



## POLICY NOTE OF THE WORKING PAPER 5.1

### THE DYNAMICS AND DETERMINANTS OF SOCIAL CAPITAL IN WESTERN EUROPE, NEW MEMBER STATES AND NEIGHBOURING COUNTRIES (UTARTU)

January 2013

#### OBJECTIVE

Social capital is considered as one of the factors of economic development, which increases economic efficiency through supporting cooperation and lowering transaction costs. However, there is evidence that the levels of social capital are lower in new member states and neighbouring countries as compared to old EU members. As such, the lack of social capital may be an important development obstacle in less-developed regions of Europe. Current study has two objectives:

- 1) To compare the levels and dynamics of social capital in Western European Countries and new member states from Central and Eastern Europe over the period 1990-2008;
- 2) To examine the individual-level determinants of social capital in all three country groups using EVS data from year 2008, in order to find out whether there are differences between country groups.

#### SCIENTIFIC/RESEARCH METHODS

Underlying concept of the study stems from theoretical and empirical literature about the determinants of social capital and the specific characteristics of social capital in post-communist countries. The latter group form majority of the EU new member states and also neighbouring countries.

Current study covers both European Union member states and as many neighbouring countries as possible. As one of the aims of this study was to highlight the particular features of social capital in post-communist countries, total sample was divided into three groups of countries: 1) Western European countries (WE) including 15 “old” EU members plus 5 other countries from the region, 2) new member states (NMS) including 10 post-communist countries from Central and Eastern Europe (CEE) plus Cyprus and Malta, and 3) 15 neighbouring countries (NC), mostly from CIS and Balkan.

The data about social capital were drawn from the latest wave of European Values Study (EVS) and refer mostly to year 2008. In order to analyse the dynamics of social

capital over time, the latest data were compared to those of year 1990. As many European countries outside EU were not included in the earlier rounds of EVS survey, the analysis of the changes in social capital levels covers less countries – 14 western European countries and 10 new member states.

Social capital as a multidimensional concept was measured by four latent factors which were derived on the basis of 12 initial indicators from EVS dataset using confirmatory factor analysis. Among the obtained factors, general trust, institutional trust and acceptance of social norms are related to cognitive aspects of social capital and participation in formal networks refer to structural side of social capital (regarding informal networks, the data were not available for year 2008 and thus could not be used in the analysis). Next, country mean factor scores were calculated and the levels of social capital in 1990 and 2008 were compared.

Further, regression analysis was conducted in order to investigate the determinants of social capital, which were divided into two broader categories: 1) socio-demographic factors like gender, age, income, education, employment and marital status, number of children and town size; and 2) cultural and psychological factors including individualism, satisfaction with democracy and religiosity. As regression results from pooled data revealed possible differences between country groups (i.e. dummy variables for country groups were significant), the regressions were also run separately for all three country groups.

## **POLICY VALUE-ADDED**

Several policy implications can be drawn on the basis of the analysis results. Firstly, comparison of the levels of social capital showed that in case of all social capital components, the levels were lower in NMS as compared to WE. During 1990-2008, the average level of social capital decreased in NMS and increased in WE. In less developed NC-s institutional trust and social norms appeared to be stronger than in NMS, but lower than in WE. Based on historical experience it could be suggested that, unfortunately, there is a possibility that institutional trust and acceptance of social norms would decrease in neighbouring countries when overall economic situation improves, as it has happened earlier in new member states. In this situation, it is highly important to ensure the effectiveness and fairness of formal institutions when implementing economic and political reforms, in order to withstand possible decrease in institutional trust.

Secondly, regarding the determinants of social capital, socio-demographic and cultural-psychological factors were distinguished. Results of the regression analysis showed that most influential factors of social capital are education and satisfaction with democracy. Therefore, investments in educational system and improving democratisation processes could increase the level of social capital. Social capital also associates positively with age, income, and having children, while there was negative relationship between social capital, town size and individualism. As can be seen, some of the factors analysed could not be easily affected by policies, while encouraging overall economic and social development would give contrary results: growing incomes and population ageing tend to increase social capital, while spreading individualism might decrease social capital.