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Journal of Monetary Economics 50 (2003) 195–198

Journal of
MONETARY
ECONOMICS

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Discussion

Comment on: Social capital and growth[☆]

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Received 19 April 2002; received in revised form 19 October 2002; accepted 21 October 2002

1. Introduction

Routledge and von Amsberg (2003) have made an insightful contribution to the burgeoning literature on social capital and economic development. The underlying idea in the existing literature is that societies characterized by higher levels of social capital—commonly defined as norms of trust or cooperation that improve economic productivity—experience more rapid economic development, and better institutional performance as well (Putnam, 1993). More recently, one branch of this literature has explored the correlation of social capital with a range of important economic, financial, and political outcomes (as surveyed in Routledge and von Amsberg, 2003), while another has examined the underlying social factors that affect social capital formation, including social and ethnic divisions, for instance Easterly and Levine, 1997, Alesina et al., 1999, and Miguel and Gugerty, 2002.

This paper makes a sharp break with most of the existing literature, and offers a different perspective on how we should think about the relationship between social capital and economic growth. Instead of viewing social capital as a crucial *input* into economic growth and development, the authors consider the effect of economic growth on social capital.

Their central theoretical idea is simple—but powerful. Rapidly growing societies periodically experience large technological “shocks” that generate pressure for labor mobility, to take up new factory jobs in growing urban areas, for example. The resulting residential mobility increases labor productivity by matching up workers with particular skills to the employers who need those skills. Yet this mobility also

[☆] Comment on “Social Capital and Growth” by Bryan R. Routledge and Joachim von Amsberg prepared for the April 2002 Carnegie-Rochester Conference.

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has less beneficial consequences. Trust and social capital are undermined by extensive labor mobility, as individuals are no longer able to engage in the long-term reciprocal relationships that nurture community cooperation (in their model, cooperation in a repeated Prisoner's Dilemma game), a point made previously in [Kranton \(1996\)](#). In other words, while social capital is critical in promoting economic growth, growth may destroy social capital.

They go on to work through the welfare consequences of this insight, and find, not surprisingly, that in certain circumstances restrictions on labor mobility—through public policy—may be welfare-enhancing during periods of rapid technological progress. Restricting labor mobility keeps valuable community cooperation and “spirit” alive during the massive dislocation that accompanies industrialization.

Routledge and von Amsberg are actually returning to an older theme—though with different theoretical tools. Social scientists (and sociologists in particular) have long been concerned with how industrialization transforms society. [Polanyi \(1957, \[1944\], p. 129\)](#) expressed a pessimistic view of the effects of the 19th century British Industrial Revolution, which had produced “social dislocation of stupendous proportions” and “wreaked havoc with [workers’] social environment, neighborhood, [and] standing in the community.” [Marx and Engels \(1964 \[1848\], p. 63\)](#) emphasized the “constant revolutionizing of production, [and] uninterrupted disturbance of all social relations.” Regarding Indonesia, the historians [Cribb and Brown \(1995, pp. 148–149\)](#) write that the economic boom of the 1980s and resulting large-scale migrations led to “an increasingly rapid rate of corrosion of the long-standing social and moral ties which bound agricultural communities together.”

The formal modeling assumptions that Routledge and von Amsberg use to generate the theoretical results—and in particular their modeling of local cooperation between individuals in a particular community—are subject to some criticisms, and other social capital micro-foundations are equally plausible (for an example, refer to [Glaeser et al., 2000](#)). Routledge and von Amsberg assume that the likelihood of “trade” between individuals is history independent and exogenous, rather than allowing individuals to choose their own trading partners, and that the outcomes of individual Prisoner's Dilemmas games are not publicly observable by others in the community. Both of these assumptions strike me as unrealistic in many contexts, especially in rural areas of less developed countries. Nonetheless, all theoretical models demand such compromises as the price of tractability. The need for parsimony is especially important in this case, since the authors ultimately embed this micro-model of social capital within an economic growth model developed by [Jones and Newman \(1995\)](#) to derive their novel welfare predictions.

2. The future of social capital

[Routledge and von Amsberg \(2003\)](#) and other recent papers mark out a new direction for research on social capital within Economics, by emphasizing the *determinants* of social capital rather than just its impacts.

Their theoretical insights are consistent with recent empirical findings in Miguel et al. (2002) on Indonesia. We used Indonesian household, firm, and village level nation-wide surveys to create a panel dataset of 274 Indonesian districts from 1985 to 1997, to examine the impact of industrial development on social capital. The dataset contains information on a range of social capital outcomes, including the density of voluntary community associational activity, and levels of trust and informal cooperation. Our analysis yields three new results. First, echoing the prediction in Routledge and von Amsberg (2003), industrialization in nearby districts reduced social capital: the migration of millions of young Indonesians from rural areas to nearby factory jobs eroded social capital in the districts they left behind. In particular, industrialization in nearby districts is associated with fewer credit cooperatives and a decline in “mutual cooperation” as measured in household surveys.

Second, rapidly industrializing districts showed large *increases* in most social capital measures, including more non-governmental credit cooperatives and community recreational groups, and more spending on local festivals and ceremonies. Our third main result is that high initial social capital levels did not predict subsequent district industrial development in Indonesia. The finding that rapidly industrializing districts had increasing community associational activity in Indonesia—together with the result that initial social capital did not foster industrialization—runs against recent studies which claim social capital promotes income growth (e.g. Narayan and Pritchett, 1999; Knack and Keefer, 1997; Putnam, 1993). In contrast, our results suggest that the positive cross-sectional relationship between social capital and income in Indonesian districts is likely to have been driven by the impact of industrial development on social capital—rather than the other way around.

Social capital has too often been treated as a timeless, almost mysterious societal characteristic in the recent academic literature—and perhaps this is what has made it so seductive to researchers across the social sciences (Sobel, 2002). Routledge and von Amsberg’s (2003) model takes a concrete definition of social capital seriously, and asks the big question that looms over this literature: where does social capital *come from*—and how might public policy affect it? Their paper—together with recent empirical work by Gugerty and Kremer (2002) on women’s groups in Kenya, Skocpol et al. (2000) on voluntary associational activity in the United States, and others—are important steps in tackling this critical question.

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