



POLICY NOTE OF THE WORKING PAPER 5.2

SOCIAL CAPITAL, DEMOCRATIZATION AND ECONOMIC PERFORMANCE: EU, CANDIDATE AND NEIGHBORING COUNTRIES IN COMPARATIVE PERSPECTIVE

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OBJECTIVE

Level of Social Capital is lower in some EU countries compared to others, also in candidate countries and particularly in Eastern European Neighboring Countries. Previous literature suggests that communist past and overall backwardness in socio-economic development were the main reasons behind these low levels of social capital. The main objective of this paper is to draw lessons about institutions and policies that encourage cooperative values and attitudes and will promote formation of social capital which is an important factor of institutional performance, democratic quality and economic competitiveness.

SCIENTIFIC/RESEARCH METHODS

Given the aforementioned policy research objectives it is important to use consistent data in order to properly define and measure social capital both in EU and ENPI countries. Data that have been used and analyzed had been collected and systematized by bodies that specialize on conducting surveys whose findings are widely used, tested and accepted, such as the World Bank concerning governance, the UNDP concerning human development, the World Economic Forum concerning global competitiveness, the Economist Intelligence Unit concerning the level of Democracy the World Values Survey and the Gallup World Poll concerning values and attitudes.

Low levels of social capital lead to excessively rigid and unresponsive political system with high levels of corruption. Formal public institutions require social capital in order to function properly. Also private corporations are large organizations that can benefit from trust among their employees and –of course- from trusting relations to clients and suppliers, to creditors and shareholders. Low levels of social capital and especially of generalized trust seem, therefore, to create a vicious circle of unresponsive political systems and non-competitive business structures on the one hand, mistrusting citizens and clients on the other.

Democracy requires a spirit of inter-personal and inter-group cooperation (cooperative attitude) as well as reliable and respected institutions. Social capital, is obviously favoring democratic and institutional performance, while it is, vice versa, also favored by democratic and institutional quality. In other words, there is a two-ways dynamic relation between social capital and democracy who mutually strengthen each other.

In this paper, we focus on two aspects of social capital that means generalized trust and public trust to politicians, in order to highlight the level of cooperative attitude, on the one side and public confidence to politicians and their decisions, on the other, because these two aspects are of particular importance for the functioning of economy and society. Furthermore, compliance of political and business elites with legal and ethical norms is a point of further investigation. For this reason, generalized trust, public trust to politicians and compliance of political and business elites with legal and ethical norms has been investigated, both at country and country group level according to the following country groups, each one of which has a different history in the Europeanization path: First the group of the “old” EU-15 members, second the 12 “new” EU members, third the candidate countries and finally the Eastern neighboring countries.

Within the aforementioned four groups of countries there are obviously some distinctive sub-groups: Within the EU-15 group one can clearly distinguish the sub-group of Scandinavian countries joined (in most cases) by the Netherlands, a sub-group of Middle European and Anglo-Saxon countries and, finally a clearly distinctive group of Southern European countries. The latter score far lower in terms of social capital (in interpersonal trust, elite compliance with norms and trust to politicians), in terms of institutional quality and global competitiveness. In view of this distinctive scoring, economic crisis in Southern Europe seems to reflect deeper divergences within the group of the “old” EU members and especially concerning not only economic (competitiveness) but also institutional performance and social capital. Adequate policies should bridge this gap within the hard core of the European Union.

Differentiations exist also within the group of the twelve new EU member states, where Estonia, Cyprus and Malta obviously score much better in nearly all aspects, compared to the rest of the new members. On the other hand, Romania and Bulgaria seem to score far lower than the rest of the group in nearly all aspects and seem to need policies that should be especially developed for their, obviously particular case. For the whole group, strengthening social capital and building up strong institutions seem to be, once more the appropriate answer.

Candidate countries show different strengths and weaknesses (Iceland being the only one already reaching EU-15 standards). Turkey, for instance is scoring comparatively better in global competitiveness, while institutional quality and trust to politicians also reach a rather satisfactory level. However, general trust and scoring in democracy index are extremely low and appropriate policies seem to be needed in order to further encourage democratization, openness and cooperative predisposition in this country. European policies should adjust to the peculiarities of each candidate country and focus on country-specific deficiencies.

Finally, Eastern neighboring countries seem to have a long way in order to reach EU standards especially concerning elite compliance with norms, democracy index and global competitiveness. Countries obviously scoring higher than others in many fields should be further encouraged in order to accelerate reforms and development and thus probably also create imitation-effects in a wider region.

Concerning relation of different components of social capital to each other, it should be noted that level of generalized trust in most cases does not seem to correspond to levels of elite compliance to norms and public trust to politicians. It seems that generalized trust reflects level of cooperative predisposition in everyday life and towards anyone, while it is mostly culturally embedded. On the other hand, level of elite compliance to norms and public trust to politicians seem to rather reflect historically embedded authority and acceptance of the state, of public institutions and of political power. Satisfaction with institutional performance could also enhance public trust to politicians. After all, evaluation of data has shown that there is obviously a positive relation in nearly all countries between public trust to politicians, on the one side, institutional quality and elite compliance to norms on the other.

Particular importance of generalized trust both for economic and institutional performance has been confirmed. In most of the countries and groups of countries that have been compared, an analogy between the level of generalized trust and scoring in democracy index, institutional quality index and also in global competitiveness index has been confirmed.

3. POLICY VALUE-ADDED

Cooperative predisposition of the population and public trust to politicians that often negotiate and decide on matters of European integration and EN policies are very important within the context of Europeanization and EN policies.

Empirical findings have shown that there are important differentiations in social capital also among the “old” EU-15 members, but, even more, among candidate countries and Eastern neighboring countries. European policies should adjust to particular national needs and deficiencies in order to efficiently concentrate actions and resources. The case of Southern European Countries that today suffer from an unprecedented economic crisis shows that their deficiencies in institutional quality, elite compliance with legal and ethical norms and cooperative attitudes have not been accordingly addressed, resulting in low scores of competitiveness, while democratic quality and human development reached high standards in these same countries that follow the path of Europeanization since several decades.

Concrete measures should encourage cooperative attitude and restore confidence to politicians, e.g. through participatory and deliberative procedures and institutions, transparent and accountable decision-making, encouraging various forms of voluntary social work etc. Elite compliance to legal and ethical norms can be promoted through actions that will strengthen the rule of law, public awareness and transparent budgeting, while discouraging rent-seeking and free-rider attitudes. Respective policies should be further developed, from now on further emphasizing on *institutional capacities* and governance performance.