

# **THE RELEVANCE OF SOCIAL CAPITAL AND INTERMEDIARY STRUCTURES FOR THE CREATION OF SYSTEMIC COMPETITIVENESS**

## **Some lessons from Southern and Eastern-Central Europe**

### *ABSTRACT*

*The autor proceeds from the thesis that (post-socialist) countries which demand to be members of the EU will attain a position of compatibility and isomorphism with a modernised core only if they develop - parallel to the acceptance of formal rules and regulations - also the organisations, associations and mechanisms which belong the so-called intermediary sphere (from NGO-s to various mediating bodies and project groups). In this context the notion of social capital is underlined and the reasons for the low degree of trust and cooperation (as two main ingredients of this capital) are analysed.*

*Key words: trust, spontaneous sociability, cooperation, policy networks, regulation, associations*

### **1. The dilemma of modernization**

Every rational modernization strategy for the so-called late-comers, must come to terms with the following questions and dilemmas:

1) Which combination and utilisation of “tangible” and “intangible” (domestic and foreign) resources and capitals (financial, physical, human, social capital) as well as the selection and implementation of institutional arrangements would be most optimal for transformation to a competitive and welfare system? Here we also encounter the dilemma of a referential framework: who to look to as an exemplar and to what extent. For Southern European members of the European Union and the ten Central and Eastern European countries, which are signatories to the associative agreement with the European Union,

this dilemma has at least partly been resolved. Their frame of reference is that of the European Union with its institutions, rules and expectations.

2) The second question follows: is it possible, at an appropriate point in time, to detect unintended and unwanted consequences of political, economic and socio-cultural transformations? Is it possible to learn from others? Is there the willingness and ability in foreseeing and mastering externalities, disequilibrium and disintegrative trends? From this point of view medium sized and small countries on the European periphery (i.e. most countries with the exception of Poland and Spain) could learn many things from the neo-corporatist experience of small Western European countries (Adam, 1997; Agh, 1997).

3) Is it possible to sever the negative historical inheritance and learn something positive from the past, perhaps in the form of "the invention of tradition?" Experience has shown that the path-dependence - which reveals itself in repeating patterns which perpetuate backwardness, dependence and non-inventiveness - can be transformed to a path of no return, a vicious circle to one of a virtuous circle. (This partly holds true for Spain and Portugal - but not for Greece - and to a great extent, for Ireland and Finland.)

4) Which combination of outward and inward orientations, autonomy and dependency would be the most suitable foundation for the achievement of systemic competitiveness? Proceeding from a comparative analysis of modernising processes, the results reveal that the most successful combination is one contained in a formula of autocentric development with association. In other words, a combination of outwardness and incorporation into the international market together with the existence of a domestic elite that has control over the most important levers of decision making (Menzel, 1988; see also Mouzelis, 1995). In the recent phase of inclusion into the European Union, this formula seems to have a chance (the EU even forces and facilitates it as we shall see in the following pages), though it is questionable whether it will prevail in the near future.

In this paper I will above all concentrate on the first question cited above and a number of related problems. One of these is that the EU itself is going through a period of transition resulting from the pressures of globalized competition and it is not clear whether it will be able to preserve its own identity, the systemic characteristics and regulations that it offers as a model to potential members. The other problem is that institutions are always being embedded into particular sociocultural context, where culturally derived non-formal norms change much more slowly than formal ones, regardless of whether they support the assertion of newly transplanted institutional rules or not. The implementation of the same institutions in different settings may give different results (North, 1990; Putnam, 1993). Greece is an evident example of this since some analyst report that its institution-building is not only unaccomplished (Axt, 1994) but that its main institutions are actually in the process of erosion and decline (Manousakis, 1994). This problem is linked with my *central thesis: that societies that demand to be members of the EU will attain a position of compatibility and isomorphisms with a modernised core only if they develop, parallel to the acceptance*

*of formal rules and regulations, organisations, associations and mechanisms which belong to the so-called intermediary sphere.*

As Putnam (1993) has demonstrated, those countries which are unable to develop or implant efficient institutions and rules, are generally characterised by weak intermediary structures and mediating (coordinating) mechanisms (like Southern Italy and Greece). The reverse is also true: countries or regions (like Northern Italy) with high institutional performances have succeeded in achieving a dynamic intermediary network. This implies that new members of the EU will have to manage two different yet interrelated projects.

## **2. Agenda 2000 - The European Union as an instance of disciplining**

A part of the expert report, known as Agenda 2000 as prepared by the EU Commission, refers to the analysis of the conditions and readiness of the ten Central and Eastern European countries for integration into the EU. Three dimensions have been specially treated: political stability and the level of democracy; implementation of a market economy and the attainment of an expected level of competitiveness; the ability to adopt as soon as possible the laws and standards of the EU, the so-called *acquis communautaire*. The Commission has, on the basis of its data and criteria, assessed that with the exception of Slovakia the greatest improvements have been made in the area of the first dimension. The other two dimensions present varying results. This assessment conforms with the opinions of a wide body of analysts, who generally conclude that countries in transition are relatively successful in establishing democratic institutions but are less successful in modernisation in the sense of rationalisation and effectiveness of the political - administrative subsystem and other subsystems (Agh, 1996).

In the group of five countries, which according to the opinion of the Commission, are considered as the most prepared for admission to the EU, Hungary stands out above the rest. We refer to two interesting arguments from the results of the Commission. The first one follows: "Hungary's record of consistent commitment to steady market reforms and its ability to take difficult decisions when they are necessary is an important positive factor." The second argument is connected to its openness towards foreign direct investments (FDI), which are the largest in this region. These two aspects of adaptation as exposed by the Commission are not coincidental. Internal economic, social and administrative reforms not only create a suitable environment that attracts FDI, but which enable the productive absorption of other forms of assistance which the EU offers to less developed countries or regions. Experience with Greece provides further evidence for this as this country, which became a member of the EU in 1981, was relatively unsuccessful in terms of implementing institutional reforms and consequently in attracting FDI as well as utilising other developmental impulses. In this case, we have "an ailing economy which was unable to reap the full potential benefits of EC membership" (Bidelaux, 1996: 135). Even though Greece gained assistance in the form of transfers from structural funds of the EC (now EU), which represented 5-6% of its annual GDP, it was not capable

of increasing its developmental dynamics and systemic competitiveness in contrast to Portugal and Spain (see also, Preston, 1997).

In this context it is interesting to compare Hungary with Slovenia, which is just in the fourth position of the five mentioned countries awaiting membership into the EU (see ranking made by the Business Central Europe, September, 1997). In regard to some important economic indicators Slovenia ranks in a better position than Hungary. If I mention one detail, Slovenia's per capita GDP is 59% of the EU average while Hungary's is only 37%. However, in the eyes of the Commission Slovenia is seen as being slow and hesitant in terms of reform dynamics and harmonisation of its legislation with that of the EU. The authors of Agenda 2000 see one of the reasons for this in the "consensual character of economic decision-making and the incentives of workers and managers to preserve the status quo." From my point of view, this conclusion is questionable. In my opinion, the issue is not consensus but inertia, perhaps path-dependence in the sense of the preserving of old patterns of the former era of self-management. In some cases there still exists a tacit agreement that maintain the status quo; however, in general, the relationship between employees and management is dominated by distrust, conflict and non-cooperation.<sup>1</sup> My thesis here, which I will develop further, is that Central and Eastern Europe (and it partly holds for southern Europe) are lacking in social capital, the only resource that can create the foundations for trust, cooperation and strategic consensus i.e the ingredients which are essential to implement the intermediary structure and the whole institutional framework. A lack of these ingredients can also delay the fulfilment of demands which the EU introduces to countries which want to become members. It is clear from Agenda 2000 that the EU requires more rational and strategic decision-making from candidate countries. They will have to improve their administrative capacity and their overall institutional structure. This is not possible without better *coordination and cooperation between different segments of political and administrative decision-making, as well as between them and representatives from non-governmental interest and expert groups*. The EU does provide an impetus for these actors to take on greater self-discipline, and in the long-term, more strategic and deliberate activities and behaviour.

### 3. Social capital and the intermediary sphere

The foundation of this paper, which I have only touched on, is based on the presumption that there exists a positive correlation between social capital and intermediary institutions. Social capital generates incentives and capabilities, both in the sense of norms as well as competence. They enable and stimulate the participation of actors in a collective action with the goal of formation or the preservation associations and networks in the intermediary sphere. At this point, I put forward the following definition: "Social capital here refers to features of social organisation, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated actions" (Putnam, 1993: 167). What follows from this definition is that social capital is important not only for the emergence of civic associations, which are more "interactively"

structured, but is also important - as mentioned before - for the efficient functioning of "classical" political and administrative institutions.<sup>2</sup> The democratic nature, responsiveness and efficiency of these institutions stimulates the placement and application of social capital which in turn (in the sense of the virtuous circle) can improve their performance. Without this capital, modern societies cannot fully develop their potential and its presence translate into competitive advantage. Moreover, Putnam states that: "For political stability, for government effectiveness, and even for economic progress social capital may be even more important than physical or human capital" (1993: 183).

Two components of social capital - trust and cooperation - are of special importance. However, it is not necessary that cooperation will emerge from the basis of trust, but in principle successful cooperation generates trust (Gambetta, 1993). There is no doubt that trust - with its rational, emotional and moral connotation - is an ambivalent and multi-layered concept. In this regard the following Italian saying is instructive: "It is good to trust, but it is better not to trust." Trust, in modern society, is specific and not diffuse. It is a matter of rational calculation and what is important above all is its conditional nature. Its application depends on many factors: past experience, loyalty, reputation and credibility of potential partners and institutions. In this framework, it appears that the most acceptable explanation is that persons, organisations or institutions worthy of potential trust acquire a "credit of trust" (Vertrauenscredit) meaning a temporary discharge of social control. This in turn opens up room to manoeuvre which can be used innovative and to act more freely (Stztompka, 1995). Yet, this credit can also be misused and can quickly decline and this is what has occurred over the last years in post-socialist societies where the "culture of distrust" has gained ground (Sztompka, 1995). At very least, we can say that certain situations exist which can be managed better with cooperation and trust, specific collective goods which can be easily realised through collective action that is based on trust and cooperation.

If we look at the intermediary associations and coordinating policy networks on the level of meso policy-making, we find that they arise (at least in the initial phase) from interpersonal exchange, reciprocity, negotiation and self-organisation. To put it other way: their origin lies in "spontaneous sociability." Social capital provides resources which "allow members of a given society to trust one another in the formation of new groups and associations" (Fukuyama, 1995: 90).

When discussing the intermediary sphere I am not only considering those associations and organisations which are normally added on to the so-called third sector, non-governmental organisations or the non-profit voluntary sector. This concept has been enlarged to include those mechanisms and networks which perform the function of intersystemic coordination and communication and even various forms of cooperation and strategic links within particular subsystems and their units. The first segment of the intermediary sphere can be classified in relation to the "symbolic media," which form the referential or semantical framework that guides and structures the activities of the actors. In my opinion, we can identify five such media: 1) interest (to which belong professional associations, sport and cultural societies cooperatives, etc.); 2) influence

(pressure groups, unions, ecological and environment protection organisations, various discussion clubs, human rights activities, locally based political parties); 3) solidarity (self-help groups, organised philanthropist and voluntary activities...); 4) values (religious and spiritual groups, the local parish community, cultural activity of ethnic minorities); 5) community (citizens initiatives on the local level, municipal and regional self-government, communitarian groups). It is necessary to mention that this classification is of preliminary and heuristic value; the activities of specific associations does, at times, extend beyond its defining media. For example, professional associations at times function as pressure groups, while trade unions also develop forms of mutual help. The status and radius of the functioning of particular associations (or the whole of the intermediary sphere) also varies in view of whether they are incorporated into a mainly pluralistic-liberal, etatistic, clientalistic or corporatist social setting.

Associations, groups and organisations, which are structured around an outlined media within the framework of this well known and researched segment of the intermediary sphere - some authors name it simply the civil society - are also present in post-socialist countries. Some data even indicates the real expansion of a "third" sector in recent years. Nevertheless, experts and analysts unanimously maintain that this sector is continually "undernourished," deficient and disorganised (see: Kolaric/Ruzica/Svetlik, 1996). Empirical analyses and national case studies reveal that groups and associations act in a disjointed manner and that their legal status is not yet settled. Their internal organisation is weak, lacking managerial know-how and the ability to obtain new financial resources (and in this respect, they are too dependent upon the benevolence of the state). One of their main weaknesses is their poor or non-existent coordination with state organs. As one Polish sociologist put it: "Those associative ties typical of Western civil societies are absent" (Weselowski, 1995: 126). In essence, this sector has been developing slowly and with a lot of pain. Only the changes in political and social climate that will enable the growth of social capital can contribute to its proliferation and stabilisation. The eventual integration of these countries into the EU may accelerate this process.

The other segment or aspect of the intermediary sphere refers to the mechanism of coordination between various functional sub-systems. The emphasis here is on flexible zones of interpenetration which regulate the interaction and communication between two or more sub-systems. Their central task is to lessen the reciprocal opacity between sub-systems and to share the costs and risks between them (Willke, 1995). One can refer here to mediating (more or less formalised) mixed bodies and project groups (which are partly linked with associations belonging to the influence media), composed of collective actors and representatives of different subsystems (from tripartite social partnership to concertation actions in health sector, scientific councils, various technocorporatist arrangements within areas such as research, educational, and developmental policy). Some authors call these "instances of the third order" intermediary negotiation systems (Mayntz, 1993; Willke, 1995); others call them "partial regimes" or "private interest government" (Streeck/Schmitter, 1991) or a form of "public-private partnership" (Koiman, 1993). They are much more pronounced and stronger in societies with a "corporative-associative" character (Germany and smaller countries of the EU) and are less apparent

in societies which are state regulated (France) or societies which are more inclined towards pluralistic-liberal system (such as the UK though it has experienced recent changes due to the Labour victory). Certain Southern European countries or regions (Greece and Southern Italy) represent special cases where clientalistic networks are a noticeable feature.

Of particular importance here is the assertion that this "regulated self-regulation" contributes to the "unloading" of the state (*Staatsentlastung*) and offers the basis for concerted steering, which can increase the efficiency and competitiveness of the system (Willke, 1995; Koiman, 1993; Messner/Meyer-Stamer, 1995). In post-socialist societies, this type of regulation and the existence of meso-policies is not prevalent. What does exist are rudimentary forms of tri-partite social partnerships. Generally, however, we have to make do with - at first glance the somewhat uncommon - combination of neo-liberal principles of governance, state-bureaucratic interventionism in terms of short-term crisis management and clientalistic arrangements. The latter - with all their negative connotations - are, in fact, the functional equivalents of "horizontal networks of civic engagement" (Putnam, 1993) and negotiation systems.

In addition, I would like to mention the third segment of intrasystemic, inter-entrepreneurial and intra-organisational coordination mechanisms. This relates to - if we confine ourselves to the industrial sub-system - the formation of consortium networks for collective entrepreneurship practised in certain regions in Denmark (Jutland) and Italy (s.c. "Terza Italia"). This provides a link between small and medium-sized companies, allowing them to more rationally and synergetically utilise their capacities and resources. In Slovenia, such strategic and functional links hardly exist. Moreover, one official government document ("The Strategy for increasing competitiveness of Slovenian industry") states that "our companies are not aware of them." A lack of cooperative behaviour and trust is the general reason for this state of affairs which obviously jeopardises the dynamics of restructuring and worsens the competitive positions of the enterprises (and indeed the entire national economy) on the international market (especially on EU markets).

On the other hand, we must ask if such a situation is the consequence of inappropriate (or absent) industrial policy. The foundations and incentives for strategic cooperation can not be imposed by hierarchical governmental interventions. Nor can market automatism or managers and entrepreneurs alone bring such cooperation about. It can only be generated on the basis of meso-policy making and intermediary negotiation systems (with the representation of managers and owners, government, experts from R&D institutes and university, trade unions, etc.). This (in fact very demanding) type of concerted decision-making and regulation<sup>3</sup> could be also important instrument for stimulating the transfer of knowledge and technological know-how from university laboratories to the industrial production lines. This is an issue which is very critical in post-socialist countries since they are better off regarding the human capital and investment in R&D than Southern European countries but are very weak in their utilisation and dissemination.

#### 4. Discussion and conclusion

We must not overlook that, in the last few years, the attention of social science researchers and theoreticians has sharply shifted toward the phenomena of intermediary structures, civil society and social capital (where the notion of civil society means a general framework of intermediary structures and social capital is conceived as a prerequisite for establishing these structures which consequently reinforce it). It seems that we are witnessing the return to Durkheim's belief that tendencies toward anomie and disintegration inherent to industrial societies can effectively be counteracted by establishing a link between individual citizens and the state in the form of professional corporations. In a modernised and modified version, this idea was realised in recent decades in certain Western European countries and it became known under notion such as democratic corporativism, social partnership or neo-corporatism. These arrangements produced a special kind of intermediary associations which not only influenced the industrial relations, but they also contributed to the formation of distinctive socio-political features of countries belonging to the so called Rhenish-Alpine model (Vieser, 1996). Intermediary structures have been mainly thematised in the last twenty years in the context of the neo-corporatist research agenda, in the context of civil society and civic culture (with the emphasis on their democratic potential) and in the framework of discussions about "welfare mix" (taking into account especially the non-profit voluntary sector). In this regard, it must be said that this topic hardly presents something new. What is new is the emergence of a more holistic approach exemplified, for example, in Putnam's book *Making Democracy Work* and in a more elaborated theoretical effort that led to the invention of the concept of social capital (Coleman, 1990). In addition, there has been the recent discussion on policy networks and new forms of societal regulation (Herittier, 1995; Willke, 1995; Koimann, 1993) in which the notion of intermediary negotiation systems plays an important role.

It could be argued that social science has in this way stumbled upon a very useful conceptual tool and it may not be exaggerating to speculate that the topic of intermediary structures will become one of its main focuses in coming years, perhaps decades. And if the analysis of one of the classic sociologists is still relevant - at least as a source of inspiration - than it is the one of Durkheim.

There is another set of questions with more practical considerations which touch upon developmental dilemmas and trends within the EU. How can it master (manage) the challenges inherent in the process of enlargement, neo-liberal pressures and global competition? What kind of EU will the new members actually enter? Will it be a neo-liberal or a communitarian EU (both terms are meant in their ideal-typical sense)? If one were to define the distinctive identity of most countries in the EU, it would be said that these are social orders based on strong intermediary arenas, the welfare state and consensual decision-making. Yet all these features are now being challenged and they are in the process of reconsideration (see Esping-Andersen, 1996; Vieser, 1996).



It is certainly not an exaggeration to say that EU countries and their common supra-national institutions are also in a process of transition. Two scenarios concerning the European Union's developmental future are debated here (see: Vieser, 1996): the "quality scenario" and the "efficiency scenario."<sup>4</sup>

The weakness of the first scenario is that it is over-optimistic as regards employment, failing to realise the social and political implications of unemployment. On the other side, the second scenario not only promotes increased social inequality but it could also destabilise the whole of society and endanger its defining supposition i.e. the attainment of competitiveness.

The chances for the success of the "quality scenario," which would also be the best choice for candidates for entrance into the EU, depend on the ability and will to find a solution to the problem of unemployment. The non-profit voluntary sector presents one of the possible solutions in this regard (Rifkin, 1995).

To summarise, I call attention to the implications that intermediary arenas and social capital may have in the area of institution-building and social dynamics:

1) The developed network of intermediary associations can contribute to the social cohesion and integrity of society by facilitating a spirit of solidarity, self-help activities and the "processing" of meaningful orientation (Berger/Luckmann, 1995).

2) The existence of trust and cooperative behaviour (on the basis of social capital) increase the efficiency of "classical" institutions by reducing transaction costs and by facilitating coordinating actions.

3) The socialisation for the democratic polity which requires civic virtues is more successful if citizens have the opportunity to participate in various associations.

4) The presence of intermediary negotiation systems allows room for the implementation of meso-policies and concerted regulation.

5) Dense horizontal networks of civic engagement (Putnam, 1993) impede the occurrence of clientelistic and clandestine vertical groups which are in principle rent-seeking.

6) The development of intermediary structures in post-socialist countries (candidates for the membership into the EU) contributes to "requisite variety" and thus to the greater compatibility with the countries and decision-making bodies of the EU.

## NOTES

1. Although Slovenia shows, concerning the privatisation process, some special features, it fits completely in the framework of so-called managerial capitalism (which differs from market capitalism in the EU and elsewhere), where diffuse ownership with no identifiable owner who makes decisions exists, and decision-making power is appropriated by managers (Szelenyi, 1995).

2. I would like to call attention to the fact that there are two concepts of social capital. The first one (which originates in Bourdieu's theoretical approach) is more pragmatic and refers to social contacts and networks an individual or group can draw upon. The second understanding (which I also use in this paper) has normative connotation ("civicness" as Putnam names it) and it is related to "social trust, norms of generalised reciprocity and networks of civic engagement" (cf. Gundelach/Torpe, 1997).

3. In this connection the following statement can be mentioned: "These mechanisms make it possible to relieve government's burden by shifting decision-making processes into intermediary arenas... They do, however, presuppose a capacity on the part of social actors to compromise, perform and learn, and to accept transformation. The conditions for an efficient meso-policy are difficult to establish in many countries, because of social polarisation, a lack of experiences in communication and productivity-oriented interaction between private and public actors" (Messner/Meyer-Stamer, 1994: 103).

4. According to the "quality scenario," the EU should concentrate on high quality skills and knowledge-intensive goods and services where it has comparative advantages. Simultaneously, it should maintain a high quality of life and invest in the social, educational and information infrastructure. Efficiency and competitiveness are important, but they are only a part of a broader system of values and guidelines such as solidarity, social cohesion and consensus-building which are all strongly emphasised in Agenda 2000. "The efficiency scenario" is based on the assumption that successful competitiveness is only possible if deregulation, a flexible labour market, lower wage costs and a reduction of public spending are achieved. To put it shortly: in this scenario competitiveness is placed in the foreground and has to be implemented at any cost.

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