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Relationship Economics

The Social Capital Paradigm and its
Application to Business, Politics and
Other Transactions

LINDON J. ROBISON
and
BRYAN K. RITCHIE

GOWER

Introduction: Relationships Matter

No man is an island entire of itself; every man is ... part of the main Any man's death diminishes me because I am involved in mankind; and therefore never send to know for whom the bell tolls; it tolls for thee ...

John Donne, Meditation XVII, Devotions upon Emergent Occasions, (1624).

Introduction

The poet John Donne claimed that we are all connected. We agree. And, because we are all connected, relationships matter—a lot. For the individual, relationships matter because they influence where we live, what we study, our economic and social well-being, how we earn our living, and with whom we interact. For the larger units of society, relationships matter because they influence the adoption of laws, economic activities, care of the environment, and with whom we write treaties and go to war. Because relationships matter—a lot—we need to pay more attention to how, why, where and when they do matter.

Trying to reach one's economic and social goals without paying attention to relationships is like trying to navigate blindfolded through a crowded lobby on the way to an important meeting. As we attempt to navigate without sight we bump into each other in ways that hinder our progress and irritate others. With help along the way, in the form of direction and encouragement from our friends, we can successfully cross the lobby.

This book aims to describe relationships and how to manage them in such a way to make it easier to achieve economic, political, and social objectives more efficiently, and with greater return and equity. We wrote this book because insufficient attention is paid to relationships and their importance in achieving almost all our social and economic objectives. Someone once quipped that fish were the last to discover water. Humans, it seems, sometimes appear to have not yet discovered that the waters we swim in are relationships. We are literally in a crowded room of relationships, and our ability to navigate depends on our ability to manage these relationships. The opportunities for successful isolationists are limited.

The focus of this book, simply stated, is to explain how relationships—an invisible resource—influence our ability to take care of friends and business. Our tool for explaining how relationships matter and how we can use them to care for friends and business is the Social Capital Paradigm. So let's begin at the beginning by exploring what John Donne

WINNING FRIENDS AND WINNING AT BUSINESS

The grandfather of people-skills books is *How to Win Friends and Influence People*. Written by Dale Carnegie, this relationship-focused book has sold over 16 million copies. In an editorial review for Amazon, Joan Price wrote that Carnegie's book is successful because "it teaches readers the underlying principles of dealing with people so that they *feel important and appreciated*."

Source: <http://cc.msncache.com/cache.aspx?q=72893285550667&mkt=en-US&lang=en-US&w=da19e3f3&FORM=CVRE3> (emphasis added).

may have meant when he wrote that we are all connected or, in the language of this book, that relationships matter.

How We Are Connected

The easiest way to observe that relationships matter is by simply examining our physical and economic connections. We do not make our own clothes, build our own homes, raise our own food, or perform our own healthcare services. We depend on others for these products and services and thousands of others that could be listed. These economic connections are made possible because of specialization and trade that improve our economic well-being compared to the lives we would lead if we tried to supply all our own economic needs.

In addition to economic needs we also have socio-emotional needs. These include the need to experience caring, the need for validation, and the need to be informed about each other, events affecting our lives, our surroundings, and the outcomes of our choices. Just as our economic needs require that we be economically connected, our socio-emotional needs require that we be socially connected. It would be just as difficult to satisfy our socio-emotional needs in isolation as it would be to satisfy our economic needs in isolation.

HAPPIER TOGETHER

Simple interactions such as exchanging chit-chat over coffee at the local diner, helping out at a churchyard bake sale, or raising a voice at a school board meeting are the kinds of pleasures money cannot buy, and a new study says they may be more important than money to people's happiness.

This study, a nationwide survey conducted by Harvard University and the Center on Philanthropy at Indiana University, examined "social capital"—the connections that bind people together and strengthen the places they live. Researchers found that areas where residents had high civil involvement were happier than those with more wealth but less community participation.

Source: Associated Press (2001).

Despite claims that socio-emotional needs and the socio-emotional goods (SEGs) that satisfy them are important, social scientists, especially economists, have given them far less attention than economic needs and economic goods. Indeed, when economists teach and research the various elements of our economic system, the analysis most often takes

place from the perspective of impersonal participants organizing to produce, finance, market, and consume economic goods and services in the most efficient manner. What is missing from most economic analysis is the recognition that economic agents have important socio-emotional needs that require SEGs to satisfy. Perhaps we ignore our socio-emotional needs and SEGs because of the difficulty we have when we attempt to identify them. Indeed, our efforts to measure our emotional health usually lead us to seek physical manifestations of our consumption of SEGs.

Consider the challenge we face when attempting to describe our SEGs and the value derived from our socio-emotional exchanges. We cannot observe directly what happens inside us where our emotions dwell when we are greeted in a caring manner or when our work is acknowledged as important by someone whose opinions we value. We cannot observe directly how the exchange of SEGs changes our relationships when gifts are exchanged or service is rendered. We cannot count the negative SEGs produced by our separation from family and friends who most often are the source of our experiences of caring and validation. We cannot write down precisely an equation to describe the need for SEGs. And there is no weight or volume measure associated with our need for information that captures our attention and energy even when knowing isn't important to our physical well-being or safety. Yet, we know that SEGs are important because they produce physical responses, including educational achievements.

SMALLER (AND MORE CONNECTED) IS BETTER

William Raspberry writes: "Bill Gates believes that one of the problems with America's high schools is that they are too big to allow for meaningful connections." Mr Gates, putting his money where his mouth is, donated \$51.2 million to create 67 small high schools in New York City.

Prior to Mr Gates' announcement, the Commission on Children at Risk had just issued a report in which it argued that the loss of connectedness is devastating America's youth. The report listed symptoms associated with a loss of connectedness that included "major depression, suicide attempts, alcohol abuse, and a wide variety of physical ailments, including asthma, heart disease, irritable bowel syndrome, and ulcers."

The commissioners who wrote the report, many of whom are physicians and mental health professionals, say that human beings have an inborn need for connections: first with their parents and families, then with larger communities. They added that the weakening of the connections between children and their extended families and communities is producing a virtual epidemic of emotional and behavioral problems.

Source: Raspberry (2003).

Harlow's study of monkeys produced other important evidence of the connection between physical and emotional well-being.

THE INTERDEPENDENCE OF OUR SOCIO-EMOTIONAL AND ECONOMIC WELL-BEING

Harlow demonstrated that a monkey's emotional and physical well-being is connected. We intend to demonstrate that our economic and socio-emotional well-being is connected.

A (MONKEY'S) MOTHER'S LOVE

The important insight that our socio-emotional and physical well-being is connected was demonstrated by sick monkeys in a University of Wisconsin lab. The lab was operated by Harry Harlow who imported monkeys from India. Occasionally, the monkeys arrived with serious diseases, which often spread among the other monkeys in the lab. Harlow and his staff attempted to solve the disease problem by isolating sick monkeys, including newborn monkeys, from their mothers. The isolation dumbfounded the newborn monkeys, who would often sit rocking, staring into the air, and sucking their thumbs. Later, when the isolated monkeys matured and were brought together to breed, they backed away from each other and refused contact.

Then researchers found that the little monkeys were fanatically attached to cloth diapers that lined the cages to provide a little softness and warmth against the floor. Harlow wondered if the cloth was substituting for a mother's love. His idea that mother's love was essential for a healthy monkey was in opposition to the prevailing theory—that babies didn't love their mothers or need them, except for food. To prove his point, Harlow and his colleagues created cloth dolls with heads. If the head of the doll was changed, the baby monkeys screamed because they bonded to a particular face.

The critical test of the importance of love was when Harlow and his colleagues created a wire mother that held a baby bottle with food. The monkeys were then allowed to choose between the wire mothers with food versus the barren, cloth mothers. If the infant–mother relationship was based on food, then the bottle-holding surrogate would be chosen whenever she had the food advantage. However, the monkeys chose the cloth surrogate mothers:

The graphs that reported the time the monkeys spent with the wire surrogate mother versus the time they spent with the cloth surrogate mothers showed that by the age of six months, monkeys are spending about eighteen hours a day with the cloth mom. The graphs seem to have invisible writing running through them, saying that food is sustenance but a good hug is life itself.

Source: Blum (2002: 159).

Indeed, the main point of this book is that our economic and socio-emotional well-being is interdependent because the flow of physical and SEGs and services travel together. And because our socio-emotional and economic transactions are interdependent, efforts to understand or describe them separately will likely lead to inaccurate representations of human activities. Indeed, to make the warning explicit and to place the theme of this book in plain view, we restate our basic claim: our physical, economic, and socio-emotional well-being depend on relationships.

THE FLOWER FUND

Consider an example of what may happen when we ignore the SEGs embedded in an economic good. In some departments at the university where we are employed, it is the custom to maintain a flower fund. Faculty and staff contribute to the fund. Then, when someone is in the hospital or their family experiences an important event such as a birth, a serious accident or a death, flowers are sent to the hospital or mortuary in the name

MAKE FRIENDS AND LIVE LONGER (AND HAPPIER)

Researchers monitored the health of nearly 7,000 Californians over 17 years. They found that those lacking social connections were two to three times more likely to die prematurely than their more socially connected counterparts. This was true regardless of age, gender and health practices.

A study of nearly 1,400 people with heart disease found that those with a spouse or confidant died at about one-third the rate as those who had no one in whom to confide. This was true regardless of the severity of the heart disease.

Researchers who exposed 276 healthy volunteers to a cold virus found that those with more diverse social networks were somehow more disease-resistant: Only 35 percent of those with six or more social relationships actually came down with a cold, as opposed to 62 percent of those with three social relationships or fewer. Again, differences in overall health or health habits could not “explain away” these findings.

Source: “Answers for Healthier Living” (1999).

of the department. A department staff member orders and pays for the flowers so that contributors to the fund are sometimes unaware of any particular disbursement.

The flower fund operates efficiently—much more efficiently than if an individual faculty or small groups of faculties had to collect funds and order flowers each time a flower-worthy event occurred. In addition, the system is more equitable because those willing to contribute to flowers would likely vary depending on the intended recipient. Indeed, one important benefit of the efficient flower fund collection and distribution system is that it ensures that even unpopular colleagues will be recognized in times of distress.

Still, something seems awry with the way the flower fund operates. In this example, the desire for efficiency has minimized transaction costs. But what makes the flower a valued gift is the high transaction costs that embed the flower with SEGs. High transaction costs reflect the personal involvement of those sending the flower. Absent these costs, the flower loses most of its value and becomes only a commodity.

The flower fund teaches that the relationship between people can change the value of the good they exchange. Identical flowers enjoyed under identical circumstances may provide identical sight and smell value and therefore claim an equal economic value. But the validation value of the flower to the recipient depends on who sent it and how difficult it was to do so. A flower sent by a jealous co-worker who may be taking advantage of an illness has a negative validation value. A flower from co-workers who feel an obligation to provide a flower may have a positive value but not as much as the flower from a person who surprises you with her caring. This unexpected flower provides the recipient with unexpected validation greater than that provided by the flower sent under obligation.

The flower fund also teaches that we reveal our relationships by the way we organize to give gifts and more generally in the way we participate in economic activities. The case of the faculty flower fund says something about the relationships among the faculty. Since donating to the fund is voluntary it says that good will in the department is sufficient to sustain the fund. It also says that it’s okay for individuals to donate different amounts

depending on their circumstances, an expression that the effort is fair. We also learn that colleagues care about each other, but at a respectful distance.

Finally, the flower fund teaches that there will always be a sort of ambiguity in our exchanges with each other. For example, many motives may prompt donations to the flower fund. Some may donate out of genuine caring. Others may view their contributions as an insurance scheme to which they contribute, thereby ensuring themselves against the unhappy prospect of facing sickness or death unacknowledged. Others may have a combination of motives. So, in this book, we will always be fairly tentative in ascribing motives. But we will, with some energy, protest against the assumption that nearly all behavior is motivated by selfish preferences—an assumption that underlies so much of economic analysis. We address the details of this claim more fully in Chapter 4.

Our Ambivalence Toward Relationships

Asserting that relationships matter in almost everything we do sometimes causes a conflict between what we want to believe and what actually exists. Many economists believe that markets organize production and consumption activities in the most efficient way possible, given existing distributions of resources. Most formal economic models do not consider relationships. Many bankers want the public to believe that loan approval depends on objective financial criteria. Lending activity based on relationships can sometimes be illegal and, in a survey of Michigan bankers, most declared relationships did not influence their decision (Siles, 1992). Some medical-care providers want to project an image of caregivers whose service provision is independent of relationships between medical personnel and their patients. Employers—especially government employers—want the public to believe that the employment offers depend solely on the applicant's job skills. And current college admission procedures are being challenged because they consider an applicant's ethnic backgrounds (a special kind of relationship) as well as merit.

Allowing relationships to alter outcomes often makes us uncomfortable because our ethical senses are usually associated with arm's-length outcomes. To admit "it's who you know" that determines one's success violates our sense of fair play that emphasizes merit. Recognizing that relationships alter outcomes, we often take steps to reduce the influence of relationships.

For example, reviews of articles submitted to many professional journals are conducted anonymously. Unless relationships influenced reviews, anonymity in the review process would be unnecessary. Anonymity, however, appears to be justified since the evidence indicates that relationships *do* influence the outcomes of the review process (Blank, 1991).

The symbol of our courts, Lady Justice, wears a blindfold. She wears a blindfold because we believe that justice requires that her decisions not be influenced by her relationship with the individuals before the bar. Jury selection is based on the assumptions that relationships may alter verdicts and that only jurors with arm's-length relationships to the defendant are considered.

Civil rights laws preclude employment being denied when the basis of the discrimination is race. These laws recognize that race, a special kind of relationship, sometimes influences employment decisions. Finally, we often disparage such groups as

“old boys’ (girls’) clubs” because they convey privileges based on relationships that are not available to those outside the club. Then we pass laws limiting the acceptable traits over which discrimination can be practiced. Nepotism laws, imposing restrictions on close relatives being hired by government employers in the same agency, are designed to ensure that employment offers are based on merit, not relationships. These laws are necessary because of the tendency of some government employers to grant advantages to their relatives. We react strongly when it is revealed that public officials have offered favors on the basis of personal relationships.

NEPOTISM IN THE CITY

Critics of Warren Michigan Mayor Mark Steenbergh call him JFK—and that doesn’t stand for John Fitzgerald Kennedy, they say. It stands for Jobs for Kinfolk. In his three years in office, Steenbergh has appointed at least nine relatives of Warren City Hall workers or politicians. Although the appointments do not technically violate the city’s anti-nepotism law, they make many residents and businesspeople feel that the government is under the influence of a few families.

Source: Schabath and Martindale (1998).

While we discourage relationships that lead to nepotism, we often encourage other relationships because of desirable outcomes. Teachers who develop sympathetic relationships with their students achieve superior results compared to those who provide education at arm’s length. Coaches often attribute their success to “team chemistry” among team members. Poor relationships in the home are highly correlated with children who struggle in almost every category of social activity. They have lower high school graduation rates, they are more likely to be involved in crime, they have higher truancy rates, and they suffer higher infant mortality rates. Sympathetic relationships in the workplace reduce enforcement costs and improve productivity compared to work places characterized by arm’s-length relationships. Community investment programs often depend on relationships among community members. And, finally, psychologists have long known that human relationships are critical to an individual’s socio-emotional health and positive outlook.

The combination of positive and negative outcomes associated with relationships leads to a general ambivalence. Sometimes we view relationships as harmful to certain groups and limit their influence, while at other times we encourage relationships believing them to be helpful. But most often we say that relationships are helpful for those who enjoy the benefits of membership in a group and a disadvantage for nonmembers who are denied benefits associated with group membership. Finally, we might also add that relationships that lead to the formation of certain groups may sometimes create conflicts between groups.

Instead of viewing relationships as good or bad, a more productive approach is to recognize that relationships are a resource. And, like other resources, relationships can be used for positive or negative outcomes. Thus, our task is to find out how relationships can be used for positive outcomes.

Evidence that Relationships Matter: Rethinking Self-Interest's Role as Sole Motive

Few would argue that economic agents often act selfishly. On the other hand, an increasing amount of evidence supports the view that what an agent considers as his or her self-interest is modified by relationships, social bonds, and values (Swedburg, 1991). As a result, economic agents may make choices based on how their actions affect others.

Everyday events support the view that relationships alter economic behavior. For example, realtors recognize that the sale price of a particular parcel of land depends on the relationship between the seller and buyer. Friends and family trade at different levels and terms than do strangers (Robison, Myers, and Siles 2002). Customer loyalty depends on the relationships between customers and employees (Hanson, Robison, and Siles, 1996).

Many people make significant efforts to return lost items even though they belong to a stranger. The reason for such actions may be based on a relationship to oneself that, to be positively maintained, requires actions consistent with an internalized set of values. This internalized relationship is sometimes referred to as one's conscience.

Many donate food, other material, time, and money to victims of natural disasters or misfortunes. Rarely do these donors seek recompense or earn public recognition. For many, the reward of seeing the well-being of another improved is reward enough. Other groups of people who fail to fit the selfish preferences caricature include those who vote even when the outcome is not in doubt, or individuals who buy life insurance for beneficiaries from whom no reciprocal action is expected. Other individuals frequently exchange gifts without any enforceable contract for a repayment in kind. The explanation for the gift-giving is most often that there exists a special relationship between the gift provider and the gift recipient (Webley and Lea, 1993).

It is frequently the case that preferential offers in business arrangements are made when a relationship exists. Granovetter's influential 1973 article emphasized that "weak ties" (relationships) were an important factor in finding a job. According to a US Bureau of Labor study in 1975, 63.4 percent of jobs are a result of informal contacts where the job-seekers exercise their own initiative in building on personal contacts. Gwilliam (1993) found that 89 percent of Michigan farmland leases were between friends or family. Moreover, farmland leases between related individuals tend to be oral and more successful than leases between unrelated lessees and lessors (Johnson et al., 1987). Nelton (1990) noted that family businesses account for 76 percent of Oregon's small companies. Finally, Calonius (1990) stated that 75 percent of US companies are family-owned or controlled. Even international giving appears to be relationship-based, because so many individuals care.

Finally, in the United States, about 61.2 million people, or 26.7 percent, volunteered through or for an organization at least once between September 2005 and September 2006, according to the Bureau of Labor Statistics of the US Department of Labor (2007).

Unless there can be found a taste for giving away one's money and time, billions of dollars worth of economic activity in the US economy is largely unaccounted for by the selfishness of preferences assumption which focuses on promoting one's selfish interests through two-way exchanges. Frank summarizes the conflict between the assumption of selfish preferences in economics and observed preferences:

GOVERNMENT VERSUS PRIVATE GIVING

Sometimes the U S government is criticized because its international giving, as a proportion of its income, is less than that of other developed countries. It turns out that this criticism is unjustified because individuals and other members of the private sector are so generous in their giving.

According to a report published by a Washington research organization, the United States is the single largest donor of foreign economic aid, but, unlike many other developed nations, Americans prefer to donate their money through the private sector. Of the \$122.8 billion of foreign aid provided by Americans in 2005, \$95.5 billion, or 79 percent, came from private foundations, corporations, voluntary organizations, universities, religious organizations and individuals, says the annual *Index of Global Philanthropy*.

For example, US foundations gave more—in money, time, goods and expertise—than 11 of the 22 developed-country governments each gave in 2005, and donations from private voluntary organizations in the United States totaled more than those of each of the governments of Japan, the UK, Germany, and France.

More than half of all US assistance to developing countries, \$61.7 billion, came in the form of private remittances by individuals living in the United States to their families abroad, the report says. According to the report, those remittances not only reduce poverty, but, in some cases, also increase countries' creditworthiness and underwrite their trade imbalances.

Source: Center for Global Prosperity (2007).

Economists, for their part, point with pride to the power of self-interest to explain and predict behavior, not only in the world of commerce but in networks of personal relationships as well. And yet, the plain fact is that many people do not fit the me-first caricature. They give anonymously to public television stations and private charities. They donate bone marrow to strangers with leukemia. They endure great trouble and expense to see justice done, even when it will not undo the original injury. At great risk to themselves, they pull people from burning buildings, and jump into icy rivers to rescue people who are about to drown. Soldiers throw their bodies atop live grenades to save their comrades. Seen through the lens of modern self-interest theory, such behavior is the human equivalent of planets traveling in square orbits.

Frank, 1988: ix.

In contrast to the evidence that relationships and values matter, one recent study confirms that economists practice what they teach about selfishness. In a study designed to test willingness to contribute to a social versus a private account, Maxwell and Ames (1981) found that economics students contributed an average of only 20 percent of their endowments to the public account—significantly less than the 49 percent average for all other subjects. Carter and Irons (1991) found that economists also behaved more selfishly in ultimatum bargaining games.

Perhaps supported by observations of their own behavior, some economists continue to reject the view that relationships matter. Hirshleifer's Presidential Address to the Western Economics Association reaffirmed his faith in selfish preferences:

... I am among those who remain skeptical about the significance of self-reported contributions to charity, or about behavior in hypothetical or small-stakes Prisoners' Dilemma experiments. My guess is that economists are not more selfish, but only more acceptant of human selfishness as a fact of life.

Hirshleifer, 1994: 1.

Despite the evidence that economic students are more selfish than other students, when they have developed a relationship with another or when their relationship to themselves (conscience) is involved, they behave similarly to others—and exhibit selfishness much less than 95 percent of the time.

Frank, Gilovich, and Regan (1993) wrote that economists reported spending as much time as others in volunteer activities, and were only marginally less likely than others to vote in presidential elections. And more important for our work, when they developed relationships with others, by promising to cooperate, before engaging in Prisoner's Dilemma games, they cooperated at nearly the same rate as others.

Furthermore, when it comes to matters of conscience like returning lost wallets, three professors at George Washington University dropped stamped, addressed envelopes containing \$10 in cash in different classrooms. In the economics classrooms, 56 percent of the envelopes were returned with the money inside. It appears that in matters involving one's conscience, economics students aren't any more selfish than other students; they just claim to be (Bennett, 1995).

Evidence also supports the view that relationships matter in the aggregate as well as at the individual level. For example, sister cities develop special cultural and trade relationships. Most favored nation status provides some countries with special advantages not available to other nations, including cultural, language, geographic, or other features that bind them together. Countries thus bound together often establish special trading relationships that do not develop between countries which lack that particular bond. Finally, nations often act to restrict trade when unfavorable relationships exist. For example, national policies such as apartheid or human rights abuses within a country often lead to restricted trade with other countries even though the undesirable behavior is not imposed outside the country.

In response to such evidence, some economists concede that relationships matter, but not in important ways. Economists who support this view believe that we can continue business as usual with selfish preferences as the foundation for our models (Gardner, 1995).

Some important economic transactions may not be affected by relationships. For example, in perfectly competitive markets in which many anonymous buyers and sellers trade standardized goods, relationships may not be important. On the other hand, strong evidence suggests that, in transactions in which the buyer and seller are known to each other, relationships matter. Moreover, from our interpretation of the evidence we expect that as the contact between buyers and sellers becomes more personalized, the more

important will be the effect of the relationships on the transactions. We explore these ideas more in Chapter 15 on globalization.

Relationships and Social Capital

We recognize the importance of physical, human, and financial capital in the production of physical goods and services and spend a great deal of academic toil studying how they are formed and used to better our economic well-being. We propose that social capital—another form of capital that exists in relationships—is essential not only to our economic well-being, but also to our socio-emotional well-being, because it is the origin of SEGs. Therefore, we need to examine how this form of capital can be better employed to improve both our socio-emotional and economic well-being.

In some ways, the world has never been a better place in which to live. Poverty has fallen continuously throughout the last century, and wealth and luxury have been extended to more of the world's population than ever before. But our ability to take the final steps to alleviate poverty completely and create a more equal distribution of goods and services seems to elude us. We will argue in Chapter 2 that understanding and applying the concept of social capital might provide the missing key to our continued progress not only on this front, but also perhaps on many others.

Conclusion

In this book we assert that relationships matter—a lot. They matter precisely because the effective use of all other forms of capital depends in one way or another on relationships. Finally, we assert that the interdependence between social capital and other forms of capital needs to be better understood.

To understand the interdependence of various forms of capital requires that we recognize the interdependence of the social sciences. Each social science discipline provides an important insight about how relationships affect human exchanges made up of both physical and socio-emotional goods and services. Indeed, we claim that we need the combined views from each of the social sciences to complete our understanding of how relationships help us take care of friends and business.

Science may sometimes narrow our inquiry until we know more and more about less and less. In many cases our scientific progress requires such a restricted focus. Nevertheless, sometimes our progress requires that we combine our information into a composite whole to better inform our inquiry. This book may be viewed in that light—a composite of information from several social sciences that contributes to our understanding of human exchange and well-being and how relationships matter. Once we understand social capital better, we can organize and manage our relationships for our well-being—both economically and socially.

The extent to which the concept of social capital will be useful depends critically on our capacity to define and measure it. Indeed, one of the biggest problems of the social capital literature, as we show later in the book, is the inability of scholars and disciplines to agree on a definition and measure of social capital. Without a workable definition, the term “social capital” has come to mean many things, which vastly diminishes its

worth and usefulness as a concept. Once clearly defined, social capital can be applied to understand social, political, and economical outcomes through individual, community, and international relationships.

In the chapters that follow, we expand on the ideas we've presented in this introductory chapter. In Chapter 2 we define social capital and describe its capital-like qualities. Then, in Chapters 3 and 4 we explain why relationships and social capital are important and why selfish motivations are not always the best predictors of social or economic behavior.

In Chapters 5–10, we explain in detail the social capital paradigm which acknowledges the contributions of a broad range of social science perspectives and yet does so in a rigorously defined and measurable way. We begin in Chapter 5 with the end in mind by first giving the reader a view of the complete paradigm with all the interactions of the component parts. Then we define and clarify the components of the paradigm: SEGs (Chapter 6), attachment values (Chapter 7), institutions (Chapter 8), networks (Chapter 9), and power (Chapter 10).

Finally, Chapters 11–17 apply the social capital paradigm to empirical areas of interest. Chapters 11–13 focus on exchanges, distributions, and poverty. The last four chapters, 14–17, introduce topics in an effort to encourage research that examines the possibilities of the social capital paradigm. Each of these topics, we suggest, can be approached from the perspective of this paradigm.

The key question driving the empirical examples in Chapters 11–17 is: how do relationships matter? For example, to determine when using our relationships is ethical we must understand when caring behavior becomes corruption. Processes of globalization and localization can be understood as a trade-off between the efficiency of impersonal relationships versus emotionally satisfying personalized relationships. Poverty reduction can be explained by access to “right” relationships, or relationships with those who have resources and capacities to enrich us. The degree to which our relationships lead us to passive or active participation in politics determines to a significant extent our political structures. Social connections impact on the value of our products and the terms under which they are exchanged. And, finally, social capital-rich networks can be thought of in terms of the way in which relationships define externalities.

In none of these chapters are we able to explain fully ethics, globalization, networks, poverty, politics, and so forth. Nor do we try. Our goal is to point out that relationships impact every one of these areas. As modest as this objective is, we believe strongly that this is an important advancement in the understanding of the ongoing enterprise of human exchange and development.