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# **Social Capital and Subjective Economic Well-being of Households in Transition Economies *(new project)***

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## RESEARCH PROBLEM

Institutional effectiveness is essential to overcome the negative consequences of economic shocks. *Which resources do households use to overcome the detrimental effects of economic shocks in those transition economy countries where institutions demonstrate low effectiveness?*

The Life in Transition survey data reveal **divergent tendencies** in social capital during the economic crisis. For example, over the period from 2006 to 2010 the level of generalized trust – one of the most frequently used indicators of social capital – has **decreased** considerably in Armenia (by 12 percentage points), Georgia (by 15 percentage points), Latvia (by 9 percentage points). Some transition economy countries experienced a sharp **increase** in generalized trust (in particular, Russia (by 16 percentage points), Tajikistan (by 14 percentage points), Montenegro (by 13 percentage points)).

# RESEARCH QUESTIONS

Why, in some countries, do they rely more on social capital under economic crisis, while in other countries economic shocks deplete the resources of social capital? Which country-level characteristics can explain different types of the relationship between social capital and subjective economic well-being in transition countries under the conditions of the economic crisis?

## SOCIAL CAPITAL AND ECONOMIC WELL-BEING IN TIMES OF ECONOMIC SHOCKS

**Social capital tends to make households less vulnerable to the negative consequences of economic shocks (*Helliwell et al., 2014; Tobin, Livermore, 2006*).**

**Economic shocks do not mobilize resources of social capital, but just the reverse, they erode interpersonal and institutional trust (*Albrecht et al., 1996; Aghion et al., 2010; Besser et al., 2008*).**

**Formal institutions matter. They define the relationship between social capital and economic well-being (*Guiso et al., 2004; Reeskens, Oorschot, 2014*).**

# THEORETICAL FRAMEWORK

Theory of social embeddedness

M. Granovetter: *“institutional arrangements ... do not produce trust but instead are a functional **substitute** for it”*.

R. Putnam: *“social capital as features of social life such as networks, norms, and trust that enable participants to act together more effectively to pursue shared objectives”*

## **Bridging VS Bonding social capital**

Numerous empirical research papers (e.g., Anderson S. et al, 2011; Menyashev R., Polishchuk L., 2011) evidence that it is bridging social capital that has a positive effect on economic well-being. At the same time bonding social capital does not produce any significant effect.

# HYPOTHESES

- H1. In transition economies households with higher social capital enjoy higher subjective economic well-being under economic crisis.
- H2. In transition economies lower quality of government strengthens the positive relationship between social capital and subjective economic well-being of households.
- H3. In transition economies lower welfare generosity (social expenditure) strengthens the positive relationship between social capital and subjective economic well-being of households.



# DATA (1)

## INDIVIDUAL LEVEL VARIABLES

DEPENDENT VARIABLE	INDICATOR	DATA SOURCE
<p>The effect of the economic crisis (2007 – 2009) on the household</p>	<p><i>How much, if at all, has this crisis affected your household in the past two years?</i></p> <p>The original categorical scale was recoded into a <u>binary</u> one (1 stands for sustainable households (the 3<sup>rd</sup> and the 4<sup>th</sup> categories were merged), 0 stands for non-sustainable households (the 1<sup>st</sup> + the 2<sup>nd</sup> categories)).</p>	<p>Life in Transition Survey (2<sup>nd</sup> round)</p>
<p>The change of subjective material prosperity</p>	<p><b>The difference between the scores for 2010 and 2006</b></p> <p><i>“Imagine a 10-step ladder where on the bottom, the first step, stand the poorest 10 per cent of people in [their country] and on the highest step, the 10th, stand the richest 10 per cent of people in [the country]. On which step is your household?” (a question about 2010 and pre-crisis 2006)</i></p>	



## DATA (2)

# INDIVIDUAL LEVEL VARIABLES

INDEPENDENT VARIABLE	INDICATOR	DATA SOURCE
Interpersonal trust (Trust in friends and acquaintances) (Bonding social capital)	How much do you trust your friends and acquaintances? – categorical scale (5 categories)	Life in Transition Survey (2 <sup>nd</sup> round)
Generalized trust (Bridging social capital)	“How much do you trust people in general?” – categorical scale (5 categories)	
Participation in voluntary organizations (Bridging social capital)	The scale varies from 0 to 8 (additive index of binary variables that stand for the participation in each of the eight voluntary organizations).	
Social benefits as an important source of livelihood	Binary variable: if a respondent get either pensions or state social assistance, the variable takes value “1”. Otherwise, it takes a value “0”	
Help from friends and relatives as an important source of livelihood	Binary variable (1 – help from friends and relatives is important; 0 – otherwise)	
Number of children	Categorical variable	
Health	How would you assess your health? – categorical scale (5 categories)	





## DATA (3) COUNTRY LEVEL VARIABLES

VARIABLE	INDICATOR	DATA SOURCE
Social safety nets (Equality of outcomes)	ranges from 1 (the absence of social safety nets) to 10 (comprehensive social safety nets encompass the society)	The Bertelsmann Stiftung's Transformation Index
Equality of opportunities	ranges from 1 to 10 (The highest score is intended for those countries where different social groups have equal access to public services and employment)	
Economic growth	GDP per capita growth (annual %)	The World Bank
Government effectiveness	The higher the value is the higher quality of government is (random variable with a standard normal distribution).	The Worldwide Governance Indicators Project

As a main method in our research we apply multilevel modeling (logit models) with random effects for social capital

- 1) hierarchical structure with individuals as sample units of the first level nested within 29 countries (*Albania, Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Mongolia, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Ukraine, and Uzbekistan*)
- 2) ICC = 32%. Multilevel modeling technique allows to take into account different sources of data variability.

# RANDOM EFFECTS

RANDOM EFFECTS	95% CONFIDENCE INTERVALS
Standard deviation (Intercept)	[0.543; 0.948]
Standard deviation (generalized trust)	[0.059; 0.153]
Standard deviation (interpersonal trust)	[0.038; 0.135]

Moderator effect?  
Country-level predictors?

PRELIMINARY RESULTS	The effect of the economic crisis (subjective) as a dependent variable		
Generalized trust	0.08*** (0.016)	0.08*** (0.016)	0.08*** (0.016)
Trust in friends and acquaintances (interpersonal)	0.073*** (0.019)	0.073*** (0.019)	0.073*** (0.019)
Participation in voluntary organizations	– 0.011 (0.015)	– 0.011 (0.015)	– 0.011 (0.015)
Number of children	– 0.11*** (0.016)	– 0.11*** (0.016)	– 0.11*** (0.016)
Material prosperity 4 years ago (self-esteem)	0.018* (0.0095)	0.018* (0.0095)	0.018* (0.0095)
Marital status	– 0,777 (0,616)	– 0,777 (0,616)	– 0,777 (0,616)
Health	0,228*** (0,021)	0,228*** (0,021)	0,228*** (0,021)
Higher education	0,052*** (0,013)	0,051*** (0,013)	0,051*** (0,013)
Social benefits as an important source of livelihood	0.189*** (0.037)	0.189*** (0.037)	0.189*** (0.037)
Help from friends and relatives as an important source of livelihood	– 0.289*** (0.053)	– 0.288*** (0.053)	– 0.288*** (0.053)
Government effectiveness		0.0527 (0.198)	– 0.17 (0.238)
Government effectiveness × generalized trust			0.0513*** (0.015)
Government effectiveness × interpersonal trust			0.018 (0.03)

## FURTHER STEPS QUESTIONS TO DISCUSS

Our preliminary results show that formal institutions and social capital strengthen each other and alleviate the negative effect of the economic crisis. However, it would be too precipitous to assert that there is no substitution effect between informal and formal institutions.

1) Check if the results are robust to other dependent variables: “the change of subjective material prosperity” (a difference between scores for 2010 and pre-crisis 2006)

**Concern (!): subjective well-being of the richest and the poorest households can be less subject to fluctuations. Scale correction?**

2) Try other indicators of quality of government, characteristics of welfare policy

**3) Concern (!): endogeneity problem. The number of adults in a family as an instrumental variable, but it turns out to be a weak instrument.**

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