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Subjects and Boundaries: Contesting Social Capital–Based Policies

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> [B]oundaries of the mind and habit are harder to take down [than boundaries between states].
>
> –*The Economist*

The World Bank is prime among the organizations formulating and implementing economic policy around the world. In recent years it and others have placed great emphasis in its analysis of poverty and inequality on the concept of social capital. Social capital, inequality, and globalization are three concepts that interrelate, but they are contested as well. In combination, the three may have more than just heuristic value. They point to some important aspects of the process of globalization and the misgivings that some groups of people have about it. In particular, the combination of the three concepts—globalization, social capital, and inequality—point to the fact that how you analyze and judge currents in the economy of today depends crucially on how you understand individual behavior and its relation to different groups or communities. In this contribution we aim to bring out the contested nature of the concepts of globalization, social capital, and inequality. By introducing and developing the concept of "boundary," we better understand the relation between the individual and his or her community, which allows one to analyze globalization and its doings better than was hitherto the case. While others (most notably Fine 2001) have criticized the World Bank's use of the concept of social capital, we suggest steps to develop concepts that will also be relevant for policy purposes.

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Contested Concepts

Globalization, social capital, and inequality are not concepts that have clear, undisputed meanings. For substantive as well as for ideological reasons, they are contested (see Dannreuther and Dolfsma 2003). Globalization is perceived in three ways. The shallow way, perceiving globalization as an external force with clear, uni-directional effects on economy and society, is not supported much any more in academia. A second perception of globalization stresses the persistence of the social, of society. In this argument, the different styles of capitalism are discussed; the role of government is seen as a reactive one. Relations in society do not change due to economic developments. A third, and most persuasive one, stresses interactions between societal developments and changes in the (international) economy.

Some quarters mention globalization as a cause of inequality. In contrast to the concepts of globalization and social capital, the contested nature of the idea of inequality has been discussed longer. Any perception of inequality is imbued with assumptions and hopes of the world. The contested nature of the concept is reflected in the "100 ways of seeing an unequal world" (Sutcliffe 2001). Intuitively, the concept of inequality seems clear but in fact as observed by Amartya Sen (1973, 5) is often "much less precise and may correspond to incomplete quasi-ordering" struggling between objective and normative assumptions.

Over the past decade or so, the World Bank has come around to addressing the issues of inequality and its supposed relation with globalization. Using the newly popular notion of "social capital," it has started a project that looks at inequality in the global economy. It claims that "increasing evidence shows that social cohesion—social capital—is critical for poverty alleviation and sustainable human and economic development."

We examine the way in which social capital is defined and analyzed by the World Bank and to what policy advice it has given rise. Our claim is that in defining social capital the WB has stuck close to the mainstream economic core that usually characterizes its work.[1] We argue more in particular that the conceptualization of the subject is inadequate and that it has a romantic view of society, one that ignores boundaries. As a result the kind of policy that the WB proposes, drawing on its work on social capital, is not much different from other policy it has proposed, nor very surprising or concrete.

Understanding Economy and Polis: The World Bank

The World Bank push to use and elaborate the concept of social capital, and to use the findings of studies that have used the concept directly in the formulation of policy, is as commendable as it is misdirected.[2] Its methodologically individualist view, as well as its stance about information as objectively given, prevents it from formulating policy based on the ideas that the social capital phrase elicits that provide a cutting edge.

Michael Woolcock, co-chair of the Bank's Social Capital Thematic Group, has been among the most prominent figures at the WB discussing social capital. In several publications Woolcock has discussed social capital in theoretical terms as well as from a policy perspective. Woolcock (2001, 13) has taken a more "narrowly sociological definition of social capital—i.e., one centered on networks within, between and beyond communities" which "must not blind us to the institutional context within which these networks are embedded, especially not the role of the state." Social capital refers to the "norms and networks that facilitate collective action," recognizing "the multi-dimensional nature of its sources."

Despite claims that there will be a focus on "sources rather than consequences" (Woolcock 2001, 13) in the social capital approach, the criticism leveled at R. Putnam's (1993, 2000) discussion of social capital is valid for much of the work in this field, including the work at the WB. J. Sobel (2002, 140–1), for instance, has criticized Putnam for "equating social capital with good outcomes. . . . There is no analytical framework in which to evaluate the claim that the apparent trends are related."[3] Indeed, a volume edited by two other leading figures at the WB group focusing on social capital[4] contains mostly criticisms of the concept of social capital. In particular, the analogy advocated by Coleman (1988) and Joseph Stiglitz between social relations and physical and economic capital is found lacking by such people as Kenneth Arrow and Robert Solow (see also Dolfsma 2001). The conclusions of this volume are not encouraging: "[S]ocial capital is useful insofar as it draws our attention to those particular institutions serving economic life that might otherwise go unnoted" (398).

Nevertheless, some conceptual progress has been made. One is to acknowledge the multi-faceted nature of social capital by distinguishing between *bonding* and *bridging* social capital.[5] The first is horizontal, among equals within a community, and the second is vertical between communities. In order for such distinction to do more than just provide a rough-and-ready schema for classification, however, the individual needs to be social, and the concept of boundary has to be introduced and developed in order to be able to distinguish different communities.

Emanating policy suggestions are of a rather general nature, emphasizing the "need for inclusion," "fostering ties between communities," and "stimulating participation" (Narayan 1999). Values and norms need to change in order to support inclusionary processes. Values mentioned are those closely related to the market, for example, freedom to associate, freedom of contract, and accountability. The role of values in society—their relation to institutions and institutional change—is not discussed (Dolfsma 2002a). The functioning of some institutions as social boundaries is not understood in a perspective where only one *numeraire* is present and no qualitative differences are possible. The deontological category of "right" doesn't fit in this worldview, not even when discussing a "right to information" that the WB mentions.[6] Discussing social capital as an "identity resource" for a community (Falk and Kilpatrick 1999), for instance, without the conceptual tools to understand identity and difference, seems an imponderable for social and institutional economists. How is one to understand why "meager stocks of bridging social capital make it more difficult for ideas, information and resources to circulate among groups" (Woolcock 2001, 15) in a way that is not tautological?

In all, the discussion is an uneasy one.

Woolcock, for instance, lists seven conditions why "a community's prospect for effecting sustainable, equitable, and participatory economic development are low" (1998, 182). To understand why, look at condition 5: "dominant and subordinate groups have little shared stake in common outcomes." One would need to understand what separates two groups, who is included in which group and on what grounds, and what information is exchanged and under what conditions. One would need the concept of boundary, achieved by these communities.

The uneasiness shows in the discussion of the role of the state and the position of the welfare state. B. Fine (2001, chapter 8) noted that what he calls "post–Washington consensus" with an emphasis on social capital is more appreciative of the role of the state but remains highly suspicious of it. In discussion on education and health care policy, to take two prime examples, it becomes clear, as Woolcock (1998, 156) himself stated, "social capital can justify contradictory public-policy measures."[7] R. McMaster (2002) presented a collection of studies of the ways in which health care is provided. It shows the complex arrangements involved in this realm only. It shows how a methodological individualist view cannot explain developments in that system. Importantly, it shows the need to perceive boundaries of groups in society and their relation to each other and to the system. Who is able to make use of health care under what conditions; who decides on what[8] and what impact this has for the different groups involved?[9]

Social Subjects within Boundaries

Of the insights institutional and social economics have to offer, in this paper we focus on two. One, which we will not discuss at length, is the richer view of the individual as not simply the egotistic Leibnizian monad from neoclassical economics. Another is the related idea of boundaries.

Institutional and social economists are well aware of the need to conceptualize the human being in a way that allows for other motives than self interest and that allows for an influence of the environment on how preferences are formed and how decisions are made (Davis 2003; Dolfsma 2002a, 2002b). Without such a view of the individual as intricately related to the (social) environment, it would be impossible to avoid the traps the WB team stumbles into. If there is no conceptual way to relate the individual to the environment except for the influence of budget constraint and the availability of resources, to pursue a selfish aim, what possibilities are there to discuss communities, networks as well as their institutional context?

Individuals enter into relations and market transactions. These are of necessity subjected to boundaries, as institutional and social economists know. An economy without a rule of law of a formal or an informal kind is impossible.[10] When the state is not (yet) able to formally play a role as lawmaker or enforcer, other institutes assume such a role, as the Catholic Church did in medieval Europe (Ekelund et al., 1996). Law, however, draws boundaries between what is allowed and what is not allowed,[11] boundaries in the realms of actions, groups, and goods. At the same time, the law relies on boundaries for it to be effective. Without to some extent impregnable geographical boundaries, the law is toothless. Enforcement of the law boils down to keeping the boundaries in place. Keeping the boundaries in place is impossible if there are no boundaries to the extent to which individuals are selfish—the law needs (some) people to be moral (sometimes).[12]

Boundaries have moral overtones. This holds at a macro level for the boundaries between states, at least since the Treaty of Westphalia of 1648,[13] but is equally true for the micro level. P. Falk (1994) argued, for instance, that individuals police the borders of their own body, taking in what they perceive as clean and pure, keeping out what is dirty or immoral. People's sense of the self is related to what they see as their and their communities' boundaries.

For social entities a similar thing holds. What is included and what is excluded defines communities as well as organizations and firms. "They" do not belong to "us" (Elias and Scotson 1965; Barth 1970). By establishing a border, a relatively stable sphere is created which is safe and predictable in relation to an outside that is not, thus trying to deal with uncertainty or risk (Dannreuther and Lekhi 2000). Culturally embedded beliefs and knowledge of relatively homogenous groupings develop into rules and values that determine which issues are relevant and how to decide on them.[14] The boundary of the group is the basis for the values that are shared by the members of the group. The inside/outside distinction that boundaries create "lies at the collective" (Falk 1994, 21). Boundaries will thus not only function as thresholds, controlling inflow and outflow, but also as binding structures, producing and reproducing internal unity (Llewellyn 1994, 14).

What is present in these contributions from sociology, cultural studies, and political science is the persistence of boundaries. In contrast to the view most often found most particularly in economics, boundaries are not simply residuals, to be changed at will. Macroeconomics and transaction cost economics take the romantic view that boundaries are perfectly flexible to the point where they are inconsequential.[15] Much has been written about where the boundaries of the firm, for instance, are, but little about what actually occurs at the boundaries (Casson and Wadeson 1998).

The recognition that society is an open system (Grunberg 1978) makes clear that interactions between a system—individual, organization—and its environment is inevitable. Hence the need for active boundary maintenance, controlling which information is exchanged with the environment. Boundaries are to be achieved, not assumed.[16] Depending on the needs for a firm to actively be taking information from outside, and depending on whether it perceives its environment as analyzable, it will be more open to an environment and will be interpreting that information differently (Leifer and Delbecq 1978; Daft and Weick 1984). The "iron cage" that a rationalist perspective of society ushers in does not allow one to notice such features of organizations and individuals as interpretation and the role of boundaries (DiMaggio and Powell 1983; Weber 1968).

In a recent article about boundaries, *The Economist* suggested that "borders, like rivers, tend to stick in their places, doing damage when they wander."[17] This source beyond suspicion for economic liberals further claims, "[B]oundaries of the mind and habit are harder to take down [than boundaries between states]." It thus talks not only about physical and geographical boundaries. Personal identities are not perfectly malleable, firms do not downsize at will, communities cannot change overnight, by design. Focusing on the boundaries of organizations and firms,[18] their persistence is related to self-interest, certainly. A shifting boundary can mean that interests are hurt or promoted. A change in the permeability of a boundary, of the firm for instance, may mean that (communication) costs increase or decrease (Casson and Wadeson 1998). The boundaries created to impose homogeneity and certainty create a common institutional "furniture" (as Veblen expressed it) that allows for interpretation and coordination without direct involvement of a specific individual in a specific role.

> [W]hile agency is central to . . . boundary activity, such agency is not only accomplished through the reasoned intentions and capabilities of purposeful individuals. (Llewellyn 1994, 10)

Much of the information exchanged is "institutionally generated" and, as Veblen (1961, 243) added,

> It is, of course, on individuals that the system of institutions imposes those conventional standards, ideals, and canons of conduct that make up the community's scheme of life.

Facts are thus not "objectively given" so that it will be clear what would be in the best interest of the individual or the organization to do. Instead, facts are institutional, interpreted by and through extant institutions. As boundaries are achieved by people, a change in their role "always brings potential changes in the power structures and systems of meaning within the organization" (Llewellyn 1994, 17). Some measure of inertia is implied, explaining, for instance, why the supposed globalization of management practices does not materialize (Pot 2000).

Concluding Remarks

Fine (2001, 161) criticized the World Bank for not being able to come to grips with the "threshold effects" in social relations. In most of the literature that discusses social capital, subjects are conceptualized as atoms. The WB, discussing "social capital" with a view to understanding and alleviating inequality in a global economy, is no exception to this. The three concepts that the WB relates—social capital, globalization, and inequality—are all contested, however.

While the WB does hint at the need to discard the rational agent model for a "more fruitful approach [that] invoke[s] a social-structural explanation of economic life" (Woolcock 1998, 185), not much to this effect can be presented as yet. A (much) more socialized view of the individual and, particularly, the concept of "boundary" allow for an analysis of social relations, and their effect on polis and economy, in a way that is able to conceptually come to grips with the "threshold effects" endemic in society. Being able to identify communities that one would like to target is a sine qua non—without it the policy objectives that the World Bank has are beyond reach and the conceptual tools it relies on are practically useless. One would need concepts to understand how communities are separated from each other. These concepts would also allow for more fruitful policy to be developed, making the discussion less sterile and the policy suggestions less bland.

Notes

1. See Glaeser 2001 for an example of such an approach to social capital.
2. Is the glass half full to see that the World Bank embarks on a project that acknowledges the importance of social processes, or is it half empty to see that it does so in a way that seems to make the endeavor impossible? For statements of the goals the WB has, as well as studies it has commissioned, see http://www.worldbank.org/poverty/scapital/index.htm.
3. J. Sobel (2002) would criticize the questionnaire developed by the WB to ascertain the existence and importance of social capital in a community or society (World Bank 2002) in the same way as he has criticized Putnam and others.
4. See Dasgupta and Serageldin 1999; where authors are mentioned in this context that do not appear in the list of references, they have contributed to this volume.
5. See Narayan 1999. This partly overlaps with distinctions that Woolcock (1998) suggested between level of integration (within a community) and extent to which linkages are present (between communities).
6. The "per se" rules of anti-trust law, for instance, do not fit with neoclassical economic theory; indeed it has been argued by proponents of this group that anti-trust law should rely on the "rule of reason" alone (Fejø 1990).
7. The state is not necessarily an entity that merits more attention in a discussion of social capital than other entities such as NGOs.
8. Authority, and the legitimacy of authority, holds within certain boundaries.
9. G. Veenstra (2001), in an article that aligns closely with the WB approach to social capital and appears in a special issue of a journal that features articles by many of the ardent advocates of social capital from the WB, discussed health care. He discussed social capital as a resource that facilitates ends and suggested that there are several forms of social capital but was not able to distinguish them. Nor was Veenstra able to distinguish economy and state and civil society. As such, "threshold effects" that become apparent in what he called the "asymmetric relations of domination and subordination among social actors" (77) remain impregnable. The upshot is a confusing conclusion about "large-scale bureaucratic institutions embedded in the non-political and non-economic social world."
10. Woolcock (1998) discussed the intellectual history of this line of thought, mentioning David Hume, Adam Smith, and others. By subsequently discussing social capital and how the WB

might use the idea for policy purposes, he seemed to be building on the ideas of these scholars.

11. We would loosely define a *boundary* as an institution or set of institutions that separates two or more relatively homogenous entities.
12. There has of course been a long discussion about the extent to which the law can depart from the general feeling in society about what ought to be permissible and what ought not. Even a "society" consisting of wholly selfish individuals, however, as Thomas Hobbes claimed, would set boundaries on the activities that they themselves would be allowed to undertake even when these activities would be beneficial to them.
13. In the Treaty of Westphalia the boundaries of the nation where one of us resides (The Netherlands) were defined in a rather off-hand way.
14. It is important to note the qualifier "relative." Our argument is consistent with Geoffrey Hodgson's (1999) "impurity principle," which claims that each system needs an alien element for it to function, thus preventing that system from being homogenous.
15. It is surprising to find that the trouble economists have in delineating the borders of a market (Horowitz 1981) has not provoked them to consider the idea of boundaries more profoundly.
16. One example of the information a firm provides its environment with is accounting information (Llewellyn 1994).
17. *The Economist,* December 19, 1998, "Good Fences," 19–22.
18. Leifer and Delbecq (1978) stressed that there will also be boundaries within firms and organizations but that these boundaries are likely to be more permeable.

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