Local Government Capacity and Social Capital

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Abstract: Local authorities vary considerably in their capacity for governance. The dimensions of this capacity can only be developed by drawing on local stocks of social capital. The seminal theories of social capital tend to conceive it as a community resource that is built up through a long tradition of civic engagement. We take issue with the *laissez faire* implications of these theories, highlighting ways in which local governments can positively contribute to social capital formation by opening their "political opportunity structure" and engaging voluntary organizations and community groups in trust-based partnership arrangements.

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LOCAL GOVERNMENT CAPACITY AND SOCIAL CAPITAL

Over the last two decades a global wave of local government reform has taken place against a background of far-reaching economic and political changes and a radical reconstruction of economic policy regimes. Despite considerable cross-country diversity in the functions undertaken by local government, the sources of local government revenue and the principles governing the relations between the State and local government, this wave of reform has been linked to a process of "modernization" that has lain behind a global trend toward greater complexity in the local public sector.

According to Naschold (1997, pp. 5-6) the type of administrative modernization that has been advanced in the local government arena can be viewed as "a relatively linear, institutional evaluatory process of constant differentiation and performance improvement." Bailey (1999) has also observed a close link between modernization and increasing complexity as reform processes have significantly changed the structure of local government in advanced industrial countries, in general, and English-speaking nations, in particular, so that there has been "a shift away from monolithic, hierarchical, highly standardized, bureaucratic production technologies to microcorporatist networked organizations dominated by meeting the needs of consumption rather than production" (Bailey, 1999, p.262).

As a result of these trends, policymakers have had to reappraise the comparative institutional advantage of the new local authorities in the delivery of public services to their communities. Two diverging views appear to be emerging in the policy subsystems that surround local government in countries where these modernization processes are relatively advanced. On the one hand, the multi-purpose structure of these institutions and the discretion they often have in determining the range of community services they seek to provide and the delivery mechanisms they use in providing them has been a source of concern since these characteristics make it difficult to subject them to vertical lines of authority within which they can be made accountable for clearly specified outputs. On the other hand, some policymakers have taken the view that it is these same characteristics that make "modernized" local authorities particularly suited to their role of being suppliers of community governance. This view has notably shaped the local government policy of the Blair government in the UK. This government has sought to move away from its predecessor's focus on containing the "spending bias" of local authorities by transferring many of their functions to "non-elected agencies" (Painter et. al., 1998) and limiting the scope for these bodies to raise their own sources of revenue (Bailey, 1999) to an approach that seeks to make "modernization" a condition for the devolution of new powers and responsibilities

(Brooks, 2000). Through its Department of the Environment, Transport and the Regions (DETR), it has announced that it intends to intends to, firstly, impose a new obligation on councils "to promote the economic, social and environmental well-being of their areas" and secondly "strengthen councils' powers to enter into partnerships" (DETR, 1998, p.80).

There would seem to be two main ways in which local authorities can be involved in multi-organizational partnerships. Firstly, central government may co-opt local bodies, along with other organizations, into policy initiatives that are targeted at local communities. Secondly, local authorities may exercise their own initiative in establishing collaborative partnership arrangements with other organizations. Typical examples of this would be where local governments join with local business leaders and tertiary institutions to facilitate small business development or develop a strategy to make the local area more attractive for new investment. In many countries, local authorities have been active in establishing collaborative relationships with businesses, voluntary organizations and community associations in the fields of urban and rural regeneration as well as in social care, education, environmental and other policy sectors (Lowndes and Skelcher, 1998, p. 314).

These tendencies appear to have gained momentum in the last two decades as "decrementalist" fiscal policies have placed resource-constrained local bodies under more pressure to develop new sources of finance. In this regard multi-organizational partnerships can enable local bodies to gain access to grant regimes that require financial and in-kind contributions from the private and voluntary/community sectors. They can also use their private sector partners to overcome public sector constraints on access to capital markets (Mackintosh, 1992).

Over the same period, the implementation of public management reforms based on the doctrines of the New Public Management (NPM) have also expanded the scope for multi-organizational partnerships. In particular, the restructuring of large bureaucratic structures into single goal agencies (Hood, 1991) that, in some cases, have been sold off to the private sector, and, in other cases, been kept at "arms length" from each other through quasi-market arrangements, such as the "purchaser-provider split", has tended to increase the fragmentation of the public sector. As the range of different agencies responsible for shaping and delivering policy has increased dramatically, the problems of horizontal co-ordination that arise in this "polycentric terrain" (Rhodes, 1997, p.xii) have often been addressed at the local level where partnerships provide a means of developing strategic direction and sustaining co-ordination. The possible benefits of partnership arrangements have been summed up

by Lowndes and Skelcher (1998, p. 315): "Partnerships have the potential to increase resource efficiency, making better use of existing resources by reducing duplication and sharing overheads. They can add value by bringing together complementary services and fostering innovation and synergy".

Local authorities do, however, appear to vary considerably in their capacity to play a catalytic role in the formation of multi-organizational partnerships and to, more generally, function as suppliers of community governance and promoters of community development. The purpose of this paper is to examine the factors that can account for these variations in capacity. To do this it will draw from two theoretical streams. The first is the interdisciplinary literature in development studies that identifies the different dimensions of state capacity and recommends policies that close the gap between the functions and capacity of governments. Although this literature has tended to focus on the capacity of national governments, we will show how it can be readily adapted to address similar concerns in the area of local government policy. The second stream we will draw on is that which relates variations in governmental efficacy and economic performance to differences in stocks of "social capital". We will both seek to show how social capital can affect the networking capacity of local governments and suggest strategies through which councils can positively contribute to the formation of this resource in their communities. The implications this has for the model of the "enabling authority" that can underlie local government policy will be considered by way of conclusion to this paper.

Matching the Role of Local Governments to their Capacity

Some recent contributions by the World Bank have addressed the problem of defining an appropriate role for government in a way that takes account the significant variations in "state capacity" that have been highlighted as "considerable evidence accumulated during the 1980s to suggest that states varied widely in their ability to set the terms for economic and political interactions and to carry out the functions assigned to them" (Grindle, 1996, p.4). For example, the 1997 *World Bank Development Report* identifies two generic approaches to the problem of closing the gaps that exist between the functions and capacity of government bodies. Firstly, policymakers can attempt to match the agency's role "to its existing capability, to improve the effectiveness and efficiency of public resource use" (*World Bank Development Report*, 1997, p.25). Secondly, policymakers can seek ways of enhancing government "capacity by reinvigorating public institutions" (p.3). Table 1

illustrates how the scheme proposed by the World Bank for matching functions to capacity can be applied in a local government context.

Table 1: Minimalist, Intermediate and Activist Functions of Local Governments

Minimal Functions	Intermediate Functions	Activist Functions
Providing local public goods	Addressing externalities Regulating monopoly Overcoming imperfect information	Co-ordinating private-public partnerships Developing social capital

Source: Adapted from World Bank Development Report (1997, Table 1.1, p.27)

The table outlines three basic levels at which local governments can intervene, depending on their institutional capacity. To undertake even "minimal functions", local governments must have both the revenue-raising and institutional capacity to administer necessary local regulations and provide genuinely local public goods such as library services and rubbish collection whose benefits do not extend significantly beyond a particular community. The demands on local government capacity will be much greater where they seek to provide intermediate functions. The *World Bank Development Report* (1997, p. 27) has described the role of government in the provision of intermediate functions as follows:

> "Here, too, the government cannot choose whether, but only how best to intervene, and government can work in partnership with markets and civil society to ensure that these public goods are provided."

While these remarks are directed toward an assessment of the capacity of national states, they are also clearly relevant to local government as the discussion of different governance mechanisms in this chapter has made clear. Finally, it would appear that "activist functions", like intervention to generate increased coordination and develop "social capital" (see the next section) should only be undertaken by local authorities with a highly sophisticated capacity for governance and even then only with great care.

A number of writers of sought to differentiate the various dimensions of this governance capacity. For example, Polidano (2000, p.810) has distinguished between "policy capacity" (i.e. "the ability to structure the decision making process, coordinate it throughout government, and feed analysis into it"), "implementation authority"

("the ability to carry out decisions and enforce rules, within the public sector itself and the wider society") and "operational efficiency" ("the ability to deliver services … efficiently and at a reasonable level of quality"). Similarly, Grindle (1996) has proposed a somewhat broader fourfold typology of state capacity, which incorporates institutional capacity, technical capacity, administrative capacity, and political capacity. Both taxonomies would seem to be relevant to local governance although we will only elaborate on this with reference to Grindle's scheme.

Grindle (1996, p.8) relates the "institutional capacity" of government bodies to their ability to uphold authoritative and effective "rules of the game", to regulate economic and political interactions and to assert the primacy of their policies, legal conventions, and norms of socio- and political behavior over those of other groupings. Local authorities will mainly derive this capacity from their relationship with central government to the degree that this relationship is based on a mutual trust. Central government will only have the confidence to devolve functions to local authorities if they expect their officials to behave in a "responsible" way that is governed by the same rules that ensure proper behavior by their own officials. A focus by central control agencies on the potential for agent opportunism and government failure at lower levels of government may actually undermine this confidence. At the same time, local authorities may only have confidence in such devolution if it is based on " clear and shared understandings of what is being transferred and who will be expected to bear the costs. (This) means assuring the parties who may receive the allocation that they will not be exposed to the political risk which can arise, for example if government reduces its financial commitment once a program has become well established in new hands" (McKinlay, 1998, p.31).

According to Grindle (1996, p.8) the "technical capacity" of governments is related to their capacity to set and manage coherent economic strategies based on the advice of a cadre of well-trained analysts and managers who operate out of appropriately placed units for policy analysis. While this writer relates this capacity to the ability of a central government to sustain coherent macroeconomic stabilization policies, it can also be related to the capacity of "enabling authorities" to supply effective leadership and strategic direction to the range of agencies and organizations that can potentially be brought together to advance local community and economic development.

Local authorities are, however, unlikely to be trusted to perform this role unless they have demonstrated what Grindle (1996) calls an "administrative capacity" through their track record of effectively administering local infrastructure and

supplying local public goods. Indeed any attempt by local authorities to take on more activist functions may not secure the external resources and support they depend on, if there is a widely held belief that this more activist role could undermine the capacity of these authorities to give proper attention to their "core business".

Grindle's (1996, p.44) fourth category is political capacity, which refers to "the ability to mediate conflict, respond to citizen demands, allow for representation of interests, and provide opportunities for effective political participation". There is, of course, a long tradition of political thought dating back to J.S. Mill that looks to local government as a means for developing political capacity within a democratic state by providing (a) a means of accommodating pluralistic views within society; (b) the opportunity for people to take an active part in government, acquiring the habits and skills which underpin the democratic infrastructure; and (c) services in accord with local needs and preferences, rather than according to uniform national standards (Young, 1988). However, as Bailey (1999, p.5) points out: "These points are either assertions or, at best, their effectiveness is not proven". Indeed the political capacity of local governments would seem to depend, at least partly, on their willingness and ability to overcome the tendencies toward "rational" apathy and ignorance highlighted by public choice theory (Boyne, 1999) in order to engage a plurality of groups in the deliberative processes that often take root best at a level where decision makers are relatively close to the citizens they claim to serve.

The dimensions of institutional, technical, administrative and political capacity that constrain the ability of local governments to take on more active functions would all appear to be affected by a type of community resource that is not the property of any institution but can be drawn upon to facilitate the achievement of collaborative action. The contribution various social capital theorists have made to the contemporary understanding political scientists and economists have of this resource will be considered in the next section.

Social Capital and Local Government

The concept of social capital has been popularized by Putnam (1993), although he gives primary credit to Coleman (1988) for developing it. Putnam (1993) defines social capital as those features of social life that enable participants to act together more effectively to pursue shared objectives. Unlike physical or human capital, it is not the property of individuals or institutions. Rather it is produced "in the spaces

between people" and affects their ability to associate with one another, particularly outside immediate and intimate relationships. Like other forms of capital, it is productive but differs "in that it is self re-enforcing and cumulative" (Putnam, 1993, p.38). Its depletion is more likely to occur through under- rather than over-use. In his study of regional governments in Italy, Putnam identifies the key components of social capital and argues that their establishment is "a precondition for economic development as well as for effective government" (p.36). This finding has attracted considerable interest in the economics profession. For instance, it has been both cited with approval by Fukuyama (1995) and been subject to rigorous empirical analysis by Knack and Keefer (1997).

The key components of social capital identified by all these writers are "networks of civic engagement", "norms of generalized reciprocity" and "relations of social trust". They draw from game theory to show that through repeated interaction in networks that "are primarily 'horizontal' bringing together agents of equivalent status and power", norms are "inculcated and sustained by modeling and socialization (including civic education) and by sanctions" (Putnam, 1993, pp.171-2). The most important of these norms is a generalized reciprocity which "refers to a continuing relationship of exchange that is at any time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future" (p.172). The establishment of this norm will allow "dense networks of social exchange" to form in which "people can be confident that trusting will be requited, not exploited" (p.172). It is important to emphasize that the stock of social capital is not specific to any network. It is an area-specific resource that may be draw on by the networks in a particular locality such that it is augmented rather than depleted by these networking activities. The stock of social capital in a particular area may thus be the product of a long tradition of civic engagement. Thus although Putnam (1993) found that in Northern Italy this tradition had its modern expression in the form of high levels of participation in sports clubs, voluntary associations and choral societies, he pointed out that these patterns of social co-operation go back to the thirteenth century.

Various mechanisms have been proposed whereby the elements of social capital can contribute to better outcomes by facilitating greater co-operation. Most significantly from the perspective taken in this paper, Putnam (1993) posits a direct relationship between the administrative capacity of public institutions and social capital. He attributes regional variations in public sector efficacy in Italy to the density of associational life, finding, for example, that the more likely a region's

citizens are to join football clubs and choral societies, the faster the regional government is in reimbursing health care claims. One explanation for this result is that monitoring the performance of bureaucrats is facilitated by greater social capital. This can occur, directly, because these agents themselves are more concerned with their reputation amongst people with whom they horizontally interact on a regular basis. It can also occur, indirectly, because monitoring officials is itself a public good and the norms formed within networks of civic engagement help citizens overcome the collective action problems involved in providing this good. In addition, Putnam suggests that citizen-initiated contacts with public officials in the less-trusting, less civic-minded regions of southern Italy tend to involve issues of narrowly personal concerns, while contacts in the more trusting, more civic northern regions tend to involve larger issues with implications for the welfare of the region as a whole.

Knack and Keefer (1997) have recently found evidence that social capital is a determinant of measurable economic performance. They used Barro-type cross-country tests to estimate the impact of trust, civic norms and associational activity on growth rates using indicators of these social capital variables taken from the World Values Surveys (WVS) (Inglehart, 1994) for a sample of 29 market economies. While they found a significant positive relationship between the first two variables and growth rates they also established that "group membership is not significant in either growth or investment equations" (p.1272). They explained the apparent insignificance of associational activity as a predictor of growth by suggesting that the positive effect Putnam (1993) accorded this variable in inducing greater co-operation and solidarity that can be invoked in resolving collective action problems, would be offset by the negative effects groups have on growth when they act as rent-seeking organizations (Olson, 1982), lobbying for preferential policies that impose disproportionate costs on the rest of society. In investigating the determinants of the significant social capital variables, Knack and Keefer (1997, p.1283) found that they are stronger in countries where "low social polarization, and formal institutional rules that constrain the government from acting arbitrarily, are associated with the development of co-operative norms and trust".

This finding is crucially important since it suggests that social capital can only enhance the capacity of governmental institutions and economic growth where it promotes social cohesion, a goal that is realized in a "society in which people work toward common goals and in which diversity is recognized but does not lapse into conflict" (Robinson, 1997, p.2). However, communities where social ties between members are strong do not always enhance social cohesion. They may be so hostile

to outsiders that they may instigate civil, racial or sectarian conflict or, as tends to be the case with gangs, they may promote illegal or morally reprehensible behaviors.

In general the social capital that is formed in the context of a cohesive society, can lower the transactions costs associated with markets, hierarchies and networks. It is, however, its effect on the density of network interaction between local authorities and voluntary organizations that has engaged the attention of local government policy analysts. Of particular interest has been Putnam's (1995) "Bowling Alone" thesis that urban governance in the United States has been adversely affected by a decline in civic organization.

To test the applicability of this thesis to the United Kingdom, Maloney *et al.* (2000) replicated an earlier study by Newton (1976) of the number of voluntary associations in Birmingham in 1970 and their perceptions of their relationships with one another and the city council. They found evidence to support the view expressed by other writers (Hall, 1998; Lowndes, *et al.*, 1998; and Young, 1999) that the 1990s had seen a continuation of the trend in this country toward "a general opening out of local authorities and a strengthening of the diversity and capacity of local group politics . . . with increased support for local voluntary associations and more avenues for engagement with local authorities" (Maloney, *et al.*, 2000, p.804). Not only had there been an "increase of at least a third in the number of voluntary organizations in Birmingham" (p. 805) between 1970 and 1998, but "they are more politically active, better connected and generally positive about associational life" with many associations being "involved in extensive networks of organizations both inside and outside the geographical boundaries of Birmingham" and placing "a high premium on contact with other associations and public authorities, arguing that these contacts are important for networking and information exchange" (p.807). The significant role the local authority plays in these networks also emerges from this study. From this study these writers conclude that "if Robert Putnam was to visit Birmingham in the late 1990s, we suspect that he would be impressed by the vibrant voluntary and community sector and would in all probability declare that the civic community was alive and well, and that Birmingham had high 'stocks' of social capital" (p.817).

They, nevertheless, caution against an approach based on the assumption that it is possible to "read off" the implications for governance from knowledge about the quantity and quality of associational activity in a particular area. A link between social capital and the networking capacity of local governments would have to be based on an analysis of the ways in which the "political opportunity structure" (Kriesi, 1995; Tarrow, 1994) affects the access to, and formation of, social capital in a

particular locality. Moreover, to the extent that the political opportunity structure (POS) is modifiable through local government policy, there would have to be a reappraisal of the *laissez faire* implications of Putnam (1993) and Fukuyama's (1995) claim that government policies can do little to influence the accumulation of social capital.

A number of contributors to the new social movement theory have sought to refine the concept of the political opportunity structure (POS). Eisinger (1973) used this term to describe the "openings, weak spots, barriers and resources of the political system itself". Tarrow (1994, pp. 85-6) defined the POS as those "dimensions of the political environment that provide incentives for people to undertake collective action by affecting their expectations of success or failure" and suggested that these dimensions would be subject to significant change through " the opening up of access to power, shifting alignments, the availability of influential allies, and cleavages within and among elites."

Maloney, *et al.* (2000) suggest that these concepts can be used to understand how changes in the POS affect the ability of voluntary associations to engage with local authorities if consideration is given to three properties of the political system within which such relationships take place. The first is the "formal institutional structure" reflected in the degree of decentralization, the degree of coherence in public administration and the capacity of local authorities to impose conditions or requirements for collaboration with voluntary or community associations. The second is the "informal manner in which these arrangements are applied". Quite clearly different authorities can "develop different cultures towards the voluntary sector" (pp. 810-11). These can range from full exclusion to limited engagement with only those groups who share the ideological outlook or professional background of council officials to an actively "integrative" approach (Kriesi, 1995, p.174) that seeks to make contact and build relationships with previously marginalized groups. Thirdly, associational engagement is affected by the political context within local authorities since "the nature of political alignments and conflict amongst political elites and the presence and absence of allies" " (Maloney, *et al.* 2000, p. 811), can create openings for voluntary associations to link up with factions seeking support from this sector.

The usefulness of this concept can be illustrated with reference to the likely impact on these three elements of the POS of the implementation at the local level of the doctrines of the "New Public Management". At the very least, this will increase the coherence in local government administration as management authority is concentrated in the hands of a new-style "chief executive". Moreover, since this

official will have the discretion to consider institutional alternatives to bureaucratic provision, more opportunities for engagement with voluntary and community groups may arise. Critics of the NPM have, however, tended to emphasize the potentially damaging effect it can have on the social capital that is formed through collaboration between local government and the voluntary sector. Riddell (1997, p.27) has argued that the most disturbing feature of the drive to specify more tightly the terms and conditions under which voluntary organizations can function as service suppliers "is the pressure to change the nature and purpose of the voluntary sector". This view is echoed by Nowland-Foreman (1995, p.46) who points out that if voluntary organizations "allow their vision to be narrowed to merely agents providing government-defined services in response to specific contracts, then they will become indistinguishable from sub-contractors or 'little fingers of the state'". The comparative advantage of such organizations lies not just in their capacity to mobilize volunteer support, but also in integrating people into the community through preventive, developmental and advocacy activities that are unlikely to attract funding since they generate outputs that are difficult to measure. At the informal level, those voluntary organizations that assert their autonomy by seeking to maintain these distinctive activities may find their culture clashing with that of a managerialist local organization to a degree that excludes them from opportunities for engagement. They may, however, be able to establish links with councilors and officials who are seeking external sources of support for their resistance to managerialism.

There would seem to be a number of ways through which local authorities can engage with voluntary organizations in a way that encourages social capital formation. For example, they can provide opportunities for citizens and communities to influence the outcomes of local issues and decisions, facilities and types of infrastructure that allow voluntary associations to develop and flourish and assistance through grants, advice and training to people involved in developing local service delivery networks. They can undertake monitoring, research and data collection on the strength of the local voluntary sector. They can also co-ordinate the delivery of services and funding between agencies, voluntary associations and firms to ensure local needs are being addressed; and giving voice and legitimacy to community concerns about the level and range of local services, especially where they are provided by central government agencies.

A key dimension of this strategy is that the network relationships that local authorities seek to build with other agencies, voluntary organizations and community groups should be in the form of horizontal partnerships rather than vertical principal-

agent or patron-client relationships. However, if the partnerships local authorities forge with voluntary associations are to preserve and enhance social capital, then it is important that the local authority avoids treating them like any other service provider and recognizes the distinctiveness of the voluntary or membership nature of these organizations. Reid (1997, p.114) argues that for this to occur there are at least two factors that need to be protected: the freedom of these associations to determine their priorities according to the preferences of their members; and the primary accountability they have back to their own members rather than to an external funding or sponsoring body. The local authority should therefore see itself as funding community-driven initiatives rather than purchasing contractually specified outputs from the voluntary organizations concerned.

Once consideration is given to the role local authorities can play in social capital formation, a significantly different concept of the "enabling authority" emerges from that which simply seeks to enable the private market to participate more fully in service provision. We will consider the implications of this by way of conclusion to this paper.

Conclusion

In countries where there has been a tendency, in recent times, to split the purchasing from the provision of local public services, the traditional model of local authorities providing virtually all services directly has given way to the model of "the enabling authority" (Bailey, 1999, p.270). However, before local authorities can be called on to assume an enabling role that extends beyond enabling the private sector to participate more fully in service provision to one that enables community development through the development of multi-organizational partnerships, attention needs to be given to whether they have the capacity to take on this more ambitious activist role. This requires not only an assessment of the institutional, technical, administrative and political dimensions of their capacity but also of the stocks of social capital they need to draw on as they seek to engage other organizations in their local development initiatives. We would hold that local authorities are not just "victims of history" in this regard. Indeed, significant scope would seem to exist for them to open up their political opportunity structure and establish relations of trust with previously excluded groups and organizations in order to positively contribute to the formation of social capital within their communities.

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