

Institutions, Economic Development and Social Capital in Albania

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Abstract

Economic theory has proposed and discussed a lot of possible factors or explanations that promote or foster economic development. One of these gathers specific discussions from other Social Sciences, incorporating social, cultural, religious, institutional and political dimensions – and among them, the idea of 'social capital'. Although the discussion held by Putnam on the benefits of association, civic involvement and interpersonal trust is extremely rich, this paper incorporates data from the World Values Survey and our personal survey, since they extend the scope of analysis, making what is called 'synergic vision' of social capital. Social researches in the field of social capital have discovered many relations of the new components with economic progress at local, regional and international levels, with active citizens' social and political participation, with the fight against corruption and with the performance of institutions. This paper aims to explain the economic behavior in Albania, considering the importance of the attributes directly related to social capital (interpersonal trust, which leads to the association and civic involvement, the governance i.e the formal attributes related to the action of the state, which establishes social, political and economic behavior).

Keywords: social capital, economic development, civic participation, Albania

JEL Classification: P30, O57, Z13

I. Introduction

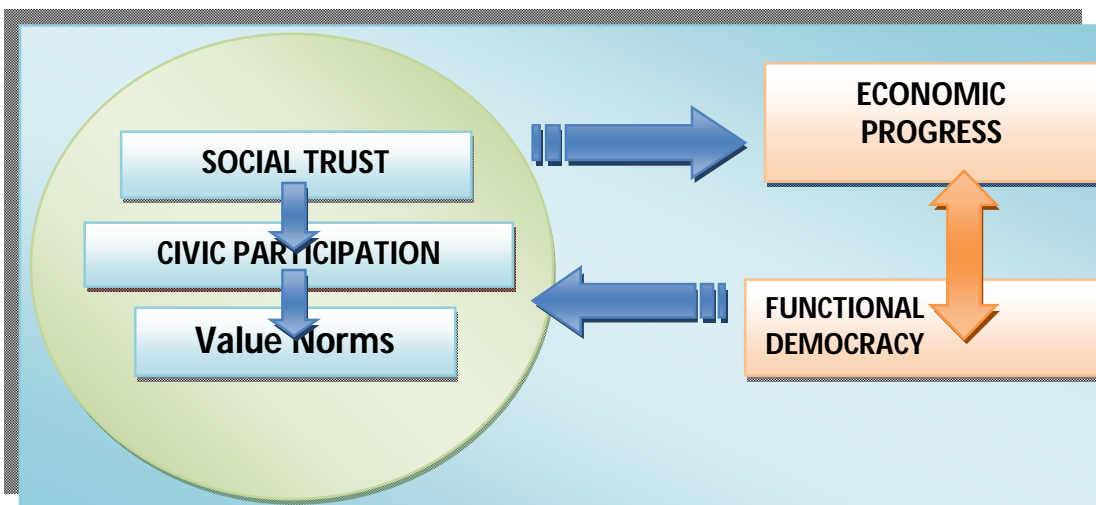
Countries have different conditions for economic growth and development, which are commonly linked to the availability of traditional production factors: physical, financial, human and natural capitals.

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More than half a century after the initial ideas proposed by Robert Solow², the Theory of Economic Development has incorporated factors and variables that were originally outside the traditional model because only purely economic explanations fail to explain development issues. Contemporaneously it is investigated the contributions of political, social, cultural and institutional conditions, incorporating the studies based on the role of social capital and institutional.

Social capital theory has been incorporated into economic literature from studies of non-economists. After the initial thoughts in the field of Sociology by Pierre Bourdieu and James Coleman (1988, 1990), the subject was handled by the political scientist Robert Putnam (1993, 1995). These authors introduced the theoretical basis for the incorporation of social capital as an important production factor and with effects and impacts on economic activity³. The main equation and the common views of Bourdieu, Putnam, Coleman and Fukuyama are given as follows: Social capital is an approach characterizing the trust of people with one-another, the trend to be united with them in groups and social networks and the development by means of cooperation of the reciprocity value norms. The entirety of this human energy leads to the economic realization of a democratic order, characterized by institutions functioning according to the law.

Figure 1: Summary Scheme of the Theoretical Treatment of Social Capital and its Components



² Solow initial ideas were published in two articles: Solow, R. A Contribution to the Theory of EconomicGrowth.

³ The introduction to the book of Svendsen and Svendsen (2009) uses the analogy to a troika to describe the analysis of social capital.

Social researches in the field of social capital have discovered many relations of the new components with economic progress at local, regional and international levels, with active citizens' social and political participation, with the fight against corruption and with the performance of institutions. They have also discovered strong relations between civic participation and the role of value systems regarding the economic progress and building of a functional democracy. The equation of social capital, according to which trust in others does in general lead to cooperation by being participatory and forming common systems of values, is very important to understand and improve what we can do as a society to improve our daily work. From this point of view, the components of social capital are all important for a functional democracy. To be honest, many authors attach different weights to these components: Putnam gives more importance to organization and civic participation in voluntary networks⁴, Fukuyama stresses the importance of social trust and Bourdieu and Coleman emphasize reciprocity norms⁵ more.

Nevertheless, the social instinct of everyone is enough to accept that every one of these three abovementioned components plays an important role in constructing a democracy, when institutions act according to the law. What we see and hear every day is that civic participation has been damaged, we are not engaged at the desired level and that the necessary participation is missing, not enabling suspension of what does not work and not reporting what functions badly. A visible sign of the damage of the nerve for civic participation is the decreasing interest and participation in public issues, individualization, caring only for strictly private matters and the neglect for those issues that are of a public nature. Compact and harmonic society is closely related to civic participation.

This study has an explorative character. It aims to unfold the relationship between social trust and institutional authority, so as it serves for more concise analysis, for further deliberations, for gathering information regarding difficulties we encounter in the building of the rule of law, for presenting a wider social prospective, and for analyzing the issue of building a legal state.

⁴Paldam Martin & Svendsen Gert Tinggaard, "Missing Social Capital and the Transition in Eastern Europe", Department of Economics, University of Aarhus, (second author) Department of Economics, Aarhus School of Business, p.4.

⁵Martin Raiser, Christian Haerpfer, Thomas Nowotny and Claire Wallace, Social Capital in Transition: a first look at the evidence, World Bank for Reconstruction and Development, p.31.

In summary, the purpose of the paper is to present a literature revision on the theoretical framework of social capital and institutions in the region. This has paved the way for presenting a considerable number of interpretations of the situations, which is also one of the peculiarities of this study, underlining the need for further studies in this area.

II. Data and Methodology

This study is based on data gathered simultaneously from several sources like the database of World Values Survey (WVS) ⁶ where Albania is represented in year 2004 and 2008, and the data of our survey. Such data have been merged with those of 2010. We organized a simple survey⁷ in which information is collected through some questionnaires in well known individuals of social life in the country, political analysts, lawyers, academicians, journalists, and sociologists, focused on issues of values, civic participation, democracy, corruption. These questionnaires contained simple questions about social trust, social capital, confidence, democracy and other similar issues. All interviewed are chosen randomly and are different between each other. These interviews took part during March and April 2012. The data from the survey are collected and processed by SPSS program.

The logic followed for conducting this study has been flexible. We managed to combine into a sole approach the data of the WVS database for Albania and the data of our survey conducted in Albania. Being part of the reality of our country, which will also be presented in the current study, we are at the same time conscious that it holds various aspects on which we cannot help being uncritical. It is often a perception that the problems highlighted in this study are exclusively Albanian, while the other neighboring countries and other more distant ones do not share same concerns. As it will be stated later in the study, in many directions problems encountered in Albania are totally comparable to those of countries in the region and of countries that are more distant. Therefore, we cannot think that Albania is the worst and most complicated case, as is often mentioned even with delusive notes.

⁶ World Values Survey: World Values Survey constitutes the sole source of empirical data regarding the stances of most of the world's population (about 90%).

⁷ The survey is conducted in 50 interviewed persons or institutions).

III. Results and Discussions

The Concept and Sources of Social Trust

The concept of social trust is a key and much-talked-about topic of current days. It is a complicated phenomenon that combines cognitive, affective, behavioral, rational and irrational aspects as well as actuality and legacy. Social trust is a value.⁸ The concept of value in our culture did not exist. It has been in use only in the last decade by intellectuals with western education, where this term is a part of not only the academic lexicon, but also of the civil society. Other similar concepts are moral, stances, habits. We know that in our relations with other people we will exercise influence upon them and will be influenced by them. Our personal expectations are not to be damaged by these relations. Within this framework, trust is perceived as a mechanism enabling us to start a relationship, being sure we will not be harmed during our relations. No one has total control over being trustful or distrustful, although we all are like that: trustful in an occasion and distrustful in another, some tend to trust more and some tend to trust less.

Therefore, it can be said that trust is mostly formed in small, closed and homogenous communities like Albania. Some individuals and some populations tend to be more distrustful than others.

They relate social trust to social factors - some societies have higher participation and higher civic organization than some other societies. In this attempt we will note that the issue of social trust is related to the individual as much as to social factors; the level of trust is closely related to the level of trust/distrust that has been injected to us by the context of our life, with this level of trust we build the institutions we manage to build. The level of trust is also closely related to the quality of social institutions we built and what they do in order for us to trust or not trust them. Social trust seems to represent a factor for the founding of institutions that have authority and perform in benefit of the citizens, but apart from this, the serious performance of institutions has a visible impact in the development of the citizen's trust.

⁸ Values are subjective constructions, personal and social ones formed under the influence of many individual and group factors through the life of the individuals and of communities.

The Concept on Social Trust and Law Authorities

The level of social development has traditionally been seen as related to the level of development of the working force. This tradition has been crucial for more than half a century under the influence of materialist and especially Marxist theories. Today, decades after the fall of communism, what can be observed is that the concept of the working forces cannot totally explain the whole human influence on the social and economic level of the society. The concept of social capital was built based on this point of view. More than the concept of producing forces, this concept expresses the influence of people being part of a society have on the society, institutions and processes. Social capital is seen today as one of the main factors of economic advancement and regional development of a democratic government and of collective engagement.

Relations Between Social Trust and Social Capital

Trust is regarded by various authors as a mechanism supporting social relations, norms established in structures of such relations, and social institutions. The issue of social trust is seen as an important one in the social processes. In order for people to reach common objectives, they must be related to each-other, and to be related they must trust and know each-other⁹. Trust results in an important factor in the common attempts to achieve common goals. Therefore, it is not an easy task for one to develop trust in the other.

On the other hand, without social trust there can be no social capital: people are not connected with each-other and do not, therefore, develop norms. Developments of the last decades in the fields of sociology, psychology, politology and social psychology in the developed country tell us that democratic development is closely connected to social capital, the crucial element of which is social trust.

Social trust is a condition for a modern society and for an open society; it is a condition for an inclusive society, for the growth of investments; it is a precondition for increase of the feeling of happiness and well being. The relationship between social trust is seen in different manners. Some see trust as a precondition to build social capital, while some others see it as a product of social capital.

⁹ Coleman James, quoted in "Social Capital in Post-Communist Societies: Running Deficits?", Olena Nikolayenko, University of Toronto.

Those that see trust as a precondition for social capital state that the relations, communities, engagement etc. that characterize social trust would not exist if a certain level of trust between people was not present. In this way it is thought that without trust there is no social capital. On the other hand, scholars that think that trust is a product of certain social capital think of trust as a product of the relationship and, as such, consider it to be a product of social capital itself. The truth is that there is a lot of ambiguity regarding the relation between social capital and social trust.

Relationship between Interpersonal Trust and Institutional Trust

From a theoretical approach, authors distinguish two types of trust: *generalized trust* and *or interpersonal trust*. *Interpersonal trust* is defined as: "an experience-based trust built around a continued interaction with concrete persons through a certain period of time."¹⁰. The foundation of this form of trust is the sum of the common experiences that we consciously bring to the relationship. Civic engagement in a community and the interpersonal trust among its members contribute to the rising of overall social trust in a given society.

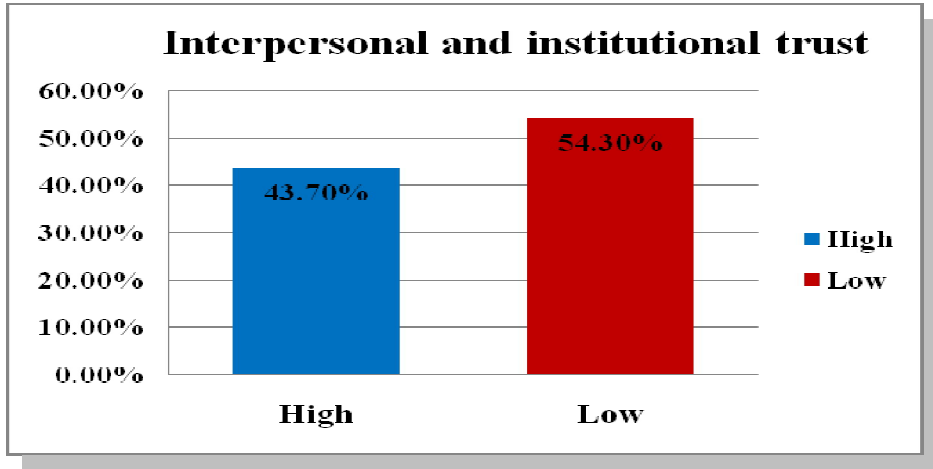
Albania, in broad lines, can be understood as an unreliable region and part of its economic performance, growth and development conditions may be related to it or explained by this subject.

Results of survey show low levels of interpersonal and institutional trust (Figure 2)¹¹, including lack of confidence in judiciary, police, political parties, government (Figure 3). If social capital is understood as "an individual sacrifice made in an effort to promote cooperation with others", one can easily conclude that Albanians are not willing to forsake personal interests because they understand this 'sacrifice' as in vain as there is a huge suspicion that they will not find reciprocity of this altruistic behavior in the future. The existence of low confidence may be related to historical conditions. Bureaucratic structures of governance that existed in Albania in order to manage the colonies businesses can be summarized in the personalistic political and economic relations, state regulation, and property rights poorly defined.

¹⁰ Salaj, Berto, 2006, Social trust: Croatia 1995-2003, Politicka misao, Vol.XLII, No.5, pp.77-98, Pregledni članak,323.21(497.5), Priljeno: 20. kolovoza 2006, p. 82

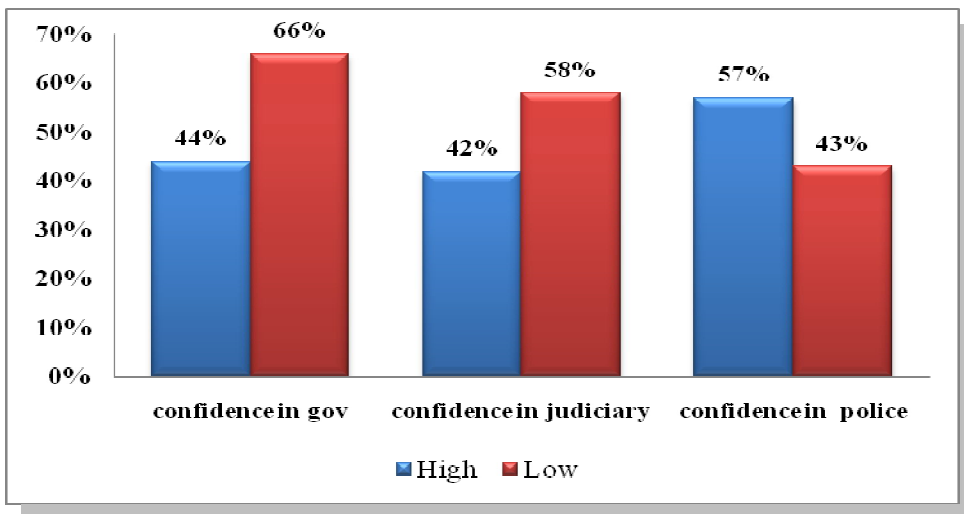
¹¹ 54.30 % of interviewed have low level of interpersonal trust and 43.70 % high level.

Figure 2: Interpersonal and Institutional Trust between 2012 – 2013 in %



Source : Survey

Figure 3: Level of Confidence in Police, Judiciary and Government between 2012 – 2013 in %



Source : Survey

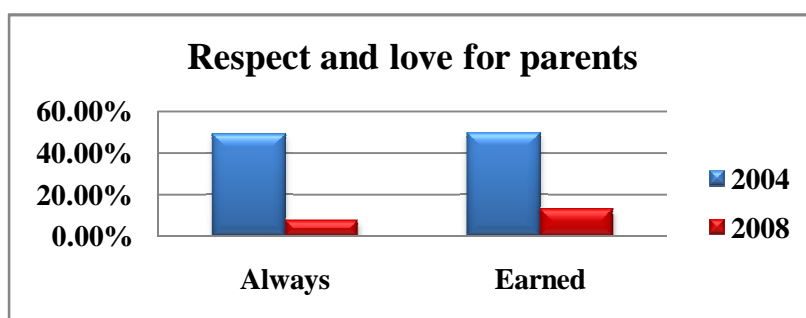
According to the data of Figure 3 between the period 2012-2013 the percentage of interviewed for the level of confidence towards Police, Judiciary and Government was respectively 43% , 58 % and 66% for low confidence and for the high level 57 % ,42 % , 44%.

In Albania politics one can see a lot of examples of the presence of oligarchs and political centralization. Overflows and spillovers are inevitable in the economic area, once institutions can have traces of this conduct, responding to concerns of certain groups. There are visible hints of patronage, nepotism and private usage of public patrimonial structure. We prove on our thesis in reverse way: instead of having institutional distrust, Albania has the "institutionalization of distrust" (a plethora of licenses, certificates and formal evidences of goodwill that are necessary in order to establish economic exchanges). In Albania there is a tangle of personal and bureaucratic connections that go beyond the formal structure.

According to the data provided by WWS, Albanians continue to consider family as the most important institution. Consequently, such approach has a direct impact on the behavior of the citizens towards state institutions.

Strong family ties, the tradition to live with parents and the weight of family related matters in people lives remain key elements in the development of social trust and institutional authority through the years. As can be noted from the results of WVS, Albanians respect and love for family is exceptional, while they spend a lot of time with their family members and the overwhelming majority lives with parents (Figure 4 & Figure 5 below).

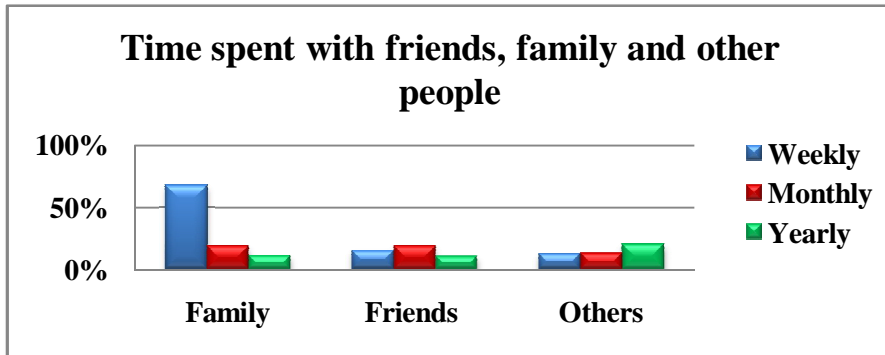
Figure 4: Respect and Love for Parents 2004 and 2008 Waves in %



Source: World Values Survey

Albania would have two parallel systems, with different 'radii of trust': one valid for close friends and family and another for other people (generally called the 'others').

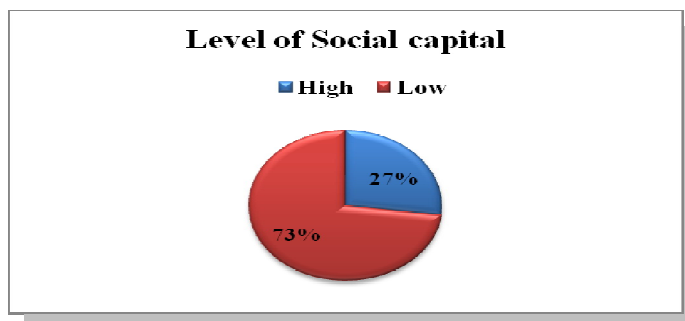
Figure 5: Time Spent with Friends, Family and other People 2008 in %



Source: World Values Survey

As a result, social capital (Figure 6) would reside only in the family and groups of friends; 'strangers or others' fall into another category. The excessive concern with private and/or nuclear family and the reluctance to engage with public or collectives issues would lead to an excessive individualism. It's the idea behind the concept of "amoral familism": a person feels morally bounded only to his/her family, excluding any cooperation possibility derived from impersonal social interactions. Social relations are undermined and consequently the possibility of establishing economic relations ,then institutions are "less able" (or have less power) than "family and friends".

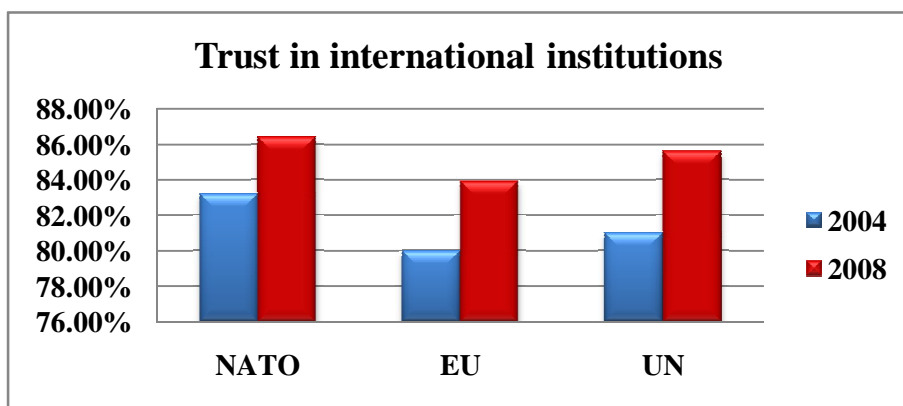
Figure 6:Level of Social Capital between 2012 – 2013 in %



Source : Survey

Returning to WVS data, however, it can be said that high levels of trust towards international institutions testify the existence of two parallel trends during the Albanian post-communist transition. First, there is a decrease of interpersonal trust influenced by the reduced trust in key national institutions (police, government, parliament etc), which will be elaborated further below. Second, the gap left by the decrease of national institutional trust by individuals has been filled in by the excessive level of trust they provide to international institutions operating in Albania, such as the EU, or NATO, perceived to be independent and detached structures which work and perform better than our national institutions.

Figure 7: Trust in International Institutions 2004 and 2008 in %



Source: World Values Survey

Specifically when looking at Albania, the findings in this regard are of two natures. The region gets the lowest levels of interpersonal and institutional trust among all democratic economies, ie, it has low social capital, based on the terms proposed by Putnam. On the other hand it is also noted that "a unique culture of transgression exists in Albania based on 'legalistic tradition' of the state, the existence of institutions that distinguish citizens, often on economic basis and the acceptance or tolerance to the disregard of legal norms. Thus, both interpersonal trust and institutional governance in Albania seem weak.

Finally, another possible explanation for the low interpersonal and institutional trust is related to income inequality that characterizes Albania, given that "in highly unequal societies, people will stick with their own kind".

Perhaps this structural deficiency of Albania economies reinforce exclusionary conducts because "perceptions of (social) injustice will reinforce negative stereotypes of other groups, making trust and accommodation more difficult" or enable the understanding of attitudes such amoral familism, since 'others' are seen as potential "enemies".

IV. Conclusions

This article has not sought to unveil "the mystery of economic growth" (Helpman 2004). It is far beyond the scope of this paper to pretend to solve the puzzle that preoccupied political economists since the days of Adam Smith. The chief concern of this essay has been to apply some analytical thinking to the comparative literature on institutions and growth.

In addition, the analytical gaps and policy implications of the institutional political economy of growth have been discussed in reference to the contrasting experiences of Albania. This conclusion outlines the main analytical and policy implications of this article, with emphasis on suggesting some ideas for further research.

At the conceptual level, we have claimed along this paper that comparative studies often rely on modelling and measurement strategies that ignores the boundaries between policies and institutions, on the one hand, and between institutions and politics, on the other. Similarly, there is also a tendency to confuse institutions-as-constraints and institutional-outcomes, or, in other words, the structure with the structure-induced equilibrium. In this context, the key analytical lesson of this article is that future research on the relationship between institutions and economic performance should be based on a more rigorous distinction between the rules of the game (the matrix of institutions defining the structure of incentives for economic and political exchange), the interests and beliefs of the players (interest groups and key political entrepreneurs) and the way the game is played (the observed behaviour and the set of outcomes induced by a certain institutional configuration).

The common historical origins of the Albania countries can contribute to a possible explanation for the distrust and disbelief in public activities, once public space is understood as being of 'no one' rather than being of "all the people". It also enables the comprehension about the avoidance of involvement with political activities.

Albania presents great risks associated with the low representation and political mediation and the low involvement of its inhabitants with collective nature issues. Interpersonal and institutional distrust presents statistically significant relationships with the disadvantageous terms of economic activity in Albania: "clearly, there can be no political stability without economic growth, and sustained growth is impossible without a solid democratic institutional basis".

Using comparative analysis throughout time (by studying the data of WWS with limited data from our survey), the study finds out that the Albanian society is one of the societies with the highest level of distrust. Such situation is considered to be an obstacle for the democratic progress of our country since trust constitutes the basis for cooperation and civic participation in the social processes.

V. Suggestion for Action

This paper suggests several actions that strategically use different forms of social capital and could facilitate community development activities:

- 1) Identify closed social capital networks within targeted communities and work with these networks to clarify available resources.
- 2) Identify people and organizations in local neighborhoods that already serve as bridging agents, or have the potential to build bridges among closed networks, and engage these individuals and institutions in expanding closed social capital.
- 3) Use catalyst organizations to build bridging and linking social capital among neighborhoods targeted for community development, as well as between community-based leaders and citywide, regional, state, and national institutions controlling necessary resources.
- 4) Pay careful attention to local cultural patterns that indicate established community strategies, respecting these cues when developing initiatives.
- 5) Rely on local bridging agents to foster multicultural bridging social capital among residents and those participating in specific community development initiatives.
- 6) Use modeling, mentoring, communities of practice, technical assistance, and other methods that simultaneously build bridging social and cultural capital to build capacity in local organizations.

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