# Social Capital, Cooperation and Community Governance

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Abstract

In this paper we try to establish a clear causal effect of Social Capital (SC) on cooperation under institutional inefficiency; SC functioning as a substitute and/or complement of the market and the state promotes self-community governance by easing cooperation between its members. Previous research on SC suffers from poor instrumental variables measuring SC and from identification problem. Addressing the first point we have designed a questionnaire disentangling three separate aspects of SC. Namely Trust, Networks and Civic Cooperation. Within Trust we differentiate between trust on i) institutions, ii) known others and iii) strangers. Within social networks we identify networks with i) strong and ii) weak ties. Lastly, we separately measure propensity to i) follow and to ii) impose civic norms. In order to compute the SC index (and control for a possible response bias) we run the questionnaire within a representative student population (n= 1500) and within a representative city population (n=835). To control for hypothetical bias, economic decisions (three experimental games) with real monetary payoff were added in the survey. To address the identification problem we choose a controlled experimental environment as the most appropriate research tool to test our hypothesis. We discuss that a community endowed with high SC can overcome problems related with poor central governance and market failures.

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