dilemmas of collective action. In some respects bonds of blood are comparable to horizontal ties of civic engagement, but family is more nearly universal. It is no accident that family firms and close-knit ethnic minorities (Jews in Europe, overseas Chinese in Asia, and so on) have been important in the early stages of the commercial revolution. However, networks of civic engagement are more likely to encompass broad segments of society and thus undergird collaboration at the community level. Ironically, as Granovetter has pointed out, "strong" interpersonal ties (like kinship and intimate friendship) are less important than "weak ties" (like acquaintanceship and shared membership in secondary associations) in sustaining community cohesion and collective action. "Weak ties are more likely to link members of *different* small groups than are strong ones, which tend to be concentrated within particular groups."⁶⁷ Dense but segregated horizontal networks sustain cooperation *within* each group, but networks of civic engagement that cut across social cleavages nourish wider cooperation. This is another reason why networks of civic engagement are such an important part of a community's stock of social capital.

If horizontal networks of civic engagement help participants solve dilemmas of collective action, then the more horizontally structured an organization, the more it should foster institutional success in the broader community. Membership in horizontally ordered groups (like sports clubs, cooperatives, mutual aid societies, cultural associations, and voluntary unions) should be positively associated with good government. Since the organizational realities of political parties vary from party to party and region to region (vertical in some places, horizontal in others), we should expect party membership as such to be unrelated to good government. Membership rates in hierarchically ordered organizations (like the Mafia or the institutional Catholic Church) should be negatively associated with good government; in Italy, at least, the most devout church-

goers are the least civic-minded.⁶⁸ All these expectations are consistent with the evidence of this study, as we saw in Chapters 4 and 5.⁶⁹ Good government in Italy is a by-product of singing groups and soccer clubs, not prayer.

This interpretation of the beneficial effects of civic networks is in some respects contrary to other theories of political and economic development. In *The Rise and Decline of Nations*, Mancur Olson, building on his own seminal explication of the logic of collective action, argues that small interest groups have no incentive to work toward the common good of society and every incentive to engage in costly and inefficient "rent-seeking"—lobbying for tax breaks, colluding to restrain competition, and so on.⁷⁰ Worse yet, in the absence of invasion or revolutionary change, the thicket of special interest groups in any society grows ever denser, choking off innovation and dampening economic growth. More and stronger groups mean less growth. Strong society, weak economy.

Just as Olson laments the economic effects of associationism, some students of political development argue that a strong, well organized, and exuberant society impedes the effectiveness of government. Joel Migdal, for example, has recently argued:

social structure, particularly the existence of numerous other social organizations that exercise effective social control, has a decisive [negative] effect on the likelihood of the state's greatly expanding its capabilities. . . . The major struggles in many societies, especially those with fairly new states . . . are over whether the state will be able to displace other organizations in society that make rules against the wishes and goals of state leaders.⁷¹

In short, more and stronger groups mean feeble government. Strong society, weak state.

The evidence and the theory of our study contradict both these theses. Historically, we argued in Chapter 5, norms and networks of civic engagement have fostered economic growth, not inhibited it. This effect continues today. Over the two decades since the birth of the regional governments, civic regions have grown faster than regions with fewer associations and more hierarchy, *controlling for their level of development in 1970*. Of two regions equally advanced economically in 1970, the one with a denser network of civic engagement grew significantly faster in the ensuing years.⁷² Similarly, as we saw in Chapter 4, civic associations are powerfully associated with effective public institutions. The theory sketched in this chapter helps explain why social capital, as embodied in horizontal networks of civic engagement, bolsters the performance of the polity and the economy, rather than the reverse: Strong society, strong economy; strong society, strong state.

HISTORY AND INSTITUTIONAL PERFORMANCE: TWO SOCIAL EQUILIBRIA

In all societies, to summarize our argument so far, dilemmas of collective action hamper attempts to cooperate for mutual benefit, whether in politics or in economics. Third-party enforcement is an inadequate solution to this problem. Voluntary cooperation (like rotating credit associations) depends on social capital. Norms of generalized reciprocity and networks of civic engagement encourage social trust and cooperation because they reduce incentives to defect, reduce uncertainty, and provide models for future cooperation. Trust itself is an emergent property of the social system, as much as a personal attribute. Individuals are able to be trusting (and not merely gullible) because of the social norms and networks within which their actions are embedded.⁷³

Stocks of social capital, such as trust, norms, and networks, tend to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of cooperation, trust, reciprocity, civic engagement, and collective well-being. These traits define the civic community. Conversely, the absence of these traits in the *uncivic* community is also self-reinforcing. Defection, distrust, shirking, exploitation, isolation, disorder, and stagnation intensify one another in a suffocating miasma of vicious circles. This argument suggests that there may be at least *two* broad equilibria toward which all societies that face problems of collective action (that is, *all* societies) tend to evolve and which, once attained, tend to be self-reinforcing.

The strategy of "never cooperate" is a stable equilibrium, for reasons that are well explicated in standard accounts of the prisoner's dilemma.⁷⁴ Once trapped in this situation, no matter how exploitative and backward, it is irrational for any individual to seek a more collaborative alternative, except perhaps within the immediate family. The "amoral familism" that Banfield observed in the Mezzogiorno is, in fact, not irrational, but the only rational strategy for survival in this social context.⁷⁵ Actors in this social equilibrium may well realize that they are worse off than they would be in a more cooperative equilibrium, but getting to that happier equilibrium is beyond the power of any individual.

In this setting, we should expect the Hobbesian, hierarchical solution to dilemmas of collective action—coercion, exploitation, and dependence—to predominate. This oppressive state of affairs is clearly inferior to a cooperative outcome, for it dooms the society to self-perpetuating backwardness. Nevertheless, it is preferable to a purely anarchic "state of nature," as has also been clear to southern Italians from medieval to mod-

ern times. This Hobbesian outcome has at least the virtue that it is attainable by individuals who are unable to trust their neighbors. Minimal security, no matter how exploitative and inefficient, is not a contemptible objective for the powerless.

The difficulty of solving dilemmas of collective action in this Hobbesian equilibrium means that society is worse off than in a cooperative outcome. This shortfall is probably even greater in a complex industrial or postindustrial context, where impersonal cooperation is essential, than a simple agricultural society. As Douglass North, an astute theorist of economic history, has observed, "the returns on opportunism, cheating, and shirking rise in complex societies."⁷⁶ Thus, the importance of social capital (to inhibit opportunism, cheating, and shirking) increases as economic development proceeds. This may help explain why the gap between the civic North and the uncivic South has widened over the last century.

Authoritarian government, patron-clientelism, extralegal "enforcers," and the like represent a second-best, "default" solution: Through them, individuals can find some refuge from the war of all against all, without pursuing the impossible dream of cooperation. Force and family provide a primitive substitute for the civic community. This equilibrium has been the tragic fate of southern Italy for a millennium.

Given an adequate stock of social capital, however, a happier equilibrium is also attainable. Assuming that prisoner's dilemmas are iterated or interconnected (as they are in a civic community), "brave reciprocity" is also a stable equilibrium strategy, as the game theorist Robert Sugden has recently shown: "Cooperate with people who cooperate with you (or who cooperate with people like you), and don't be the first to defect." Sugden shows, specifically, that in what he calls "the mutual-aid game" (a formalization of the implicit bargaining that underlies mutual aid societies, cooperatives, rotating credit associations, Hume's game of the two farmers, and so on) cooperation can be sustained indefinitely. To be sure, even in an indefinitely repeated mutual-aid game, "always defect" is *also* a stable equilibrium, but if a society can somehow move toward the cooperative solution, it will be self-reinforcing.⁷⁷ In a society characterized by dense networks of civic engagement, where most people abide by civic norms, it is easier to spot and punish the occasional "bad apple," so that defection is riskier and less tempting.

Sugden's analysis leads to the conclusion that both "always defect" and "reciprocate help" are contingent conventions—that is, rules that have evolved in particular communities and, having so evolved, are stable, but that might have evolved otherwise. In other words, reciprocity/trust and dependence/exploitation can each hold society together, though at quite different levels of efficiency and institutional performance. Once in either of these two settings, rational actors have an incentive to act consistently

with its rules. History determines which of these two stable outcomes characterizes any given society.

Historical turning points thus can have extremely long-lived consequences. As the "new institutionalists" have emphasized, institutions—and we would add, the social settings that condition their operation—evolve through history, but they do not reliably reach unique and efficient equilibria.⁷⁸ History is not always efficient, in the sense of weeding out social practices that impede progress and encourage collective irrationality. Nor is this inertia somehow attributable to individual irrationality. On the contrary, individuals responding rationally to the social context bequeathed to them by history reinforce the social pathologies.

Recent theorists of economic history have dubbed this feature of social systems "path dependence": where you can get to depends on where you're coming from, and some destinations you simply cannot get to from here.⁷⁹ Path dependence can produce durable differences in performance between two societies, even when the formal institutions, resources, relative prices, and individual preferences in the two are similar. The implications of this point for economic (and political) development are profound: "If the process by which we arrive at today's institutions is relevant and constrains future choices, then not only does history matter but persistent poor performance and long-run divergent patterns of development stem from a common source."⁸⁰

Douglass North has illustrated this point by tracing the post-colonial experiences of North and South America to their respective colonial legacies.⁸¹ After independence, both the United States and the Latin republics shared constitutional forms, abundant resources, and similar international opportunities; but North Americans benefited from their decentralized, parliamentary English patrimony, whereas Latin Americans were cursed with centralized authoritarianism, familism, and clientelism that they inherited from late medieval Spain. In our language, the North Americans inherited civic traditions, whereas the Latin Americans were bequeathed traditions of vertical dependence and exploitation. The point is not that the preferences or predilections of individual North and South Americans differed, but that historically derived social contexts presented them with a different set of opportunities and incentives. The parallel between this North-South contrast and our Italian case is striking.⁸²

Using the term "institution" in a broad sense to mean "the rules of the game in a society," North points out that institutional patterns are self-reinforcing, even when they are socially inefficient.⁸³ First, it is almost always easier for an individual agent to adapt to the existing rules of the game than to seek to change them. Indeed, those rules tend to induce the rise of organizations and groups with a stake in their inefficiencies. Second, once development has been set on a particular course, organizational

learning, cultural habits, and mental models of the social world reinforce that trajectory. Cooperation or shirking and exploitation become ingrained. Informal norms and culture change more slowly than formal rules, and tend to remold those formal rules, so that the external imposition of a common set of formal rules will lead to widely divergent outcomes. All of these hypotheses are consistent with the deep continuities traced in Chapter 5.

Each chapter in this book has begun with one question and ended with another. Chapter 2 began with "How did the new regional institutions affect the practice of politics?" and ended with "How successful was each institution at governing?" Chapter 3 answered that question, leading us naturally to ask "Why were some so much more successful than others?" Chapter 4 traced differences in performance to differences in civic engagement, which in turn raised the question, "Where did those differences in civic-ness come from?" Chapter 5 traced those differences to distinctive traditions that have endured for nearly a thousand years, posing the puzzle, "How could such differences have proved so stable?" Chapter 6 has explicated the vicious and virtuous circles that have led to contrasting, path-dependent social equilibria.

This explanation, however persuasive, poses starkly yet another question: "Why did the North and South get started on such divergent paths in the eleventh century?" The hierarchical Norman regime in the South is perhaps readily explained as the consequence of conquest by an unusually effective force of foreign mercenaries. More problematical and potentially more interesting are the origins of the communal republics. How did the inhabitants of north-central Italy first come to seek collaborative solutions to their Hobbesian dilemmas? The response to that question must await further research, not least because historians report that the answer seems lost in the mists of the Dark Ages.⁸⁴ Our interpretation, however, highlights the unique importance of trying to pierce those mists.

Social scientists have long debated what causes what—culture or structure. In the context of our argument this debate concerns the complicated causal nexus among the cultural norms and attitudes and the social structures and behavioral patterns that make up the civic community. Quite apart from the ambiguity of "culture" and "structure," however, this debate is somewhat misplaced. Most dispassionate commentators recognize that attitudes and practices constitute a mutually reinforcing equilibrium.⁸⁵ Social trust, norms of reciprocity, networks of civic engagement, and successful cooperation are mutually reinforcing. Effective collaborative institutions require interpersonal skills and trust, but those skills and that trust are also inculcated and reinforced by organized collaboration. Norms and networks of civic engagement contribute to economic prosperity and are in turn reinforced by that prosperity.

Linear causal questions must not crowd out equilibrium analysis. In this context, the culture-vs.-structure, chicken-and-egg debate is ultimately fruitless. More important is to understand how history smooths some paths and closes others off. Douglass North summarizes the challenges ahead:

Path dependence means that history matters. We cannot understand today's choices (and define them in the modeling of economic performance) without tracing the incremental evolution of institutions. But we are just beginning the serious task of exploring the implications of path dependence. . . . Informal constraints matter. We need to know much more about culturally derived norms of behavior and how they interact with formal rules to get better answers to such issues. We are just beginning the serious study of institutions.⁸⁶

LESSONS FROM THE ITALIAN REGIONAL EXPERIMENT

The twentieth century is ending, as it began, with high aspirations for extending the benefits of democratic self-government to ever larger numbers of men and women.⁸⁷ What factors will affect whether these hopes will be realized? Our study has explored both the power of institutional reform as a strategy for political change and the constraints on institutional performance posed by the social context. Twenty years after the establishment of regional government in Italy, what have we learned from this experiment in building new institutions of democracy?

For at least ten centuries, the North and the South have followed contrasting approaches to the dilemmas of collective action that afflict all societies. In the North, norms of reciprocity and networks of civic engagement have been embodied in tower societies, guilds, mutual aid societies, cooperatives, unions, and even soccer clubs and literary societies. These horizontal civic bonds have undergirded levels of economic and institutional performance generally much higher than in the South, where social and political relations have been vertically structured. Although we are accustomed to thinking of the state and the market as alternative mechanisms for solving social problems, this history suggests that *both* states *and* markets operate more efficiently in civic settings.

This civic equilibrium has shown remarkable stability, as we saw in Chapter 5, although its effects have been disrupted from time to time by exogenous forces like pestilence, war, and world trade shifts. The contrasting, Hobbesian equilibrium in the South has been even more stable, though less fruitful. Mutual distrust and defection, vertical dependence and exploitation, isolation and disorder, criminality and backwardness have reinforced one another in the interminable vicious circles traced in

this chapter and the previous one. People in Bologna and Bari, in Florence and Palermo, have followed contrasting logics of communal life for a millennium or more.

When the regional reform was introduced in 1970, therefore, the new institutions were implanted in very different social contexts. As we learned in Chapter 4, civic regions were characterized by a dense network of local associations, by active engagement in community affairs, by egalitarian patterns of politics, by trust and law-abidingness. In less civic regions, political and social participation was organized vertically, not horizontally. Mutual suspicion and corruption were regarded as normal. Involvement in civic associations was scanty. Lawlessness was expected. People in these communities felt powerless and exploited. They were right.

These contrasting social contexts plainly affected how the new institutions worked. As we saw in Chapter 3, objective measures of effectiveness and subjective measures of citizen satisfaction concur in ranking some regional governments consistently more successful than others. Virtually without exception, the more civic the context, the better the government. In the late twentieth century, as in the early twelfth century, collective institutions work better in the civic community. By the 1980s, the North has also attained great advantages in physical and human capital, but those advantages are accentuated and in part explained by its long-standing edge in social capital.

This is one lesson gleaned from our research: *Social context and history profoundly condition the effectiveness of institutions.* Where the regional soil is fertile, the regions draw sustenance from regional traditions, but where the soil is poor, the new institutions are stunted. Effective and responsive institutions depend, in the language of civic humanism, on republican virtues and practices. Tocqueville was right: Democratic government is strengthened, not weakened, when it faces a vigorous civil society.

On the demand side, citizens in civic communities expect better government and (in part through their own efforts), they get it. They demand more effective public service, and they are prepared to act collectively to achieve their shared goals. Their counterparts in less civic regions more commonly assume the role of alienated and cynical supplicants.

On the supply side, the performance of representative government is facilitated by the social infrastructure of civic communities and by the democratic values of both officials and citizens. Most fundamental to the civic community is the social ability to collaborate for shared interests. Generalized reciprocity (not "I'll do this for you, because you are more powerful than I," nor even "I'll do this for you now, if you do that for me now," but "I'll do this for you now, knowing that somewhere down the

road you'll do something for me") generates high social capital and underpins collaboration.

The harmonies of a choral society illustrate how voluntary collaboration can create value that no individual, no matter how wealthy, no matter how wily, could produce alone. In the civic community associations proliferate, memberships overlap, and participation spills into multiple arenas of community life. The social contract that sustains such collaboration in the civic community is not legal but moral. The sanction for violating it is not penal, but exclusion from the network of solidarity and cooperation. Norms and expectations play an important role. As Thompson, Ellis, and Wildavsky put it, "Ways of life are made viable by classifying certain behaviors as worthy of praise and others as undesirable, or even unthinkable."⁸⁸ A conception of one's role and obligations as a citizen, coupled with a commitment to political equality, is the cultural cement of the civic community.

Where norms and networks of civic engagement are lacking, the outlook for collective action appears bleak. The fate of the Mezzogiorno is an object lesson for the Third World today and the former Communist lands of Eurasia tomorrow, moving uncertainly toward self-government. The "always defect" social equilibrium may represent the future of much of the world where social capital is limited or nonexistent. For political stability, for government effectiveness, and even for economic progress social capital may be even more important than physical or human capital. Many of the formerly Communist societies had weak civic traditions before the advent of Communism, and totalitarian rule abused even that limited stock of social capital. Without norms of reciprocity and networks of civic engagement, the Hobbesian outcome of the Mezzogiorno—amoral familism, clientelism, lawlessness, ineffective government, and economic stagnation—seems likelier than successful democratization and economic development. Palermo may represent the future of Moscow.

The civic community has deep historical roots. This is a depressing observation for those who view institutional reform as a strategy for political change. The president of Basilicata cannot move his government to Emilia, and the prime minister of Azerbaijan cannot move his country to the Baltic. "A theory of change that gives priority to ethos can have unfortunate consequences. . . . It may lead to minimizing efforts at change because people are believed to be hopelessly enmeshed in an ethos."⁸⁹ More than one Italian regionalist told us privately that publicity about our results might unintentionally undermine the regional reform movement. One able reformist regional president in an uncivic region exclaimed when he heard our conclusions: "This is a counsel of despair! You're telling me that nothing I can do will improve our prospects for success. The fate of the reform was sealed centuries ago."⁹⁰

The full results of the regional reform, however, are far from an invitation to quietism. On the contrary, a second lesson of the regional experiment is (as Chapter 2 demonstrates) that *changing formal institutions can change political practice*. The reform had measurable and mostly beneficial consequences for regional political life. As institutionalists would predict, institutional changes were (gradually) reflected in changing identities, changing values, changing power, and changing strategies. These trends transpired in the South no less than the North. In both South and North, the new institution nurtured a more moderate, pragmatic, tolerant elite political culture. In both South and North, the reform altered old patterns of power and produced more genuine subnational autonomy than unified Italy had ever known. In both South and North, the reform itself generated pressures, both inside and outside the government, in support of further decentralization. In both South and North, the regional government is generally regarded by community leaders and ordinary voters as an improvement over the institutions it replaced—certainly more accessible and probably more effective. The regional reform allowed social learning, "learning by doing."⁹¹ Formal change induced informal change and became self-sustaining.

The new institution has not yet lived up to the highest expectations of its optimistic advocates. Factionalism and gridlock, inefficiency and simple incompetence, still plague many regions. This is especially so in the South, which was much less well positioned than the North to take advantage of the new powers. Both North and South have made progress in the last twenty years, but compared to the North, the southern regions are no better off today than they were in 1970. Compared to where the South would be today without the regional reform, however, the South is much better off. That is the view of most southerners.

Has the reform also begun to reverse the vicious uncivic circles that have trapped the Mezzogiorno in backwardness for a millennium? We cannot say, for the final lesson from this research is that *most institutional history moves slowly*. Where institution building (and not mere constitution writing) is concerned, time is measured in decades. This was true of the German Länder, it has been true of the Italian regions and of the communal republics before them, and it will be true of the ex-Communist states of Eurasia, even in the most optimistic scenarios.

History probably moves even more slowly when erecting norms of reciprocity and networks of civic engagement, although we lack the benchmarks to be sure. For convenience's sake, we might date the founding of the communal republics and the Norman kingdom, and thus the start of Italy's civic split between North and South, in (say) the year 1100. But it seems highly unlikely that surveys of nobles, peasants, and townspeople in 1120 would have detected the initial stages of the North-South division.

Two decades are time enough to detect the impact of institutional reform on political behavior, but not to trace its effects on deeper patterns of culture and social structure.

Those concerned with democracy and development in the South should be building a more civic community, but they should lift their sights beyond instant results. We agree with the prescription of the Italian economic historian Vera Zamagni, who urges local transformation of local structures rather than reliance upon national initiatives:

It is a dangerous illusion to believe that the Mezzogiorno can be changed from outside *despite* its existing political-economic-social structure. . . . Beyond any doubt, the temporal perspective required for such a political and cultural revolution is long. But it does not seem to us that the path taken so far, with the results it has produced, has been any shorter.⁹²

Building social capital will not be easy, but it is the key to making democracy work.