The impact of social capital on economic and social outcomes

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Social capital has a wide range of applications in social sciences. Researchers have used the concept to explain various associations with socio-economic outcomes. However two important aspects have largely been ignored: *(i)* what forms social capital, and *(ii)* how social capital affects outcomes. This study provides advancements on these relatively shallow aspects. The three main arguments of the thesis can be summarized as follows. First, by reducing transaction costs, creating new forms of information exchange and influencing behaviour through norms, higher social capital induces innovation. The empirical findings suggest that innovation works as a transmission mechanism that translates social capital to economic growth. Second, we provide a relatively original approach to the measurement of social capital and use these new indicators to explain differences in crime rates across geographical space. Social capital reduces crime via network externalities, social support and by increasing the opportunity cost of crime. Third, institutions are important in shaping social capital. We do not focus on the complementary relation between informal and formal institutions, but rather suggest that history and formal institutional settings affect social capital in the long run.

We start the discussion by providing comparisons between physical, human and social capital on nine dimensions. This helps us to answer whether social capital is a form of capital. Trust, for example, is an interesting concept as it is one of the main components of social capital and because it could be regarded as an output as well as an input. It fulfils the conditions to be treated as capital. One can invest in relationships to build trust which needs maintenance. Both investment and maintenance are costly (time lost) so there is an opportunity cost. If not invested in, trust is not maintained and it eventually decays. Trust facilitates economic transactions and thereby can transform resources to outcomes.

Chapter 3 shows that innovation is one of the mechanisms that transform trust to income growth. One of the chief contributions of this study is merging the trust-innovation link with the existing trust-growth link. Social capital induces more innovation by *(i)* reducing transaction costs such as monitoring costs, *(ii)* creating new forms of information exchange, and *(iii)* regulating selfish behaviour by instilling group norms. The findings reveal that social capital directly affects income growth and also has an indirect effect through innovation. Chapter 4 extends these findings in two ways. First, social capital does not only increase the level of innovation, but it stimulates the growth of innovation as well. Second, by treating EU structural funds as a form of financial capital, we investigate the impact of objective 1, 2 and 5b regional support programmes on innovation and growth. The findings imply that regions that are rich in human and social capital are better able to able to manage the innovation process and benefit from EU funding.

Having showed that social capital is conducive to innovation and income growth, it is interesting to see whether social capital affects social outcomes. As such it is natural to extend our investigation to include crime. The reason for this is two-fold: *(i)* crime is both a social and economic phenomenon. It has social and economic costs, and *(ii)* social and economic factors affect crime. We collected novel data on crime, social capital (such as blood donations voluntary contributions to charity, electoral turnout and trust) and historical indicators from 1859 household survey for municipalities in the Netherlands. The measurement of social capital is new in the sense that social capital is treated as a latent construct that is composed of different dimensions. Chapter 5 offers a framework by which social capital reduces crime. First, if an individual is involved in criminal activity he/she risks losing utility generating capital. In the case of financial capital this might be job loss and future unemployment. In the case of social capital it might be damage to reputation and weak family ties that might lead to divorce. Second, informal social control mechanisms are important in crime prevention. It has been shown that in communities where civic engagement is high people feel more responsible to act in the case of a crime. Third, social network externalities may play important role in reducing crime. For instance, crime could be prevented by exchanging information on malignant behaviour that may induce future crime. In a similar way, in communities where ties are strong and people care for each other conflicts are resolved in peaceful ways. The empirical investigation shows that social capital measured both in terms of individual indicators and as a latent construct, is negatively associated to crime.

Given the complementarity between formal and informal institutions, this study provides suggestive evidence that formal institutions and history affect the formation of informal institutions in the long run. Good "social capital" forms in geographical areas where the power of the chief executive is constrained, where the level of education is high, where universities existed as repositories of culture and where the population was less heterogeneous. By using original data collected for EU regions and for municipalities in the Netherlands, we show that political institutions, education, universities and religion in the 1850s affected economic and social outcomes through their impact on social capital.

Social capital is understood and utilized differently in different disciplines which make the concept hard to define and to comprehend. Different from other theories of capital, such as physical, financial and human capital, social capital has concurrently been developed by various different disciplines and as such it is beneficial for researchers working on social capital to share information across disciplines. This information is difficult and costly to obtain if disciplines are not connected to each other. However, a simple network analysis shows that there is little communication between disciplines. The sustainable future of social capital depends on strengthening the links between different disciplines such as economics, sociology, business and political economy.