

**Do Social Norms Matter for Economic Policy? : A Theoretical Consideration  
and Application to South Africa<sup>1</sup>**

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South Africa has over the last 5 years since the launch of ASGISA in 2007 renewed and augmented its commitment to a Developmental State. ASGISA, the National Industrial Policy Framework and more recently the ambitious New Growth Path are all predicated on greater cooperative and strategic interaction between the 3 spheres of Capital, Labour and the State. This paper investigates the relationship between social norms and Developmentalist Economic Policy. It seeks to determine whether Developmentalist economic policy, such as implemented by the Asian Miracle economies and the Corporatist approach of Scandinavia, is more efficacious in countries that exhibit higher levels of Social Capital and economic trust. The findings of this investigation are then considered within the context of South Africa with implications for its current and future economic policy.

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## **1. Introduction**

South Africa has over the last 5 years since the launch of ASGISA in 2007 (the Presidency, 2006) renewed and augmented its commitment to a Developmental State. ASGISA, the National Industrial Policy Framework (DTI, 2007a) and more recently the ambitious New Growth Path (EDD, 2010) are all predicated on greater cooperative and strategic interaction between the 3 spheres of Capital, Labour and the State. The conventionally considered factors which determine the efficacy of an economic policy include the design and suitability of the policy regime and prescriptions as well as bureaucratic capabilities. In addition to these this paper identifies social norms as having an impact of economic policy. This paper investigates the relationship between social norms and Developmentalist economic policy. It seeks to determine whether Developmentalist economic policy, such as implemented by the Asian Miracle economies and the Corporatist approach of Scandinavia, is more efficacious in countries that exhibit higher degrees of economic trust and Social Capital. The findings of this investigation are then considered within the context of South Africa with implications for its current and future economic policy.

The continued search for the determinants of growth has churned up a plethora of factors ranging from education, technology to even “bourgeois virtues”. Amongst these has been Social Capital. Despite various purported definitions and the difficulties arising in measuring it Social Capital has over the past two decades been touted as a contributor to economic growth. Much of the work focussing on Social Capital, both theoretical as well as empirical, attempt to show that Social Capital does affect economic development with policy implications restricted to building Social Capital. This paper attempts to make a novel contribution to the Social Capital literature by considering Social Capital in relation to public policy. It asks the question: do social norms matter for economic policy choice? It further considers the finding of this inquiry within the South African context.

This paper is set out as follows; Section 2 reviews the literature on Social Capital providing a definition of Social Capital and outlining the conception of the role of Social Capital in development as is currently espoused. Section 3 outlines developmentalist economic policy and the hypothesis of this paper that such economic policy for its efficacy is dependent on a particular endowment of Social Capital. This hypothesis is substantiated by considering the experiences of the Nordic states and East Asian Tiger economies in implementing Interventionist economic policy. The South African context is then considered with its renewed commitment to a developmentalist state and social norms. Section 5 concludes the paper and makes recommendations for further study.

## **2. Social Capital: Definition(s) and its role in Development**

In recent years factors that were previously regarded an extraneous to the development process have been considered in the calculus of the sources of growth and development. Amongst these has been Social Capital. Social Capital has seen its introduction into academic disciplines such as Economics, Development Studies and Sociology. This section provides a working definition of the term Social Capital for the ensuing study, taking cognisance of the various purported definitions, and considers the manner in which Social Capital enters the development process.

## 2.1 Defining Social Capital

In contrast to concepts such as '*Human Capital*' or '*Institutions' Social Capital*' within Economics presents a difficulty at the outset due to various differentiated and sometimes conflicting definitions purported, resulting in an almost elusive agreed upon definition (Durlauf and Fafchamps, 2004: 3 ; Fedderke et al, 1999: 710). This is due to the concept of Social Capital borrowing from many disciplines such as economics, sociology and development studies and subsequently a plethora of differentiated definitions are allotted to it. This vagueness has been a major hindrance to both theoretical and empirical research, with some academics even suggesting the term Social Capital be abandoned (Arrow 2002 in Durlauf and Fafchamps, 2004: 3). Despite these challenges, the further analytical prowess that can be added from including social norms in Economics warrants a working definition. This paper provides a substantive definition of Social Capital to anchor a discussion and a synthesis is provided below for purposes of this literature review.

Although the concept of Social Capital is generally attributed to Putnam the term was first introduced into modern social sciences by Loury in 1977 (Durlauf & Fafchamps 2004, p. 3), however if we go back 700 years we find the North African Economist Ibn Khaldun referring to an equivalent concept *Assabiyya* and outlining its role in the economic development of Spain and North Africa (Ibn Khaldun, 1989). Despite Ibn Khaldun and Loury's contribution Putnam's work sets the tone for the introduction of Social Capital into modern Economics and it's his seminal definition that influences the concept in its contemporary nuances. Putnam defines Social Capital as "features of social organisation, such as trust, norms and networks that can improve the efficiency of society" (Putnam et al 1993 in Durlauf and Fafchamps, 2004: 4). In his later work he elaborates on what is meant by "improving the efficiency of society" by specifying the "facilitation of coordination and cooperation".

Woolcock and Narayan (2000: 226) build upon Putnam's definition by specifying the sources of Social Capital and the means through which they serve as 'capital'. They define family, friends and associates as important assets that can be utilized in times of crisis. Persons, families or communities with a larger stock of Social Capital would be less vulnerable to shocks and poverty and have better leverage to take advantage of latent economic opportunities.

Fukuyama (1999) also differs from Putnam's definition by emphasizing that not all shared norms and values produce positive outcomes. Instead it is only positive norms and values that produce Social Capital, suggesting that Social Capital is only that which is positive. Following this Putnam appears to have modified his definition of Social Capital as "connections among individuals social networks and the norms of reciprocity that arise from them" (Putnam 2000 in Durlauf and Fafchamps, 2004: 4).

Fedderke et al (1999: 711-712) make an additional contribution to the idea of norms of reciprocity within Social Capital by also emphasizing the role of institutions, as narrowly defined within the rubric of institutional-economics. They consider perennial social practices and values together with imbedded institutions as factors that allow for the lowering of transaction costs of interaction between agents.

Durlauf & Fafchamps (2004: 5), attempting to synthesise the various definitions of Social Capital, find Social Capital to be defined by three key underlying ideas Firstly;

that Social Capital generates positive externalities for members of a group. Secondly: the externalities are achieved through shared trust, norms and values and their consequent effects on expectations and behaviour. And thirdly that trust, shared norms and values arise from informal forms of organizations based on social networks and associations.

Whilst the above attempts to synthesise some of the dominant definitions of Social Capital, it has two shortcomings. Firstly it excludes or at least does not make explicit mention of the role of formal institutions and structures with relation to Social Capital as emphasised by Fedderke et al (1999 :711-712) and Woolcock and Narayan (2000: 234). Secondly it is based on the assumption that Social Capital is always positive, a point stressed by DeFillipis (2001: 792). As a point of departure into a conceptual discussion of Social Capital this paper adopts the synthesis of Durlauf and Fafchamps whilst making allowances for the additional contributions of Defillipis and Fedderke et al and Woolcock and Narayan.

## 2.2 The Workings of Social Capital

This section provides an overview of the workings of Social Capital and the manner in which it contributes to economic development.

Economic Trust or Social Trust or simply Trust constitutes a central element of Social Capital for many theorists warranting separate emphasis in the workings of Social Capital. At a general level Trust refers to an optimistic expectation or belief regarding the behaviour of other agents, with some theorists adding the condition of reciprocity wherein economic agents expect the amiable conduct and actions towards other agents to be returned. This general notion of trust can be further qualified into either personalised and general trust (Durlauf and Fafchamps, 2004: 5). Personalised trust is the result of repeated interaction similar to an iterated prisoners dilemma where cooperation and reciprocity is the dominant strategy allowing for what Fedderke et al refer to as “Transparency” (Fedderke et al, 1999: 717-718). However given the requirement of continued and repeated interaction between unique agents personalised trust is constrained by the number of unique interpersonal relationships and is limited in its efficiency enhancing effects. Superior to personalised trust is generalised trust referring to a general sense of trust between agents where a degree of anonymity may prevail. This degree of general trust arises from a general set of values, socio-linguistic or cultural characteristics or external incentives. Compared to Personalised trust Durlauf and Fafchamps argue, General Trust is most beneficial as it is established with greater ease, thereby reducing costs and increasing efficiency. (Durlauf and Fafchamps, 2004: 5).

Similar to the distinction between personalised and generalised trust is Woolcock and Naryan’s decomposition of Social Capital which allows for greater elaboration on how trust manifests itself as Social Capital (2000: 227). They decompose Social Capital into “bonding Social Capital” and “bridging Social Capital”. Bonding Social Capital refers to the relationships and the unwritten rules of engagement between family, friends and immediate social circles which allow the poor to “get by” in times of crisis (Briggs 1998 in Woolcock and Narayan, 2000: 227). Bridging on the other hand refers to relations that are more extensive allowing people to forge relationships and affording linkages

with those beyond their immediate spheres and across their strata allowing for access to different resources and information. Bonding Social Capital can be regarded as horizontal in that it is shared with people from similar demographic backgrounds whereas Bridging is vertical in that it facilitates exchanges across demographic groups (Woolcock and Narayan, 2000: 227).

The degree to which a populations' stock of Social Capital can be said to be bonding or bridging is dependent on the degree of what Fedderke et al refer to as rationalisation (Fedderke et al, 1999: 719). Referring to the extent to which Social Capital is "embodied in formally codified rules, norms and values". A higher degree of rationalisation facilitates greater cooperation between different socio-economic groups. The consideration of rationalisation in Social Capital allows local optima in Social Capital such that Social Capital becomes an endogenous factor that can be affected and adjusted to suit circumstances.

### 2.3 Social Capital and Economic Development

Since Putnam's (1993) seminal findings on the role of Social Capital in the development of Northern and Southern Italy numerous subsequent studies have attempted to investigate the development effects of Social Capital. Many of these studies have found similar results in varying settings (Zack and Knack (2001) ; Whiteley (2000) in Balamoune-Lutz 2005). Like Putnam's study a higher observed development trajectory was associated with superior endowments in Social Capital. Social Capital in these studies has traditionally been measured by membership in groups and clubs (Durlauf and Fafchamps, 2004: 11-12). This section presents a discussion of several key mechanisms through which Social Capital contributes to economic development followed by a critique of these mechanisms.

#### *Transaction Costs*

The reduction in transaction costs arising from Social Capital is the most common cited mechanism by which Social Capital contributes to economic development. Asymmetrical or imperfect information poses a major obstacle to market efficiency and increases transaction costs, however such inefficiencies can be reduced significantly. In more developed economies this is achieved through formal institutions such as stock exchanges, whilst in lesser-developed economies asymmetrical information can be reduced through interpersonal relationships constituting Social Capital (Durlauf and Fafchamps, 2004: 6). In the absence of well functioning formal institutional mechanisms that facilitate the reduction of information asymmetries such as job openings is sought through "word-of-mouth" and personal recommendations. This is dependent on the stock of Bridging Social Capital where economic agents invest in and maintain links with members of different socio-economic groups wherein the required information may be replete. Woolcock and Narayan (2000: 227). Whilst enhancing such social networks may have positive implications for human development Durlauf and Fafchamps note that the development of formal substitutions allows for greater asymmetry and an enhances stock of bridging Social Capital is not an adequate substitute (2004: 8-9).

#### *Human Capital*

Within growth theory Human Capital occupies a central role in contributing to the long run development and growth of an economy. Woolcock and Narayan (2000: 230) argue

that Social Capital serves the same productive function as Human Capital in an economy. They argue that Social Capital should be viewed as a factor of production as equipment, technology, skilled personnel and good ideas would be insufficient and amount to “little unless the person also has access to others to inform, correct, improve and disseminate work”. In addition to Social Capital playing a complementary role to other Human Capital and other factors of production Social Capital may also play a role of facilitating the formation of Human Capital. This occurs through the undertaking of higher education being supported by family and community. However Fedderke et al argue a reverse causality is possible claiming that greater transparency and rationalization in Social Capital is dependent on higher levels of education and human capital (Fedderke et al, 1999: 737-738).

### *Institutions*

The role of institutions in economic development has been noted ever since the influential work of North (1990). The rules of the game, courts and information dissemination mechanisms allow for the safeguarding of property rights, reduce information costs and asymmetries and generally allow for the development of a generalised anonymous trust. The relationship between Social Capital and Institutions allows for two different interpretations. The First interpretation considers Social Capital as a substitute to institutions. This is particularly the case in lesser developing contexts where institutions have yet to develop fully or state services follow the line of patronage in distribution. Annen (2004) considering the relationship between Social Capital and economic performance among small textile producing firms in Bolivia concludes that Social Capital serves as a substitute for institutional coverage. Annen finds that for informal firms Social Capital, in the form of social links, had higher returns for Social Capital than for formal firms, as the latter can overcome the moral hazard and enlist the use of the authorities, whilst the former were dependent on Social Capital in the face of no institutional coverage (Annen, 2004, p. 3-5). The second interpretation views Social Capital as complement to institutions. It is argued by Durlauf and Fafchamps (2004: 14) that institutions are generally able to function more efficiently when combined with a higher stock of Social Capital especially trust.

### *Inequality in Social Capital*

In the same way that inequality in human or physical capital contributes to economic inequality and disparities, Lin (2000: 786) and Glaeser (2002: 442) argues that inequality in Social Capital also contributes to socio-economic disparities. The general tendency of individuals to associate with those with similar demographic and socio-economic characteristics results in the poor and disadvantaged clustering (forming Social Capital bonds) with those with similar levels of information, resources and influence, thus preventing the formation of Social Capital with higher development potential (Bridging Social Capital). Lin (2000: 788) also finds differences in intra-household Social Capital formation and returns to Social Capital. Cultural and societal practices and expectations, according to Lin, may allow males more opportunities to accumulate Social Capital, particularly Social Capital that is bridging, which allows for more leverage and a greater access to information. Lin cites villages in India and China where cultural practices that allowed males more opportunities to interact with non-family members were conducive to males (including children) accumulating more Social Capital, Lin also mentions that females in families with many male members in the extended family were able to accumulate larger amount of Social Capital as extended family members had less redundant information and constituted bridging Social Capital.

### *Is More Social Capital Better? Or Optimal Social Capital?*

Whilst the above may suggest that a higher stock of Social Capital would be associated with superior economic returns, the actual relationship between Social Capital and economic development is not always linear. Woolcock and Narayan (2000:332-334) and Fedderke et al. (1999: 710) consider the case of “the more Social Capital the better” and conclude that optimal levels and types of Social Capital rather than more Social Capital are more important. Considering that Social Capital is not homogenous across all societies and that different societies exhibit different socio-economic dynamics and different growth trajectories Fedderke et al discuss “local optima” where different values, norms and rules serve to increase the likelihood of cooperative behaviour. The realisation of local optima is achieved through the principle of rationalisation. Increased rationalisation allows for greater cooperation with other groups and adaptability to alternative environments and conditions, thereby allowing for a local optima. In the “network view” of Social Capital discussed by Woolcock and Narayan, horizontal and vertical links through bonding and bridging facilitates this process; “The network view considers that as welfare and economic circumstances change over time so does the optimal calculus of costs and benefits associated with particular combinations of bonds and bridges, that is vertical and horizontal”. Woolcock and Narayan use the example of micro-enterprises in villages in Bangladesh and rural to urban migration to illustrate how different combinations and quantity of Social Capital (bonding and bridging) are suited to different circumstances. For purposes of micro-enterprise the support of family and close friends is essential and hence more bonding Social Capital is required, however for purposes of individual migration to urban.

### **2.3 The Sources or Determinants of Social Capital**

Within the literature there is a degree of contention regarding the sources of Social Capital with merits to the different purported arguments. This nonetheless presents an important subject for interrogation as the malleability of Social Capital to be shaped by policy is the subject of scrutiny.

Given that Social Capital refers to the nature, content and structure and of social relations between individuals and groups of individuals the sources or determinants of Social Capital are naturally the factors that affect these relationships. Central to identifying the sources of Social Capital is the concept of “distance” between economic agents. Adler (2002) argues that a greater distance or lack of familiarity between agents the lower the level of Social Capital. This implies that similarity between agents characteristics allows for a larger stock of Social Capital.

Based on this certain key sources or determinants of Social Capital can be identified. Important amongst these are individual or group traits such as ethnicity, race, language, religion and political affiliation can be identified as determinants of Social Capital. “Relative distance” may also exceed these characteristics to include geographic and income considerations that affect Social Capital. Income or more generally economic inequality is identified as a key factor in determining social trust. Greater income inequality Knack and Keefer (1997) find stretches the social fabric, increasing the social distance between individuals and reducing the likelihood of shared social associations, norms and mutual respect. However they also point out that the direction of causality is difficult to establish and bi-causality is most plausible.



Civil society also feature as a prominent factor in determining the Social Capital and has indeed been utilized as a predictor of Social Capital levels. It is postulated that higher levels of civic organisations, proxied through voluntary organisations, involvement or membership, allows for stronger social connectivity and trust of people in the wider community (Putnam 2000) However a notable shortcoming of many of these studies is the aggregation of civic organisations treating them as homogenous organisations. Greater bonding rather than bridging Social Capital may emerge from civic organizations which are themselves ethno, socio or economic group specific interest groups. In addition studies have also shown higher levels of education to be associated with higher levels of Social Capital (Hall, 1999; Putnam, 2000), with an extra year of education individuals engage in more associational life and engage in wider networks.

### 2.3 Social Capital and Policy: A consideration

The relationship between Social Capital and policy is somewhat dichotomous owing to contestation over whether Social Capital constitutes an exogenous endowment affecting economic performance and development or if Social Capital constitutes an endogenous factor that is the function of several factors including Economic policy and Institutions. Researchers inclined towards the former view have attempted estimating the marginal effects of Social Capital on development taking Social Capital as a given. More liberating has been the second view that both estimates the effects of Social Capital on economic development and also considers different instruments that could be utilised to affect this stock of Social Capital. For example Zack and Knack (2001) investigate the ability of policy makers to affect trust levels using public policies. Amongst these have been those policies which increase freedom of association, build civic cultures, enhance contract enforcement, reduce income inequality, and raise educational levels. Less conspicuous have been studies concerning Social Capital as an exogenous factor determining policy choice. This paper makes one such contribution.

This paper marks a departure from both of these tradition yet constitutes a hybrid of both. It does this by considering Social Capital as both an endogenous factor affected by a range of variables and concurrently as a determining factor. As a determining factor Social Capital affects economic performance directly as is conventionally understood but also indirectly through its effects on economic policy efficacy. This is documented below

Similarly this paper also makes a contribution to the public policy literature by adding another consideration in the calculus of economic policy. The traditional factors considered in the design of public policy have included institutions, stocks of natural, physical and human resources as well as bureaucratic competencies with Social Capital and social norms not afforded any consideration.

### 3. Social Capital and Interventionist Economic Policy: A Contribution

Having provided an overview of how Social Capital affects economic development and its limitations, this section elaborates on what is meant by interventionist economic policy within this study and how it relates to Social Capital.

### 3.1 Developmentalism and Interventionist Economic Policy

Whilst the notion of developmental economic policy and the Developmentalist state has many nuances with varying degrees and forms of state intervention for purposes of this study a discrete and bounded definition is used as a basis to consider the relationship between Policy and Social Capital. This is based on Chalmers Johnson's seminal analysis of Japan's impressive and unparalleled post war economic and specifically industrial development. Developmental economic policy is defined as policy wherein the state directs economic the development process, affecting the allocation of resources as opposed to being a passive observer and guarantor of the rules of the game whilst the market forces allocate resources. Developmental economic policy has at its core the state identifying specific economic and social goals with a strategy, plan and identifiable instruments to achieve them (Naidoo, 2005: 109).

The list of possible economic policies that a state may implement in directing the process of economic development is quite extensive ranging from those policies that fall within the rubric of state-central planning to industrial policy. For purposes of this paper the focus is limited to policies wherein the stock of Social Capital imbedded in a society may affect the efficacy of the policy, indeed the central hypothesis of this paper. Economic policy that requires a suppression of partisan interests for the sake of an overarching socio-economic objective, economic policy that is premised upon strategic collaboration and information sharing between the different spheres of society namely the state, capital and civil society and economic policy that requires interaction and collusion between economic groups are the main forms of economic policy that we espouse as being dependent on Social Capital.

This paper models its hypothesis on the experiences in interventionist economic policy by the Scandinavian and East Asian experience. These are briefly outlined below. Several strong similarities can be observed between the interventionist economic policy arsenal implemented in these regions and South Africa's current interventionist subset of its new economic policy dispensation.

### 3.2 Scandinavian and East Asian Corporatism

The successful experiences of the Scandinavian countries, particularly Norway and Sweden, and the East Asian countries of South Korea and Japan with interventionist economic policy is well documented within the economic, development and public policy literature (see Chang, 1993 ; Moene, 2003). By most authoritative accounts and not withstanding idiosyncratic accounts arguing the contrary these countries have been able to combine capitalist merits of efficiency, dynamism and growth with socialist-type goals of equity, full employment and universal welfare coverage. The post World War 2 period witnessed these respective countries increase their standards of livings of their populations through widespread state intervention in their economies. Whilst a comprehensive account of this impressive feat exceeds the scope of this paper certain elements that have contributed to these achievements suggest the role of Social Capital in the observed trajectories. This paper presents an overview of these elements as they relate to Social Capital.

#### *Norway*

The Scandinavian experience with interventionist economic policy is hallmarked by achieving unparalleled levels of income equality, high economic growth and universal welfare coverage in the period concerned which continue today. Owing to such a feat it is correspondingly dubbed “Nordic Exceptionalism”. Much of this success was dependent on the of model of strategic collaboration and decision making that has come to be known as the “Nordic Model”, corporatism or corporativism. From having the highest levels of industrial conflict in the world in the 1920s and 1930s, the period preceding the ascent of the Social democrats in both countries, Norway and Sweden were able to transform a grossly confrontational relationship between labour and capital into one that allowed for consensual decision-making (Wilensky 2002 ; Moene and Wallerstein, 2002: 4).

Whilst Monee and Wallerstein purport that it was the actual model of collaborative decision-making, in particular centralized bargaining, that allowed for the successes of the Nordic Model this paper considers the factors that contributed to the acceptance of an overall emphasis on consensus decision-making observed in the Nordic economic policy dispensation since the WW2 period. Several economic policies rolled out during this period as well as actions taken by the different spheres of Nordic society suggest a suppression of partisan interests and a promotion of collective goals in the interaction between state, capital and labour. This paper identifies the following key elements:

- The development of routine centralized solidarity wage bargaining that incorporated high-earning workers from exporting sectors, low-earning workers as well as white-collar workers whom generally earned more.
- An overall policy that suppressed wage levels in the name of greater equality including that of higher income workers who forewent higher potential income. This was remarkably all voluntary with either party having the option of opting out
- The collaboration between low-wage unions workers and employers to suppress incomes as they pertained to middle-income workers
- Strong unions as well as incredibly well organized employer associations.
- A preference on the part of employers to bargain with the “sensible” leadership of the unions as opposed to shop floor union bodies
- A strong commitment by the unions to the agreements reached through centralized solidarity bargaining. This included the guarantee not to engage in industrial action after agreement and the disciplining of union elements and smaller unions for non-cooperation
- A significant increase in Norwegian corporate tax levels to fund increased welfare demands
- Wide-ranging controls over credit allocation in Norway and intervention over the timing of investments in Sweden, this until the eventual deregulation of financial markets in both countries in the 1980s (Monee and Wallerstein, 2002: 3-4, 20)

This paper posits that the stock of Social Capital, especially bridging Social Capital, allowed for the above corporatist socio-economic structure, central to the Scandinavian experience, to function. In arguing this case this paper focuses on the Norwegian case looking at its Social Capital stock in the period concerned. As discussed above and at length in the literature (see Durlauf, 2002) measuring Social Capital faces

several challenges least of all definition, proxies and data. Cognizant of these challenges, in attempting to approximate the Social Capital levels in Norway for the period concerned this paper considers the formal approximations from the World Values Survey. In particular the questions which indicate Social Capital and trust from the 1982 survey. Whilst 1982 marks the latter bound of the period under study the WVS only commences at this point presenting a limitation in this data set. However studies suggest that Social Capital levels generally take several generations to change suggesting that admissibility of this data set. In addition to survey data from the WVS this paper also considers other determinants of Social Capital as outlined in section 2.3. These are summarized in Table 3 below. It indicates several factors including ethnicity, religion, etc that show a sense of proximity between social groups in Norway and Sweden allowing for greater collaboration and willingness to suppress partisan interest in the effort to achieve national goals.

### *South Korea*

No less impressive than the Scandinavian experience with interventionist economic policy has been the East Asian countries' experience with economic policies that were even more interventionist. This section focuses on the case of South Korea (henceforth Korea). Emerging from the 1950s as a fully-fledged democracy Korea inherited a colonial economic system designed for Japan's needs and exhibited low standards of living, a dependence on agriculture and a poor income per capita. Unparalleled in modern economic history within a few decades Korea transformed itself from a textiles and shoe-exporting nation into a high-tech producing nation ranking amongst the highest developed nations in income and HDI terms. This "Miracle on the Han River" has very much been the product of a strong interventionist state (see Cimoli et al, 2009 ; Chang, 1993) with the Koreans successfully managing its intervention and strategic decision making (Bhagwati, 1987: 285). Like in the case of the Nordic experience this section identifies certain key factors that illustrate an overall acceptance of partisan interest suppression and the promotion of collective goals in the interaction between the Korean state, its industrialists and its labour. These include;

- Stringent restrictions on imports including import licensing and trade barriers, especially for domestically produced goods with as much as 93% of all imports facing restriction as late as 1983
- Prohibitive taxes on luxury items
- Foreign exchange rationing
- The censure of state-owned banks granting consumer loans
- High indirect taxes were imposed to discourage consumption despite the accusation that they were less equitable. Such anti-consumption policies also resulted in low passenger car ownership
- Government directives over firms such as instructing the building of plants to a predetermined "efficient scale" compelling immediate exports
- A tacit acceptance and at time explicitly promoted anti-competitive behaviour on the grounds of decreasing "social waste" arising from "excessive competition". Competition was seen as a means of achieving market efficiency rather than an end in itself.
- Restrictive access to FDI with the further conditionalities on ownership.
- Activist industrial policy targeting particular firms and sectors with considerable support

- The introduction and consolidation of firm monthly reports affording the state greater insight into industry allowing for better informed decision-making mitigating the potential costs associated with such interventionist policies.
- Close relationships between the Korean state and family controlled conglomerates whilst allowed for rent-seeking behaviour (see Chang 1993 who explains how the costs of such an arrangement were not as great as other cases that provide incentive for rent seeking behaviour) allowed for the state to enforce discipline upon firms and *Chaebols* that failed to achieve the decided upon goals.
- Strong involvement in the market including state directed mergers, equity swaps, forced exit from specific markets,
- A strong anti-consumption bias and an obsession with capital accumulation (Chang, 1993: 130-48)

Similar to the case of Norway this paper argues that such interventionism, industrial policy and close yet productive relations between the state and capital were possible in Korea in part owing to Korea's stock and type of underlying Social Capital. Hamilton (1983) and Amsden (1989) both suggest that similar to the case of Norway Korea's historical development produced a social structure devoid of powerful social classes to contest state power. During the Korean War land owning classes of society were largely eliminated through land reform whilst political organisations of workers and farmers which had an incipient influence were subdued during and after the war. These developments can be viewed in terms of Social Capital. The diffusion of the influence of partisan interests of land-owners, workers and farmers in the Korean model allowed for only modest stocks of bonding Social Capital to be developed. In addition it has been argued that the Korea's brand of Confucian tradition engendered in Korean society support for and trust in social institutions, political parties and leadership (e.g. Luedde-Neurath, 1985 in Chang, 1993: 150) allowing for amicable state-society relations. This suggestion is complemented by the WVS 1982 estimation pertaining to trust found in table 1. Whilst cultural and ideological homogeneity played an important part in Korea's history however it was not purely a historical endowment. It was also the product of state intervention. The Park regime promoted national consensus and mobilized the Korean nation through promoting a "renaissance of the nation" through building an independent economy a "*Jarip Gyongje*". The state promoted a conception of workers as "industrial soldiers" engaged in a war against poverty whilst businessperson were lauded for their successes on a national level. The state also mobilized its farmers into labour for rural infrastructure development which was unpaid but semi-compulsory. From this we can note that the stock of Social Capital inherited was able to successfully mobilized in the Korea's economic development as both an endowment and also augmented by state apparatus (Chang, 1993: 152)

#### **4. Interventionist Economic Policy and Social Capital: The Case of South Africa**

Having shown the role played by Social Capital in the efficacy of interventionist economic policy and considered the experiences of two countries where interventionist economic policy *ala* corporatism has been very successful this paper now turns attempts to interrogate South Africa in terms of these findings.

##### **4.1 South Africa's Renewed Commitment to Interventionism and a Developmental State**

Since 2007 with the introduction of ASGISA South Africa has renewed its commitment to the developmental state in the context of halving unemployment by 2014. A commitment to greater state intervention in the economy to realize specific socio-economic goals is manifested in a range of more interventionist policies. ASGISA, emphasizing the need for South Africa's growth path to be more labour absorbing and value adding, heralded the state playing a more involved role in the South African Economy. The Introduction of South Africa's National Industrial Policy Framework in 2007 consolidated this shift in economic policy. The NIPF combines traditional selective industrial policy of the 20<sup>th</sup> century with a plethora of horizontal industrial policy measures that cover a range of sectors. Since the launch of the NIPF the South African state has launched two Industrial Policy Action Plans (IPAPs) detailing the its industrial policy interventions (DTI, 2007b; EIEC, 2010). Further to the NIPF the South African government in 2010, citing the need for changes to its current economic trajectory tabled its New Growth Path. The NGP similarly identified a range of constraints acting upon the economy and prescribes a range of more interventionist responses to address these constraints with the intention of taking the economy onto a new growth path.

This paper details certain elements from the NIPF and the NGP as they relate to South Africa's Social Capital. It shows some notable similarities in the economic policy dispensation between South Africa and the corporatist policy cocktails of Norway and Korea allowing for some conclusions to be drawn as to the complementarity between South Africa's interventionist economic policy and its stock and variants of Social Capital.

### *The NIPF*

The NIPF was tabled and adopted by the cabinet of South Africa during 2007. As part of the ASGISA it sets out Government's approach to South Africa's industrialisation path with the aim of aligning both public and private actors in the economy towards this direction (DTI, 2007a: 2-3, 9). Industrial Policy, embodied in the NIPF, forms a constituent component in realising the state's objectives of achieving a 6% GDP growth from 2010 onwards and to reduce unemployment and poverty by half (DTI, 2007: 2, 9).

The overall approach of the NIPF to industrial policy eschews a "one size fits all" approach. Instead it has as its basis the identification of growth and employment constraints operating at the microeconomic, sectoral, spatial and firm level of the economy (DTI, 2007a: 30). The NIPF document details necessary conditions for industrialisation and lessons learnt from domestic and international experience, especially from the NICs (including Korea) (DTI, 2007a: 17-31). It presents a vision for the South Africa's industrial trajectory emphasizing ;the diversification of the economy beyond its current reliance on traditional commodities and non-tradable services ; the promotion of labour absorbing industrialisation with a particular emphasis on tradable labour absorbing goods and services and ; a broader based industrialisation for the inclusion of previously disadvantaged individuals (DTI, 2007a: 10-11). For the realization of this vision the NIPF embraces the principles and best practices for Industrial Policy interventions based on both South African and International experience (DTI, 2007a: 30) and actualizes this vision in governing principles and 13 Strategic Programmes (SP) which are detailed in the IPAPs.

Of particular relevance to this paper's espoused effect of Social Capital on economic policy is the overall emphasis in the NIPF of industrial policy as a process. Embodying

best practice and developments in new industrial policy (see Rodrik, 2004) the NIPF promotes an industrial policy that is the outcome of strategic collaboration and deliberation between the different spheres of society, particularly the state and capital. The fact that the state as the provider of public inputs, industry and economy wide support is confronted by information asymmetries necessitates strategic collaboration with business such that imbedded information pertaining to the challenges and opportunities acting upon the economy can be identified and addressed (Rodrik, 2004: 20). The “self discovery” process is supported by the state under the NIPF (DTI, 2007a: 34). Allowing the state to provide the horizontal and vertical support measures espoused in the NIPF (DTI, 2007a: 33). This paper espouses that the success of these policy depends on Social Capital. These strategic interactions and collaborations are detailed in the IPAPs. Given that the strategic collaboration affecting the overall efficacy of the NIPF entails groups with different perspective, information and vested interests more meaningful exchanges depend on the type and stock of Social Capital replete within these groups. Poor levels of trust in institutions and members of other groups would hinder the success of these interactions. Similarly strong bonding Social Capital but weak bridging Social Capital would also constitute a hindrance to this process.

#### NGP

The New Growth Path launched in 2010 aims to create 5 million new jobs by 2020 and engender a more labour-absorbing economy. With many elements that constitute Industrial Policy by other terms (see McCarthy, 2011) the NGP follows from the NIPF by promoting even greater levels of state intervention in the economy to bring about a “new growth path”. The objectives of the NGP are broad and include an economy which is; more competitive ;more labour-absorbing ;fast-growing and; knowledge-intensive. For the realization of these objectives the NGP proposes a mix of direct state driven job creation, macroeconomic, labour and industrial policies coupled with a strong emphasis on social-democratic consensus building.

The element of social democratic consensus building is of particular relevance to this papers espoused effect of Social Capital on economic policy. Analogous to the Scandinavian corporatist model the NGP advocates wage restraint on the part of both labour and business in attempting to keep inflation under control through indirect means. In a proposal quite similar to that implemented by Norway in mid 20<sup>th</sup> century (Moene and Wallerstein, 2002) the NGP details the constraining of the real wage growth of all workers except the lowest paid and the capping of business executive pay. The NGP adds further conditionalities and demands on business by including the epithet “decent” to the work that exists and need to be created and calls for benefits and a career path for workers. This assumes that capital will simply respond to a new policy or change in legislation. Similar to the case of the NIPF the NGP strongly advocates strategic engagement and collaboration with stakeholders including capital and labour, affording the latter a stronger voice. This is also quite similar to the Nordic approach of solidaristic wage bargaining (discussed in section 3.2 above). However similar to the NIPF the institutional mechanisms to be utilized or created does not find any mention within the NGP.

#### 4.2 Social Capital and the Economic Policy Choice in South Africa

Having outlined the key elements of interventionist economic policy in South Africa

this section now considers the potential for these policies to realize their objectives given South Africa's indicative stock and types of Social Capital. As in this paper's consideration of the case of Norway and Korea, South Africa's Social Capital stock is based on findings from the World Values Survey and further analytical edge is added from considering additional determinants of Social Capital.

The NIPF embodying Industrial Policy as a process dependent on strategic interaction and collaboration between the state and capital warrants trust between these spheres and bridging Social Capital for the success of this process. The information asymmetries replete in the market that need to be addressed for successful and appropriate state interventions necessary to promote further industrialisation also require trust and strong bridging capital. South Africa's indicative level of Economic Trust (11.8%) is relatively significantly lower than the case of Korea (38%) where similar strategic collaboration between the state and capital allowed for its success. Similarly factors that determine Social Capital, particularly its history of racial and linguistic fragmentation, capital-racial fragmentation and a new "capturing" of the state by the black majority predict lower bridging Social Capital. This is in marked contrast to the case of Norway and Korea where the populations were generally ethnolinguistically homogenous and the cross-cutting social cleavages of race and wealth were not mutually reinforcing as it is in the case of South Africa.

The indicators of South Africa's Social Capital and Trust suggest even greater doubt over the potential efficacy of key elements of the New Growth Path. The suppression of partisan and vested interests on the part of labour and capital for purposes of a shared vision and a national social compact and requires considerable bridging Social Capital. This was evident in the Nordic experience where a high stock of bridging Social Capital, trust and social homogeneity allowed for wage repression and collaboration between the state, capital and labour. In addition to South Africa's low level of trust and greater bonding relative to bridging Social Capital economic inequality combined with high cost of living suggest that this proposed economic negotiation would face greater challenges than it did in the Nordic experience. Trade unions in South Africa have traditionally been opposed to setting wage demands on economic trends instead consistently demanding significant real wage increases to the detriment of the unemployed and those retrenched in the face of higher costs or rising productivity (Nattrass, 2011 ; 7). Whilst prima facie similarities exist between South Africa and the Nordic countries regarding the close relationship between the ruling party and trade unions (the Norwegian and Swedish Social Democrats and the Trade Unions as well as the ANC government and COSATU having close relations) this arrangement appears to have facilitated greater social trust allowing for successful wage repression in the Nordic countries relative to South Africa. Given the low levels of Social Capital, trust and indicative social cleavages the NGPs corporatist policy thrust of corporatism faces additional constraints thereby raising doubts over its suitability to the South Africa economy.

## **5. Conclusion**

This paper has shown that the effect of Social Capital on economic development may extend beyond the conventional understanding of reducing transaction costs and building human capital. Social Capital including trust may affect the efficacy of interventionist and developmental policy. The Scandinavian and Korean experience



highlights the role Social Capital plays in interventionist economic policy. A high stock of Social Capital facilitates strategic collaboration between the spheres of capital, labour and the state. This hypothesis is considered within South Africa's new economic dispensation of more interventionist economic policy. In notable contrast to the experiences of Norway and Korea, South Africa exhibits lower levels of Social Capital and trust raising doubts over the suitability of the NIPF and NGP.

**Table 1: Estimates of Social Capital**

		Norway (1981- 1984)	South Korea (1981- 1984)	World Average (2005- 2007)	World Average by economic class $\Psi$		South Africa (2005- 2007)	South Africa by racial group		South Africa by economic class $\Psi$	
					Lower	Upper		Black	White	Lower	Upper
<b>Social Capital 1</b>	Spend time with people at church/ mosque/ synagogue weekly (% yes) (a060)	No data	22.20**** (244)	51.79 (1813)			45.41*** (1344)	67.06 (1281)	63.49 (893)		
<b>Social Capital 2</b>	Important in Life- Religion (% important or very important) (a006)	12.08*** (1126)	25.62** (1245)	71.51 (78463)			70.68 (2977)	69.66 (2063)	67.12 (520)		
<b>Social Capital 3</b>	Service to Others Important in Life (% Yes) (a007)	10.84 (1199)	48.67 (2967)				55.74 (1254)				
<b>Social Capital 4</b>	Political Party Membership (% yes) (a102)	15.45*** (1126)	2.58 (970)	15.72 (76719)			36.88 (2988)	40.23 (2073)	31 (2073)		
<b>Social Capital 5</b>	Important in Life- Politics (% important or very important) (a004)	44.90*** (1127)	71.21** (1240)	44.5 (77927)			47.22 (2950)				
<b>Social Capital 6</b>	How Often discusses political matters with friends (% frequently) (a062)	21.05**** (237)	4.95 (910)	20.44 (6629)			10.17 (2960)****				
<b>Social Capital 7</b>	Union Membership (% yes) (a101)	47.07*** (1126)	5.36 (970)	6.59 (76628)			23.56**** (2988)	21.5 (4286)	13.86 (1847)		
<b>Social Capital 8</b>	I see myself as a member of my local community (% strongly agree) (G020)			41.99 (67228)	41.91 (54467)	42.33 (12761)	51.93 (2975)	54.27 (2060)	44.53 (521)	51.98 (2303)	51.79 (672)
<b>Social Capital 9</b>	I see myself as a citizen of the nation (% strongly agree) (G021)			54.90 (67791)	54.11 (54978)	58.31 (12813)	58.52 (2978)	61.05 (2064)	49.62 (520)	59.09 (2305)	56.61 (673)

\*\*\*\* WVS 4<sup>th</sup> wave used due to missing data

\*\*\* WVS 3<sup>rd</sup> wave used due to missing data

\*\* WVS 2<sup>nd</sup> wave used due to missing data

\* WVS 1<sup>st</sup> wave used due to missing data

$\Psi$  where lower class: is comprised of lower middle-class, working class & lower class and upper class: upper class and upper middle class

Sample size in parenthesis

WVS wave 5 ( 2005-2007) South Africa sample (black: 69.38% (2073) white: 17.44% (521) Indian 3.55% (106) coloured 9.64 (288)

Source: Authors own using World Values Survey 5 wave survey data (1981-2007)

**Table 2: Estimates of Trust**

		Norway (1981- 1984)	South Korea (1981- 1984)	World Average (2005- 2007)	World By Economic Class <sup>Ψ</sup>		South Africa (2005- 2007)	South Africa by Race		South Africa by Economic Class <sup>Ψ</sup>	
					Lower	Upper		Black	White	Lower	Upper
<b>Trust 1</b>	Most people can be trusted: (% yes) (a165)	60.9 (2136)	38.02 (918)	16.89 (983)			17.49 (2967)	16.89 (2054)	19.04 (520)	19.94 (667)	16.78 (2300)
<b>Trust 2</b>	Trust your Neighbourhood (% trust completely or quite a lot) (g007_18)			74.06 (72.493)	73.56 (60165)	76.45 (12328)	70.96 (2972)	67.65 (2062)	80.08 (517)	69.30 (2303)	76.68 (669)
<b>Trust 3</b>	Trust your friends(% trust completely or quite a lot) (g007_17)						31.32** (2596)	37 (1054)	28.38 (1170)		
<b>Trust 4</b>	Trust black South Africans (% trust completely or quite a lot) (g007_20)						12.95 (22471)	9.92 (978)	14.47 (1121)	13.47 (1121)	12.95 (2471)
<b>Trust 5</b>	Trust white South Africans (% trust completely or quite a lot) (g007_19)						25.56 (2070)	32.03 (790)	20.99 (1010)		
<b>Trust 6</b>	Trust coloured South Africans (% trust completely or quite a lot) (g007_21)						12.69 (1868)	17.78 (720)	10.44 (910)		
<b>Trust 7</b>	Trust Indian South Africans (% trust completely or quite a lot) (g007_22)						13.73 (2425)	7.85 (956)	13.75 (1098)		
<b>Trust 8</b>	Trust Zulu South Africans (% trust completely or quite a lot) g007_23						13.73 (2425)	7.85 (956)	13.75 (1098)		
<b>Trust 9</b>	Confidence in Churches (% a great deal or quite a lot) (e069_11)		62.53 (950)				83.91 (2959)	84.16 (2052)	81.82 (517)	83.90 (2292)	83.96 (667)
<b>Trust 10</b>	Confidence in Labour Unions (% a great deal or quite a lot) (e069_05)	No data	60.04 (941)	39.11 (71525)	39.23 (58730)	38.6 (12795)	46.88 (2654)	54.23 (1783)	28.87 (471)	49.33 (2003)	38.97 (621)
<b>Trust 11</b>	Confidence in Political Parties (% a great deal or quite a lot) (e069_12)			27.16 (73054)	27.16 (60179)	27.16 (12875)	39.82 (2908)	48.46 (2012)	18.54 (507)	41.97 (2249)	32.47 (659)
<b>Trust 12</b>	Private Versus State ownership of business- private should increase (% yes) (e036)	nd	66.31** (1232)	52.75 (72164)			52 (2898)	43.19 (1998)	76.06 (518)		
<b>Trust 13</b>	Confidence in Major Companies (% a great deal or quite a lot) e069_13	nd		41.61 (73366)			67.16 (2835)	69.05 (1955)	67.14 (496)	68.61 (653)	66.73 (2182)
<b>Trust 14</b>	Confidence in Government (% a great deal or quite a lot) e069_11	66.13*** (1119)	43.97*** (1244)	47.56 (75297)			66.72 (2951)	79.53 (2047)	32.36 (516)	70.92 (2283)	52.40 (668)
<b>Trust 15</b>	Confidence in Parliament (% a great deal or quite a lot) (e069_07)	69.47*** (1117)	68.28 (949)	39.61 (72026)			61.65 (2915)	74.44 (2023)	26.82 (507)		
<b>Trust 16</b>	Confidence in Police (% a great deal or quite a lot) (e069_06)						57.65 (2949)	61.73 (2046)	46.71 (516)		
<b>Trust 17</b>	Confidence in Education System (% a great deal or quite a lot) (e069_03)						72.84 (2658)	82.85 (1091)	63.58 (1186)		

\*\*\*\* WVS 4<sup>th</sup> wave used due to missing data

\*\*\* WVS 3<sup>rd</sup> wave used due to missing data

\*\* WVS 2<sup>nd</sup> wave used due to missing data

\* WVS 1<sup>st</sup> wave used due to missing data

<sup>1</sup> class variables missing

Ψ where lower class: is comprised of lower middle-class, working class & lower class and upper class: upper class and upper middle class

Sample size in parenthesis

WVS wave 5 ( 2005-2007) South Africa sample (black: 69.38% (2073) white: 17.44% (521) Indian 3.55% (106) coloured 9.64 (288)

Source: Authors own using World Values Survey 5 wave survey data (1981-2007)

**Table 3: Determinants of Social Capital and Trust**

	<b>Norway (1950- 1980)</b>	<b>South Korea (1950- 1980)</b>	<b>South Africa 2009</b>
<b>Political Parties</b>	2 main parties		1 large etho based party, 1 medium, several small
<b>Average Rural-Urban Split</b>	45.2% - 54.8%	45.2%-55.8%	56% - 44%
<b>Population size average (000s)</b>	3 379	31 943	50 000
<b>Ethic Fragmentation</b>	No	No	Yes
<b>Economic (Gini)</b>	0.24	0.31	57.8
<b>Linguistic Fragmentation</b>	No	No	Yes
<b>Historical division</b>	No	No	Yes

Data from UN Demographic year book – Historical Statistics 1948-1999 & UNDP Human Development Report 2009

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