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The Poverty Reduction and Social Capital Relationship: Comparative Findings From Selected OECD Countries¹

Yoksullukla Mücadele ve Sosyal Sermaye İlişkisi: Seçilmiş OECD Ülke Örneklerinden Karşılaştırmalı Bulgular

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ABSTRACT

One of the most important elements of the fight against poverty is social capital. Social capital is of critical importance in the fight against poverty because of its ability to activate existing resources in the economic development process of countries and to prevent all resources, opportunities, and, potentials from being idle, especially for the poor. In our study, which aims to analyze the positive effects of social capital on poverty within the scope of new data and samples, analyzes were made within the scope of selected OECD countries RE findings from the econometric analysis indicate that all variables have a positive effect on GDP per capita for the 2012-2019 period in 12 selected countries. In general, our results are consistent with previous studies. The social capital coefficient gives the biggest positive effect on GDP per capita compared to other types of capital. It is important for developing countries to implement policies that increase social capital levels (especially bridging and linking types of social capital) for economic development in terms of increasing their per capita GDP levels.

Keywords: Organizational Cynicism, Turnover, Turnover Intention, Work Alienation.

Öz

Yoksullukla mücadelede sürecinin en önemli unsurlardan birisi de sosyal sermayedir. Sosyal sermaye; ülkelerin ekonomik gelişme sürecinde mevcut kaynakları harekete geçirebilmesi ile özellikle yoksul kesimlerdeki tüm kaynak, olanak ve potansiyellerin atıl kalmasını engelleme özelliğinden dolayı yoksullukla mücadelede kritik bir öneme sahiptir. Sosyal sermayenin yoksulluk üzerindeki pozitif etkilerini yeni veriler ve örneklemeler kapsamında analiz etmeyi amaçlayan çalışmamızda ekonometri analizinden elde edilen RE bulguları, seçilmiş 12 ülkede 2012-2019 dönemi için kişi başı GSYİH üzerinde tüm değişkenlerin pozitif etkisi olduğunu göstermektedir Sosyal sermaye değişkeni %1 arttığında kişi başı GSYİH %0.423577 artmaktadır. Beşeri sermaye değişkeni 1 birim arttığında kişi başı GSYİH %0.3475233 artmaktadır. Fiziki sermaye değişkeni %1 arttığında kişi başı GSYİH %0.333536 artmaktadır. Sosyal sermaye değişkeninin katsayısı diğer sermaye türlerine göre kişi başı GSYİH üzerinde en fazla pozitif etkiyi vermektedir. Gelişmekte olan ülkelerin ekonomik kalkınma politikalarında sosyal sermaye seviyelerini artırıcı (özellikle köprü kuran ve birleştirici sosyal sermaye türlerini) önlemleri hayata geçirmeleri gereklidir.

Anahtar Kelimeler: Yoksullukla Mücadele, Sosyal sermaye, Gelişmiş Ülkeler, Panel EKK.

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1. Introduction

In most industrialized countries, according to the World Bank, intangible capital may account for between 60 and 80 percent of the overall wealth (Lange et. al, 2018). Many of them, according to Hamilton et al. (2016) are from social capital. Economic well-being and growth can be supported by strong social capital built on trust, participation in civic affairs, and efficient institutions (Dasgupta 2011). According to Knack and Keefer (1997), there is a substantial correlation between economic growth and a moderate rise in a survey-based measure measuring country-level trust.

Regarding economic activity as well as GDP growth, trust is important. Higher trust levels are associated with wealthier nations (Algan and Cahuc, 2010). Since the works of Banfield (1958), Coleman (1974), and Putnam (2001), many social scientists have seen generalized inter-personal trust as a crucial driver of many economic and social outcomes. This trust is loosely defined as a cooperative attitude outside the family circle (Knack and Keefer, 1997; Dasgupta and Serageldin, 2000; Dasgupta, 2005). According to Arrow (1972), in the existence of transaction costs that obstruct information and contracts, trust is at the heart of economic interaction.

The ability to pool resources, minimize transaction costs, avoid coordination breakdowns throughout economic exchanges, and much more broadly how people live together are all influenced by others' trust (OECD, 2015). Trust is therefore necessary for innovation, investment, and also the smooth operation of the financial and labor markets (Algan and Cahuc, 2009). Algan and Cahuc (2014) present various avenues by which increased general trust may influence economic expansion.

Our aim for this study is to investigate social capital and economic growth relation for developed countries thus policy recommendations for the developing countries. For an economic activity like investing and particularly innovation, trust is crucial. Rest of the paper is organized as social capital and economic growth, literature review, data source, empirical analysis, and conclusion.

2. Social Capital and Economic Growth

Social capital is the collection of customs and values that are held in common and are beneficial to happiness (OECD, 2013a). Even though social capital is highly valued, there isn't much consensus on how to describe and quantify it. Since the Stiglitz-Sen-Fitoussi Commission, this has held down its adoption into official statistics and impeded the creation of an internationally comparable data gathering (2009). The "networks together along with shared norms, attitudes, and understandings that allow cooperation inside or among groups" is how the OECD defines social capital (OECD, 2001). Individuals can receive assistance and possibilities through their social networks, civic involvement, and personal relationships, which together make up their social capital. Social capital for businesses refers to the level of trust between enterprises,

stakeholders, including investors and can greatly enhance firm performance in times of hardship (Lins et. al, 2017). Social capital is therefore frequently described as the substance that binds societies altogether (Grootaert 1998).

Reduced transactions as well as monitoring costs, which enable the effective allocation of resources in the commodities, labor, and capital markets, are a crucial link between social capital and economic outcomes (Dasgupta 2005, 2011).

It is well known that having a helpful and trustworthy social environment has direct benefits (Hamilton et. al, 2016). From 12 percent of overall wealth across Latin America and 28 percent for OECD nations, researchers state that social trust seems to be a significant factor in wealth in all regions.

Three aspects of social capital are identified by Nahapiet and Ghoshal (1998):

- (1) Structural, which promotes interaction between people; (2) relational, which results in interaction between people as part of long-lasting relationships (it also includes inst
- (2) Institutions of trust and governance); and
- (3) Cognitive refers to aspects of social organization (including values or ideas) that foster a sense of community and shared goals.

In Table 1 three types of social capital are given, such as bonding social capital (between people within the homogenous groups and networks), bridging social capital (between different groups of people), and linking social capital (across explicit, formal, or institutions or authorities).

Table 1. Types of Social Capital

Three Types of Social Capital	
▪	Bonding Social Capital
▪	Bridging Social Capital
▪	Linking Social Capital

According to Robert D. Putnam (2001), social capital includes both the reciprocity and trustworthiness standards that emerge through social networks used to bridge gaps between individuals (bonding). The network perspective is also emphasized by Nan Lin (2002) and Pierre Bourdieu (1986). As a type of resource nestled within a social network, they define social capital. James Coleman (1990) stated that an "individual trusts if he or she freely places resources at the disposal of another party without any formal commitment from the latter, but with the belief that the act of trust would pay off."

In Figure 1, three components of social capital: trust, norms, and networks are given.

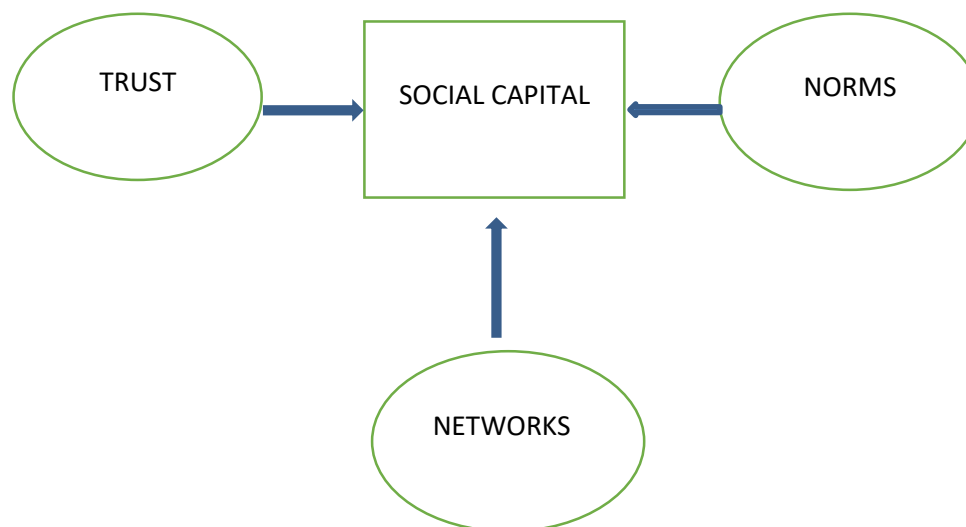


Figure.1 *Elements of Social Capital*

Social capital is very path-dependent because it is based on history just like knowledge but also physical capital (Wildavsky 1987). These interpretations are known as "Putnam I" by Algan and Cahuc (2014), after early ideas suggesting social capital is indeed a stable stock (Putnam et al, 1994), and "Putnam II" by Putnam (2001), who described how social capital fluctuates over time. In all regions of Italy spanning back centuries, Putnam, Leonardi, and Nanetti (1994) discover a significant association between indicators of civic involvement and the effectiveness of local governments.

Social capital generates value, which provides people and businesses with incentives to cooperate, conduct business, and link ideas in a trustworthy community. Using all assets and asset features to inspire creativity and innovation, raises the possibility of productivity development. Social capital in society as a whole is what enables groups of people to cooperate to accomplish goals that call for group action. Each of these activities is required to produce economic welfare (Agarwala and Zenghelis, 2021). Studies on the factors influencing well-being stress the value of social connections (Agarwala et. al, 2014).

The emphasis has gradually switched to the function of formal institutions because they influence the incentives to amass wealth and innovate because those characteristics were unable to account for a significant portion of the cross-country disparities in income per capita (North, 1990). (Acemoglu et. al, 2001). In a variety of nations, effective institutions that people can have faith in are a major factor in fostering people's confidence in one another (Rothstein, 2011).

3. Literature Review

Global poverty alleviation is a problem, and economic-based methods are frequently used to address it. While economic factors are typically highlighted when discussing how to reduce poverty, more recent research has begun to advocate using social capital as an alternative (Adi Syahid et. al, 2021).

It has been established that social capital can contribute to regional economic development (Putnam et al., 1994; Knack and Keefer, 1997; Grootaert, 1999; Iyer et. al., 2005). Numerous research conducted in developing nations suggests that social capital has a significant role in decreasing poverty (Narayan and Pritchett 1999; Grootaert 2001; Okunmadewa et. al, 2007; Hassan and Birungi, 2011; Nasution et. al, 2014, 2015).

Some information about the difficulties of poverty amongst farmers in Aceh, Indonesia, was supplied by Yunus et al. in 2020. The level of poverty among the farmers in Aceh is strongly influenced by social cohesion as evaluated by the community's social action. Additionally, Yunus et al. (2020) and Bayegunhi (2014) discovered that political action, collective action, and social cohesiveness were all significantly related to the poverty of South African households. Trust as well as reciprocity were also employed as social capital indicators by Islam and Alam (2018). Social trust but also reciprocity were employed in their study to shed light on the impact of social capital within Bangladeshi rural households. In reality, the social trust may have positive effects on the economy while also reducing poverty.

Social networks were also used by Liu et al. (2019) to determine how social capital affects poverty in China. The likelihood that Chinese households would be able to transcend poverty will increase as more social networks are created. The ability among rural women entrepreneurs from Ghana to alleviate rural poverty through the use of social capital by both formally and informally social networks As a result, the study's findings showed that women's entrepreneurship growth performance is favorably and significantly related to reducing rural poverty. Additionally, social innovation and relational social capital positively affect reducing poverty (Osei and Zhuang, 2020). According to the analysis from rural Indonesia (Rustiadi and Nasution, 2017), social capital has a greater impact than human capital on reducing the likelihood that a rural household will be impoverished. According to the findings, social capital is more crucial than other elements in lowering household poverty. The findings are consistent with the idea that social capital can only reduce poverty if a rural household actively participates in a variety of social communities at once (Scuderi et. al, 2022). Their study investigates how social capital affects rural households' poverty within eastern Bhutan, with an emphasis on households' involvement in community groups, that can serve as a stand-in for social capital's structural component. The current study finds that social capital in Bhutan contributes positively to the alleviation of poverty (Tenzin et. al, 2015).

For rural Vietnam, in the financial, educational, housing, as well as basic services components for ethnic minorities, our study documents the profound impacts social capital has at the community level on poverty reduction, whereas social capital at the household scale demonstrates significant effects on financial, essential services, and durable assets. These findings suggest that when formulating poverty alleviation plans for the nation, policymakers should take social capital into account (Pham and Mukhopadhyaya, 2022).

4. Data Source and Empirical Analysis

Panel data, often known as longitudinal data, is a type of data that includes observations on various cross sections over time. Examples of the types of panel data series are nations, businesses, people, or demographic categories. The most often estimated models for panel/cross sectional time series data are generally fixed effect as well as random effects models. With time-invariant effects, fixed effects models partially or fully account for the impacts of time-invariant variables. We may evaluate the overall impact of the predictors upon that outcome variable by removing the impact of those time-invariant traits using FE. The random effects model's justification is that it assumes that variation between entities is random and unrelated to any predictors or independent factors.

The Hausman test can assist in deciding between a fixed effects model and a random effects model when conducting panel data analysis (examination of data across time). The alternative hypothesis is that preferred model is one with fixed effects; the null hypothesis is that the preferred model is one with random effects. The test basically checks to determine if there is a relationship between the unique mistakes and the model's regressors. There is no association between the two, according to the null hypothesis (Glen, 2017).

In our study, as a data set, among 12 selected OECD countries, for the USA, Sweden, Finland, Switzerland, Denmark, Norway, France, Austria, Germany, Netherlands, Spain, and Japan, which have GSCI (Global Sustainable Competitiveness Index) data, to cover the years 2012-2019. GDP per capita (at 2015 fixed prices, \$), physical capital (gross fixed capital investments (2015 fixed prices, \$), social capital index (2012-2019), and patent applications representing human capital (domestic residents, number of patent applications per 1000 people). The data set was created using WB, WDI, and GSCI. The statistical methods were analyzed using the Stata 14.0 package program. The Pooled Least Squares (POLS) method was preferred for the analysis of the balanced panel data obtained in the study.

The purpose of the model to be used in the study is to determine which of the social capital, physical capital, and human capital is more effective on GDP per capita. In the linear regression model created, the model shows the level of development of the dependent variable GDPPC:

$$GDPPC = \alpha + \beta_1 SC_{it} + \beta_2 HC_{it} + \beta_3 PC_{it} + e_{it} \quad (1)$$

In Table 2 explanations of dependent variable, independent variables, data sets, and their sources are given in detail.

Table 2. Explanations of dependent & independent variables

	Variables	Data sources	Explanation
Dependent variable	GDPPC	World Bank	GDP per capita
Independent variables	SC (Insc)	Global Sustainable Competitiveness Index (GSCI)	Social Capital Index (Social Capital)
	HC (hc)	World Development Indicators	Patent Applications for residents (Human Capital)
	PC (Infiziki)	WB WDI	Gross fixed capital formation (Physical Capital)

In the study, the fixed effects (FE) model was estimated. The fixed-effects model results are given in Table 3.

Table 3. Fixed Effect results for 12 countries

lngdppc	Coeff.	Std. Err.	t	P> t
Infiziki	0.2998844	0.032268	9.29	0.000
Insc	0.2822613	0.1423874	1.98	0.051
hc	0.3767872	0.068887	5.47	0.000
_cons	5.529144	.6009294	9.20	0.000

Findings from fixed effects econometric analysis show that human capital, social capital and physical capital variables have a positive effect on GDP per capita for 12 selected countries. When the social capital variable increases by 1%, GDP per capita increases by 0.2822613%. When residents patent applications representing human capital increase by 1 unit, GDP per capita increases by 0.3767872%. When the physical capital variable increases by 1%, GDP per capita increases by 0.2998844%.

Later, the random-effects (RE) model results are given in Table 4.

Table 4. *Random Effect results for 12 countries*

	Coeff.	Std. Err.	t	P> t
lngdppc				
lnfiziki	0.3333536	0.0336082	9.92	0.000
lnsc	0.423577	0.1522846	2.78	0.005
hc	0.3475233	0.0694356	5.00	0.000
_cons	4.737971	0.6337617	7.48	0.000

RE findings from the econometric analysis show that all variables have positive effects on GDP per capita for the period 2012-2019 in 12 selected countries. When the social capital variable increases by 1%, GDP per capita increases by 0.423577%. When residents patent applications representing human capital increase by 1 unit, GDP per capita increases by 0.3475233%. When the physical capital variable increases by 1%, GDP per capita increases by 0.3333536%. The social capital coefficient gives the most positive effect on GDP per capita compared to other types of capital.

According to the Hausman test result, the RE model was accepted for the model, since the difference between the coefficients was not systematic. The Hausman test result shows that the result of the random-effects model is valid and given in Table 5.

Table 5. *Hausman test results*

F (11, 81) = 309.01	Prob> F = 0.0000
Hausman chi2(3) = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 21.48	Prob>chi2 = 0.0001

5. Conclusion

By reducing transaction costs, fewer externalities, increasing innovation, and fewer principal-agent problems, social capital can improve economic efficiency and economic growth when generalized trust levels are high in developed countries. Also, empirical studies have clearly shown the positive and significant effects of social capital on poverty reduction, as defined by household per capita income and household wellbeing. RE findings from the econometric analysis show that human capital, social capital, and physical capital variables have a positive effect on GDP per capita for the period 2012-2019 for 12 selected OECD countries. The social capital coefficient gives the most positive effect on GDP per capita compared to other types of capital. For developing countries, this result points out the importance of implementing policies and practices that increase social capital levels in society in terms of increasing their GDP per capita

levels. Anti-poverty policies should also include applied studies that focus on the possibilities of improving the level of social capital and the factors associated with the formation of social capital. For developing countries, policies that will increase the level of especially for bridging and linking social capital should be implemented, and the radius of trust should be expanded towards other horizontal and vertical networks.

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