DOES SOCIAL CAPITAL CONTRIBUTE IN THE ECONOMIC GROWTH PROCESS?

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Countries that are laggards in terms of technology have a potential for generating growth more rapidly than that of countries that are forging ahead. If the social capabilities of the former are adequate and sufficiently developed the backwardness becomes a potential advantage which accelerates the process towards catching up.

1. Introduction

Many explanations have been given for the surge of productivity growth after the WW II. The most prominent one relates the countries of the industrialised West and Japan to their ability to bring into production a large backlog of unexploited technology.

The principal part of this backlog seems to coexist with methods of production and of industrial and commercial organisation already in use in the United States at the end of the War not yet employed in the other countries of the West (Denison, 1967; Abramovitz, 1979, 1986; Madison, 1982, 1991; Baumol, 1986). Economic historians have noted that the initial gap in productivity with technologically advanced countries, along with contemporaneous growth in knowledge represents an opportunity for the laggards to catch up with the leaders (Zagardo, 1991; Heitger, 1993). Since the adaptation of new methods of production as well as of commercial and industrial organisation can be assumed to be less costly than its discovery and development, the lagging countries/regions have a relative advantage over the leading ones. Larger leaps in economic growth can then be achieved so that the potential of the formers to converge with the latter is viable. The idea that poorer countries are able to catch up on richer ones was advanced already in the 19th century to explain Continental Europe's convergence with Britain. The studies on this topic share the common foundation that the initial lag in terms of productivity can be transformed into technological opportunity for countries or regions that initially

lagged behind. Nevertheless, this potential, embodied in the follower countries/regions, is not completely disentangled from the existence within the latter of sufficient absorptive capacity and resources. According to Gerschencron (1962), a country or regional territory within a country can only take advantage of its backlog of technological innovations once it has overcome the major social and political barriers towards industrialisation.

Bearing in mind the aforementioned idea, one can assume primarily that the larger the technological gap, which can be assessed as disparity in income per capita or productivity level, the stronger is the follower's potential for catching up. Nevertheless, the pace of rapid growth of the laggards, due to their technological and operational backwardness, is not expected to permanently persist as the gap between the leader and the follower narrows down.

Secondly, that even ceteris paribus the backward country/region is likely to follow a path very different from that of a more advanced industrial region (Gerschenkron, 1962).

2. Determinants of Growth Rates

Shifting the focus on what determines the pace at which the gap between the laggards and the leaders is absorbed, several factors are contributing towards this process. For instance, the market openness, the labour mobility as well as the investment environment determines the rate of capital accumulation and technological transformation. More specifically, Kuznetz (1956); Kendrick (1979, 1981) and Abramovitz (1986) pointed out that the actual speed of productivity growth can be attributed to determinants:

(i) technical-oriented which are (1) the embodied and disembodied technological change that leads to productivity-enhancing innovations; (2) the exploitation of scale economies; (3) the re-allocation of capital and labour to more fruitful industrial environments and finally, (4) capital accumulation which increases the capital-labour (C/L) ratio.

(ii) social-oriented which is, generally speaking, "social capabilities". Notwithstanding the fact that the term is nebulous, it has been re-introducted by Abramovitz who followed Ohkawa and Rosovsky, and has been used to identify the readiness of a given country/region. In other words, the term is related to this country's market structure and its stage of economic development.

Abramovitz claimed that technological backwardness does not occur by chance. A substantial portion of a country's failure to achieve the higher pace of growth of a more technologically advanced country can

be explained by the tenacious societal characteristics of the former. He also stresses that a group of countries' technological and social "abilities" do not have to be identical, but that a country's relative level of social capabilities seems to be the only factor that restrains the potential for productivity-enhancing technology transfer. It has also been emphasised by Gerschenkron that a country/region's backwardness can lead either to technological and productivity convergence with the leader or to permanent stagnation the greater the country's backwardness and the longer it persists. Among other characteristics that enhance a country's inability to exploit its relative position is the lack or inadequacy of social capabilities.

Abramovitz himself recognises in 1986 that the problem with the term "social capability" is that no one knows what it means or how to measure it. However, a few comments may serve to suggest some of the considerations involved in this issue.

1. The term refers to the familiar notion of a trade-off between specialisation and adaptability. Towards the full exploitation of a country's existing technology, the content of its educational system and the character of its industrial, commercial and financing organisations may be well designed. One can assume that every society has the capacity to adapt new methods given by a country's certain level of growth; nevertheless, countries or regions may differ from one another in this respect, and their capacities to adapt may vary over time.

2. Moreover, the idea of adaptability implies the existing interaction between social capability and technological opportunity. The state of education embodied in a country's population and its existing institutional arrangements constraints it in its choice of technology. On the other hand, technological opportunity calls for modification and change thus, institutional arrangements should take place as an outcome of the acquired experience. In as much as the process carries on, the constraints imposed by social capability on the successful adoption of a more advanced technology gradually weaken and permits its fuller exploitation.

3. The term "social capability" has been related so far both to education and to organisation of firms. Another aspect of the meaning of the term "social capital" refers to inter-firm and intra-firm relationships which can carry the burden of social change and economic transformation as well. For instance, the economic systems' openness to competition, the establishment and operation of new firms alongside the sale and purchase of new commodities and services can be viewed on the other side of the spectrum enhancing the factors of "social capability".

As long as the technological gap between the follower and leader narrows down the potential for rapid growth weakens so that the difference between them becomes smaller and smaller. However, this is not the only case. If social capability is itself endogenous it becomes stronger or perhaps weaker as technological gap closes. In the first case, the evolution of social capability related to the convergence process itself raises the possibility that lagging countries may forge ahead of even progressive leaders. In other cases, a leading country may fall back or a follower's pursuit may be slowed.

The estimates of OECD countries and the set of selected industrial countries for the 50s, 60s, 70s and 80s support the underlying hypothesis of convergence in real per capita incomes.

A relatively large technological gap favours economic growth and there is a general inclination towards catching up or convergence as it is called.

In the array of factors also contributing towards convergence, a well-educated labour force seems to be of importance.

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