

2014

Downsides of Social Capital

Alejandro Portes

University of Miami School of Law, aportes@law.miami.edu

Follow this and additional works at: http://repository.law.miami.edu/fac_articles

 Part of the [Law Commons](#)

Recommended Citation

Alejandro Portes, *Downsides of Social Capital*, 111 *PNAS* 18407 (2014).

This Article is brought to you for free and open access by the Faculty and Deans at University of Miami School of Law Institutional Repository. It has been accepted for inclusion in Articles by an authorized administrator of University of Miami School of Law Institutional Repository. For more information, please contact library@law.miami.edu.

Downsides of social capital

Alejandro Portes¹

Department of Sociology, Princeton University, Princeton, NJ 08544; and Department of Sociology and Law School, University of Miami, Miami, FL 33124

In their article, Levine et al. (1) test the hypothesis that ethnic homogeneity leads to greater errors in the pricing of stocks because of overreliance in the activities and decisions of coethnics. Excessive trust in others, created by ethnic homogeneity, can thus eventuate in price bubbles negatively affecting not only the traders, but the entire economy. The authors test this theory on the basis of two realistic, tightly controlled experiments comparing ethnically homogenous and heterogeneous trading networks. One experiment was conducted in North America, where the relevant ethnics groups were Whites, Latinos, and African Americans; the second was in Southeast Asia, with subjects of Chinese, Indian, and Malaysian origin. The distinctness of the ethnic groups compared in both settings adds to the generalizability of the findings.

The Communitarian Tradition

For a long time now, a tradition in the social science literature has deplored the loss of “community” and the advent of individualism, social atomization, and anomie. This literature features prominent titles, such as *The Lonely Crowd* (2), *Habits of the Heart* (3), and *Bowling Alone* (4). This tradition culminated in the celebration of “social capital”—defined as participation in associations and general trust in others—as an unqualified public good. Subsequently, Putnam (5) and his followers announced that ethnic diversity, brought about by heightened immigration, reduced social capital, hence negating the wide array of social benefits attributed to it.

This declaration received wide attention, scaring governments and members of the public alike. It resulted in a veritable mountain of research testing the relationship between immigration, ethnic diversity, and social capital. Almost entirely, this literature accepted the generalized positive effects of communitarianism and trust and focused on assessing the extent to which they were damaged by immigrant flows and diversity (6). Hence, the literature left the fundamental premises of the argument praising social solidarity and community bonds and disparaging individualism and impersonal rules intact.

There has also been, however, a less popular but equally important theoretical tradition that focuses precisely on the negative consequences of ethnic particularism and excessive reliance on community and trust. This tradition dates back at least to Max Weber (7), who made impersonality and universalistic rules in market transaction the key defining characteristics of modern rational capitalism, as opposed to earlier particularistic forms. The tradition also encompasses Durkheim’s (8) distinction between mechanical solidarity, based on social homogeneity and tight personal bonds, and organic solidarity, based on role differentiation, impersonal norms, and an extensive division of labor.

Levine et al. test the hypothesis that ethnic homogeneity leads to greater errors in the pricing of stocks because of overreliance in the activities and decisions of coethnics.

Negative Effects

More recently, other scholars in the same tradition have focused on the negative consequences of the much-celebrated social capital of which two deserve mention. First, as noted by Waldinger (9), the particularistic benefits accruing to some by virtue of membership in ethnic or religious communities is experienced by others as exclusion from the same social and economic benefits (10). Tight coethnic bonds allow the restriction of the best jobs to members of the in-group, thus requiring the intervention of impersonal public agencies to break up the holds of these bonds and open up opportunities for others.

A second negative effect of social capital consists of the excessive claims made on successful members of a particular community by others. As noted by Geertz (11) in his study of failed enterprise in Bali, the demands

of kin and coethnics on successful business men can easily sink promising entrepreneurial ventures, preventing capital accumulation and turning firms into welfare hotels. Granovetter (12) identifies this problem as precisely the one that impersonal, universalistic markets were designed to resolve. The affinity of such markets to the Protestant Ethic was exactly the core of Weber’s (7) analysis of the moral underpinnings of modern, rational capitalism. [A summary and systematization of the negative consequences of social capital are presented in Portes and Landolt (13).]

To these problems we can now add the one that Levine et al. (1) highlight. In this case, the negative consequences of social capital, in the form of excessive in-group trust, are felt not only by members of the group, but by the entire society in the form of market errors and bubbles, followed by stampedes (14). This result stems from the excessive confidence and comfort felt by market players in the presence of ethnically similar others and their consequent careless way of monitoring real market fluctuations.

These results have two other theoretical implications not discussed in Levine et al.’s (1) article. First, not only ethnicity but other bases of in-group solidarity and cohesion may produce exactly the same results. A common religious affiliation, common regional origin (i.e., “Southerner,” “New Englander,” and so forth), or even linguistic use and accent may lead to the same patterns of trust in others producing similar outcomes. Second, effects of excessive communitarianism may extend to areas other than the market. The political health of nations can be also affected. In this respect, it is worth recalling the warnings of Berman (15) following her analysis of the collapse of the Weimar Republic and the advent of the Nazi party to power in Germany. Berman (15) concludes her article, “Bowling with Hitler,” on the following note:

The German case reveals a distinct pattern of associationism that does not conform to the predictions of neo-Tocquevillian Theory. German civil society was rich and extensive—and this nation of joiners should accordingly have provided

Author contributions: A.P. wrote the paper.

The author declares no conflict of interest.

See companion article on page 18524.

¹Email: aportes@princeton.edu.

fertile soil for a successful democratic experiment. Instead, it succumbed to totalitarianism.

Undeniably, ethnic cohesion, solidarity, and trust have a number of benefits for communities and individuals. The economic success of certain immigrant groups, such as Russian Jews, Chinese, and Cubans could not be explained in the absence of such bonds (16, 17). Mutual trust among employers, labor unions, and the state has also played a well-documented role

in economic “miracles” in Denmark, the Netherlands, and elsewhere in the recent past (18–20), but along with these and other benefits, social capital has severe downsides.

The unmitigated celebration of community, trust, and group cohesion in the social capital literature has cast aside impersonal regulatory institutions, universal norms, and self-reliance as key elements of markets and society. This result is regrettable

because complex, modern economies can scarcely operate without such elements. As noted by Levine et al. (1), modern corporations do not run on social capital but on explicit rules and tight control of particularistic motives. Levine et al.’s article provides a valuable corrective to communitarian celebration; given the importance of its findings, they should be replicated with other groups and in other national contexts in the future.

- 1 Levine SS, et al. (2014) Ethnic diversity deflates price bubbles. *Proc Natl Acad Sci USA* 111:18524–18529.
- 2 Riesman D, Glazer N, Denney R (1950) *The Lonely Crowd: A Study of American Character* (Yale Univ Press, New Haven, CT).
- 3 Bellah RN, Swidler A, Sullivan WM, Tipton SM, Madsen R (1985) *Habits of the Heart: Individualism and Commitment in American Life* (Univ of California Press, Berkeley, CA).
- 4 Putnam RD (2000) *Bowling Alone: The Collapse and Revival of American Community* (Simon and Schuster, New York).
- 5 Putnam RD (2007) E. pluribus unum: Diversity and community in the twenty-first century. *Scand Polit Stud* 30(2):137–174.
- 6 Alesina A, La Ferrara E (2002) Who trusts others. *J Public Econ* 85(2):207–236.
- 7 Weber M (1965) *The Theory of Social and Economic Organization*. (Free Press, New York) Originally published in 1922 as *Wirtschaft und Gesellschaft*, Part I.
- 8 Durkheim E (1984) *The Division of Labor in Society*. New (Free Press, New York) Originally published in 1893 as *De la Division du Travail Social*.
- 9 Waldinger R (1995) The ‘other side’ of embeddedness: A case study of the interplay between economy and ethnicity. *Ethn Racial Stud* 18(3):555–580.
- 10 Portes A, Sensenbrenner J (1993) Embeddedness and immigration: Notes on the social determinants of economic action. *Am J Sociol* 98(6):1330–1350.
- 11 Geertz C (1963) *Peddlers and Princes* (Univ of Chicago Press, Chicago).
- 12 Granovetter M (1995) The economic sociology of firms and entrepreneurs. *The Economic Sociology of Immigration*, ed Portes A (Russell Sage Foundation, New York), pp 128–165.
- 13 Portes A, Landolt P (1996) The downside of social capital. *Am Prospect* 26(May-June):18–22.
- 14 Coleman JS (1988) Social capital in the creation of human capital. *Am J Sociol* 94:S95–S121.
- 15 Berman S (1997) Civil society and the collapse of the Weimar Republic. *World Polit* 49(3):401–429.
- 16 Zhou M (1992) *New York’s Chinatown: The Socio-Economic Potential of an Urban Enclave* (Temple Univ Press, Philadelphia).
- 17 Portes A, Stepick A (1993) *City on the Edge: The Transformation of Miami* (Univ of California Press, Berkeley, CA).
- 18 Den Butter FAG, Mosch RHJ (2003) The Dutch miracle: Institutions, networks, and trust. *J Inst Theoret Econ* 159(2): 362–391.
- 19 Schwartz HM (2001) The Danish ‘miracle’: Luck, pluck or stuck? *Comp Polit Stud* 34(2):131–155.
- 20 Schienstock G (2007) From path dependency to plan creation: Finland on its way to the knowledge-based economy. *Curr Sociol* 55(1):92–109.