Social Capital and the Public Sector: The Blurred Boundaries Between Private and Public

Judith Tendler
Department of Urban Studies and Planning
Massachusetts Institute of Technology
Cambridge, Massachusetts 02139

11 April 1995

The formation of social capital in developing countries has been typically viewed as a phenomenon occurring <u>outside</u> the public sector--often in protest against state actions, or in spite of the state, or under the threat of repression by the state. While this perception is in many ways valid, several case studies of social capital formation or good governance have now emerged that show the state to have played a quite positive role in social capital formation (SCF) outside it. Similarly, when governments perform well, they are often able to do so because they themselves have previously contributed to the formation of social capital outside the public sector--linking up to already-existing associations of citizens, or actually encouraging and financing the formation of "independent" associations of citizens that ultimately demand better service from government or loudly protest bad treatment by government.

Despite this mounting case study evidence, we know more about the many ways in which government action has undermined social capital, rather than contributing to it. The explanation for this imbalance in our understanding of both social capital formation <u>and</u> good government relates to the strong perception that there is, or should be, a fairly clear line dividing the public from the private realms. It is the assumption of such a clear demarcation, after all, that makes it possible to talk about social capital formation (SCF) as if it took place only "outside" the public sector, and as if it involved organizations always completely "autonomous" from government.

There are good reasons for the relative neglect of the idea that SCF or good government could be the result of blurred boundaries between public and private. Normative concerns in the development field have played a strong role in concentrating attention on drawing a clean line between public and private. Namely, the concern about corruption in LDC governments, and about the use of "personalistic" rather than "rational" criteria in making decisions and allocating resources, have caused the "blurred" line to be classified as a problem, rather than as part of any possible happy outcome. Also contributing to this perception is the current interest in nongovernment organizations (NGOs)--as social-capital "heroes," or as "better" alternatives to government in delivering certain kinds of services. This literature emphasizes, naturally, the "differentness" of NGOs from government and, in particular, their "autonomy" from government.

Understanding how social capital formation and good government can sometimes be associated with the blurring of the line between public and private is a particularly difficult task: the same traits that accompany bad government or the undermining of social capital are often associated with good outcomes. Cooperatives formed by government are often coopted by them, or simply run by local elites and not accountable to their members; but any longitudinal study of truly representative cooperatives often finds much less democratic origins associated with government support. Governments often finance and control labor union movements; but many independent locals often emerge from this past, shed their corporatist beginnings, and become truly local organizations representing their membership.

It is difficult to disentangle these cases, and to understand the circumstances under which social capital is formed, and those under which it is undermined. As a first step toward understanding the subject, I first discuss the formation of social capital (SC) inside government and, second, the relation of government to social capital formation (SCF) outside it.

I - Social capital within the public sector

There are two major aspects of social capital in the public sector that have been relatively ignored, not only in research on social capital, but in research on government itself. They are (1) government workers and managers themselves, and (2) public-sector labor-unions.

(a) Government workers and managers

The literature of the industrialized countries has a rich vein of work on government bureaucracies as social organizations--their informal norms and networks, and how they influence the carrying out of an agency's work. The literature on government agencies as social organizations in developing countries (LDCs[1]), in contrast, has been dominated by the fascination with organizational "pathology"--Wade's study of corruption in irrigation in India being one of the finest examples in the genre.[2] The arrival on the scene in the 1970s of rent-

---

[1]Forgive my use of the politically incorrect acronym "LDCs," which I do in order to not create confusion between developing countries (DCs) and developed countries (DCs).

[2]Yes, Wade went on to do an excellent study of South Korean irrigation bureaucracy, the picture of social health in comparison. But these kinds of excellent comparisons are as rare as the "pathology-type" study is common.

seeking explanations of government behavior, and the larger rational-choice theories in which these explanations were embedded, simply enhanced this vision of government bureaucracy as "structurally" or "inherently" pathological--particularly in developing countries (LDCs).

As a result of these peculiarities of the development field, we have little understanding of the aspects of social organization of government agencies that explains why they function well when they do. There are few studies, for example, in the tradition of Michael Lipsky's or James Q. Wilson's studies of street-level bureaucracies and what makes them tick. There is no analogue for developing countries to our understanding of the camaraderie between policemen explained by Wilson, or of Lipsky's (and also Piven and Cloward's) discussions of professionals and their greater allegiance to "the profession" than to their agencies--e.g., social workers uniting with their clients against agency management in favor of reform. In fact, given all the evidence on how government bureaucrats in LDCs work <u>against</u> their clients' interests, the question of how positive SCF has been able to take place in the public sector becomes quite a mystery--one of the basic ingredients of a good research question.

The pathological view of government bureaucracy has also kept the development field from doing more research on the heterogeneity <u>within</u> bureaucracies--one of the keys to understanding how SCF takes place inside the public sector, or is influenced by the public sector. Even though the political-science literature has long left behind a view of the state as monolithic and unitary, the applied development literature nevertheless sounds as if it still sees the world that way. Because we don't know much about the different groups that co-exist within any particular public agency, that is, we do not know why one group sometimes gains ascendance over another, nor appreciate how important these rises (and declines) are to the SCF question:

advances in public-sector support for socially desirable actions, that is, often result from shifts in power between groups within agencies--as well in the powerful "protectors" these groups lean on outside their agencies. With respect to interventions in support of such advances, then, movement in the "right" direction is sometimes achieved simply by a tilting of the balance in favor of one group as vs. the other within a particular agency. I have seen this happen many times in my own fieldwork.

(b) Labor unions in the public sector

Public-sector unions are strangely absent in the literature on LDC governments, let alone in the SC literature--except as spoilers of reform. Yet these unions represent a much larger part of the workforce in the public sector than of private-sector workforces in LDCs--particularly today, after more than a decade of decline in strength of labor unions in the private sector worldwide. They are also stronger than they are in the public sectors of some industrialized countries. The subject is relevant not just because these associations of workers are an important form of social capital; they also play a major role in making or breaking the reforms needed to be undertaken by LDCs today.

An example of the importance of public-sector unions has to do with the fact that the development literature now gives major prominence to reforming and expanding health and education services as key to the reduction of poverty and inequality (one of the learnings from the East Asian success stories). The education and health sectors of LDCs are classic street-level bureaucracies, where public-sector unions are widespread and strong. At the same time, these unions often prevent governments from undertaking desired reforms--or at least are blamed by government and donors as the culprits in explaining reform failures or slow progress. Some of these complaints are genuine, some represent scapegoating. Regardless, however, the strength of public-sector unions should certainly give researchers all the more reason to be interested in how they function as social units--and to study, in particular, the cases--of which there are now must be a numerous minority (especially if one includes state-owned enterprises)--in which unions were brought into discussions on public-sector reform and played a constructive, and not only intransigent, role.[3]

Why such silence about such important actors? In the U.S., where labor unions have not fared well either, there is at least a current research interest on the role played by labor unions in some of the restructurings of best-practice large firms (e.g., by Richard Locke and Rose Batt at MIT). Why is there no such work in the development field? When the subject of worker participation in restructuring of large firms is in such vogue in the U.S. literature, why hasn't this interest in workers and their associations spilled over into the development field? Public-sector agencies, after all, are some of the largest service "firms" around in LDCs.

To ask a set of related questions, why--when there is a large literature in the European field on pacts between business, labor, and government--is labor missing from so many of the studies of the role of the state in the developing world--except, again, in a negative sense? Why are the researchers of the newly emerging and rich literature on "embeddedness" of successful states interested mainly in "business associations" and not "labor associations"? The fact that

[3]Examples are a case of state-enterprise union playing a constructive role in reform in Venezuela; and a case I heard about in West Africa where, in contrast to most experience, the public-sector union was warned in advance of an impending World-Bank structural adjustment program, and its "labor-shedding" components, and proposed an alternative plan that reduced costs and increased productivity just as much, but required less layoffs.

labor is weaker in LDCs, or that tripartite pacts between the three are less common, is not a sufficient answer--at least for explaining why there is no research interest in public-sector unions.

One of the problems involved in bringing public-sector labor unions "in" to the research on reform processes is that public-sector unions see one of the key tenets of the reform package in vogue today as undercutting them--namely, decentralization. Decentralization presents the same problem to LDC public-sector unions that it does in industry, although you won't see anything about it in the development literature. But labor's intransigence with respect to decentralization in the public sector represents not only a digging in of its heels against highly desirable reforms. Agency managers and politicians I have talked to explicitly describe decentralization as a strategy for "busting" public-sector unions--particularly in education and health--in terms of clearing the way for desired reforms. This view, though not stated as such, goes hand in hand with the popularity of decentralization today--which, of course, does not deny the desirability of decentralization on many other grounds.[4] Although I am quite familiar with the problems that public-sector unions can create--I have frequently been on the other side of the fence--I am not quite ready to abandon the concept that workers need representation in just

[4]Another intriguing example in this vein is the SC "winner," the Grameen Bank--used to illustrate a point later below. Grameen employs thousands of field-level or front-line workers, who have ultimately organized a strong union. Grameen has come down heavily in combating the union--which has struggled for higher wages, citing public-sector wages for similar work as a standard. In resisting the union's demands, Grameen appealed to an aggressive U.S. NGO lobby to lobby the U.S. Congress and the Executive to put pressure on the Bangladeshi government, which was at that time of the same political party as the labor union, to call off the union. From the point of view of SCF, is it Grameen or the union that is "non-excluding?"

societies. We need to think about how such worker associationalism can further the cause of an equitable economic development, rather than only undermine it.

I am also puzzled by the absence of attention to labor unions at a time when the development field is now looking at "nongovernment associations" of every type--including choir groups, to use Putnam's favorite example--as such important manifestations of healthy and democratic societies, and as deserving of more of a voice in what government does. Nongovernment organizations (NGOs) also figure quite prominently in the discussions of the advantages of decentralization, in terms of what institutions government will decentralize to: the development field sees NGOs (along with local government) as closer to "the people" or "the poor" than government.

The view of public-sector unions as culprit rather than subject of study, or as worthy of inclusion in discussions about reform, is also consistent with the broader view of labor unions in LDCs as being "unimportant" because they are a "labor elite." The development-economics literature of the last decade or so blames LDC governments and labor unions--whether inside or outside the public sector--for causing one of the most important prices in the economy to be "wrong"--namely, the price of labor and, particularly, the minimum wage. These "artificially" high prices of labor cause management to substitute capital for labor, the argument goes, which explains the segmented labor markets of LDCs with their large informal sectors.

LDC labor unions are ignored as respectable social capital, finally, because of the corporatist origins of many of them. To the left, they are seen as "sellouts" to government;[5] to

[5]In Portuguese, there is a special word for the sellout or kept union, which is the word for the sheepskin that is placed between a horse and its saddle.

the right and the center of today, they are yet another manifestation of big and bad government. This has also contributed to leaving labor unions (and other forms of worker association) in the shadows of the development field when people are asking questions about the formation of social capital.

Whether or not these interpretations of the impacts of labor unions are accurate, the unions have nevertheless been cast for all these reasons as hurting the cause of reducing unemployment and poverty--as, in SC terms, an "excluding" form of social capital. But this should be the basis for a set of research questions, rather than a foregone conclusion. This is especially the case, given that the other forms of social capital so much in vogue today--cooperatives, mother's clubs, local elders' councils--can be just as excluding as unions are considered to be. Why have these other forms of SC been exempt from the concerns about exclusion?[6]

The development-economics argument about labor unions as "excluding" better jobs and wages for the majority of workers outside misses a distinct feature of the way labor elites behave in labor-surplus countries (as well as not recognizing the extent to which this assertion is still vigorously debated today in the economics profession in the U.S.). Precisely because they are elites bobbing along in a sea of surplus labor, they are often forced or guided in certain circumstances to be more inclusive, if only indirectly. The benefits of their struggles sometimes spill over, wittingly or not, to the non-unionized. Take, for example, the labor unions organized

[6]It should be noted that a large evaluation literature of the 1970s was quite concerned with the "rampant" exclusion it found at the local level in the course of evaluating the implementation of large decentralized rural development projects. But those findings--which probably went too far in arguing the "harm" that elite-dominated local organizations do--seem to have been lost in the swing of the pendulum to the other extreme in the 1990s.

in the first half of the century among the thousands of workers on the banana plantations of United and Standard Fruit in Central America--among the most sophisticated trade unions of the region.[7] In at least one country, Honduras, this "labor elite" played a major role helping peasant farmers in surrounding areas to organize a movement for agrarian reform. This organizing assistance was quite successful, and led to a major agrarian reform in that country carried out by a populist military government in the early 1970s. What prompted the "non-excluding" behavior among the banana labor-elite was the fact that these unions had, by the 1970s, "done everything" there was to do in terms of organizing their own workers and obtaining reasonable wages and fringe benefits for them, and now had to look elsewhere if they wanted to grow--or, simply, to continue experiencing the "kick" of organizing. The fact that these unions were geographically embedded in an area with many landless agricultural workers, many of whom were relatives and friends of the banana workers, helped; also of help is the fact that the banana companies were at that time laying off their unionized workers, releasing workers highly experienced in organizing into the surrounding countryside of landless peasants.[8] The story illustrates a set of interesting research questions about the conditions under which LDC labor elites are or are not incompatible with desirable SCF.

---

[7]One of the reasons they are so sophisticated is that they received lavish assistance in their organizing in the 1940s and 1950s from the American labor movement, as well as from management itself, in order to head off organizing by Communist unions.

[8]It is interesting to note in this connection that the Bolivian Social Emergency Fund--a World-Bank supported employment-creating works project meant to counteract unemployment caused by structural adjustment--explicitly excluded ex-tin miners from access to these jobs, out of fear of their skills in organizing. Separate funds were set aside for the miners, where they would not intermingle with the other workers. The Fund is seen as a major exercise in SCF, since it channeled some of funds through Bolivian NGOs. What does one say about the SC of the Bolivian tin miners in this story?

Another fruitful and under-researched line of questioning within this rubric relates to why and how some of the locals of national corporatist unions in Latin America have broken loose from their moorings and gone "independent," becoming true representatives of marginal groups, and others not. (This is also relevant to the decentralization issues discussed above.) Brazil's rural labor unions are a classic example of this, many of them having shown true leadership in pressing for social and economic reforms in their domains, while others have remained tied to their government apronstrings.

II - Public-sector influence on social capital formation outside

We know more about the ways public agencies "erode social capital," to use Peter Evans' words, than about the ways they contribute to it. This is partly because the literature on development and social capital has proceeded as if there were a very clear boundary between the government and everything outside it. In this same vein, social capital is seen as everything "outside" government. And to the extent that government influences this social capital "outside," the thinking goes, it usually "crowds" it out--just as public-sector expenditure has been traditionally portrayed in development economics as crowding private investment out. But just as Lance Taylor has shown that in several cases public investment has actually crowded private investment "in" rather than out, an analogous phenomenon can be seen in the case of social capital.

There are perfectly good reasons that the line between government and what's outside it have been drawn so clearly. The industrialized world's "project" of the last 40 years has been to support the creation strong developmental states and, hence, strong government institutions. Hence the concern about corruption in government, and the perceived need to "unblur" the line between private and public by building strong civil-service institutions with "rational" criteria for making decisions. That government has so many times destroyed social capital is yet one more reason, of more recent vintage, to draw the line clearly.

Finally, the social-capital "heroes" in the development field today are usually thought of as the "nongovernment organizations" (NGOs). They, and those who look to them as alternatives to government in the provision of certain services, have emphasized the "differentness" of NGOs from government and, in particular, their "autonomy" from government. All these developments have influenced the assumption, so eminently reasonable, that one can draw a very clear line between the public sector and everything outside it. Drawing the line so clearly, however, has at the same time obscured another side of the public sector that relates to the positive role it has played in social capital formation, alongside the negative. Examples follow.

One of the most striking things about nongovernment organizations in LDCs is the movement of the people who work for and manage them back and forth between the nongovernment and <u>public</u> sectors.[9] "Socially committed" NGO people flow to the government when they like it--i.e., when it is "being reformist"--and back to their NGOs when they don't like it, when it is repressive or conservative. As a result, NGOs as a group tend to flourish under repressive or otherwise unpopular regimes, and to become decimated under reformist regimes. The latter phenomenon happened, with much hand-wringing in the NGO sector, when Allende

[9] Hirschman actually wrote a book on this phenomenon in industrialized countries, but mainly with respect to the decisions of <u>individuals</u> to move back and forth, and mainly between the government and <u>for-profit</u> private sector.

took over in Chile, when the Sandinistas overthrew Somoza in Nicaragua, and when a civilian president was first elected in Brazil in 1984. Conversely, some of the top Sandinistas today head or populate NGOs in Nicaragua (and are obtaining financing from the same donors who funded the opponents of the Sandinistas when the latter were in power); and many of the NGO personae of the Pinochet period are visible in today's Alwyn government in Chile.

All this means that the line between government and NGOs is not as clear as many would draw it. It also means that the concept of government <u>or</u> NGOs as stable organizations, each of whose "capacity" can be built--in today's parlance of "institution-building"--in an upward linear trajectory over many years is, for certain purposes, not accurate. Not accurate, also, given that the literature characterizes the public sector and NGOs as different partly because of the "different" kinds of people that work there (NGO managers and workers as a more dedicated breed.)

In analyzing LDC governments, finally, the development literature points to high "turnover" of government managers and workers as one of the causes of poor performance--too many new people being hired after a change of government and too many competent old ones being let go or marginalized. But the ebb and flow between public and NGO sectors actually takes a greater toll on NGOs, simply because they are so much smaller, and therefore suffer considerably more from the loss of one good manager.

All this is not simply to arrive at the uninteresting conclusion that NGOs are no better than government, at least on any index of turnover. More important, rather, is that what is more "stable"--and worth trying to describe--is the <u>pool</u> of expertise and commitment that flows back and forth between the two sectors, and what the effects are on each sector of its circulation. With a clear view of this ebb and flow, it is difficult to think of "social capital" as being only outside government. A few examples follow.

The ebb and flow between public and NGO sectors results in substantial cross-fertilization between the two. When government technocrats or managers "flee" to NGOs, the latter get the specialist expertise for which they are known to be wanting--peopled as they are by less-trained generalists, partly because of their lower salaries. These "cross-overs" from government also provide NGOs with people who are well connected to the world of banks, donors, and public authorities--connections that NGOs need and often do not have. From NGOs, in turn, government gets people who have substantial experience in how things work "on the ground," who have had the luxury of experimenting with various approaches, and on a small-enough scale that they can develop some notions of cause and effect with respect to their interventions. Those who go from NGOs to government talk of how they are seduced by the possibility of applying what they've learned on a large scale.

One of the most interesting results of the ebb and flow is the density of informal networks that sometimes bridge the NGO-government divide--a density, by the way, which characterizes some of the successful programs I've evaluated.[10] Much cooperation and exchange of information passes over these networks. That the networks might exist seems perfectly plausible and, indeed, perhaps not that interesting; they are barely noted in the literature, however, because both sets of parties to the network have an interest in denying their existence. NGOs fiercely proclaim their differentness and "autonomy" from government as their "comparative advantage"-

[10]In a recent case study I supervised, my research assistant--an outstanding field worker--simply could not verify and explain clearly the extent to which a particular agency providing support to small or medium enterprises was actually in the public or NGO sector.

-particularly when competing for funding from donors--and government views NGOs as inconsequential, thorns in the side, not capable of reaching large numbers of people, and staffed and managed by those who "couldn't get a job in the public sector." Let me illustrate what some of the results of this ebb and flow look like.

When observing front-line workers in government service agencies interacting with their clients in Latin America, one sometimes cannot distinguish between--for example--the way extension agents talk to small farmers from the way Liberation priests talk to their parishioners in terms of what they have to do to sever their links of dependency on landowners. Another example I recently observed in Brazil: a reformist state government used this same kind of "liberationist" language in a public information campaign about preventive health meant not only to inform communities about proper health practices, but to urge them to be more demanding of their mayors in the ways in which municipal services were run. ("You have the <u>right</u> to expect more from your government, your babies don't <u>have</u> to die at the rate that they do..."). These kinds of uses of rhetoric, persuasion, and the media by government have been neglected because they are usually associated with manipulation and repression of social capital formation.

Because of the tendency to draw such a distinct line between government and what's outside it--and to characterize NGOs as good for SCF and government as bad or, at least, not in the picture--the literature misinterprets SCF success stories. The Grameen Bank is an instructive example--an oft-cited story of success "outside" government, and in a country where government is seen as a "basket case." The extensive literature on the Grameen case does not reveal that it had, from the beginning, a very important relationship with the Central Bank of Bangladesh. First, it had to continuously meet standards set by the Central Bank for all banks. Second, its first managers were ceded by the Central Bank to work in Grameen--those who went being a self-selected group of those most interested in Grameen's particular SC-forming mission. In certain ways, then, Grameen partook of the "human capital" of the very government it is touted as being "better than"; at the same time, it was clearly subjected to the discipline of ongoing demands for accountability from the regulators of that same government.[11] Most NGOs are not subjected to these kinds of demands for performance from their funders, who are often far away--and frequently worried more about pleasing their constituencies than demanding accountability from their grantees.

How does one describe the mix of connectedness to government and performance-eliciting separateness in this history of the Grameen Bank? What does this say about how we should re-think our approach to studying SCF? Although the explanation I give sounds perfectly reasonable, the NGO world--and some of the development literature itself--characterizes government attempts to regulate NGOs as "interference," as "politicized," as "hostile," as "controlling" or undermining an otherwise socially "pristine" formation of social capital. In many cases, this characterization is perfectly correct. But research has neglected the other possibility, because it does not fit a mindset that sees social capital as totally outside government and affected by it, if at all, only adversely. This translates into neglect of the obvious interesting

[11]One of the founders of one of the most successful community-development banks in the United States, the South Shore Bank of Chicago--often mentioned by President Clinton these days as a model of community banking--gave me a remarkably similar explanation for her own bank's success: from the start, they were subjected to periodic visits of green-visored auditors from the Federal Reserve Bank, who had absolutely no sympathy for or understanding of their "social" objectives, and would not tolerate "bad loans."

question: what are the circumstances under which control by and/or co-mingling with government helps or hinders the formation of social capital?

So far, I have talked about the blurring of distinctions between the government sector and the social capital outside it. In addition, and more simply, the development literature has not grappled with the role played by government in supporting the growth of what is usually seen as "autonomous," "grassroots," or "indigenous" social capital formation. Many successful manifestations of SCF--like agricultural cooperatives, ethnic-based associations, and even mother's clubs--turn out to have a strong government presence in their past (examples below)--just as do the <u>un</u>successful ones. No one tends to document this past support from government for SCF because it conflicts with the self-image of "autonomy," let alone the characterization of government as undermining of social capital. The support is easy to forget, or not notice, precisely because these groups are successful--i.e, have become more autonomous than they once were. Jonathan Fox's study of the support of "reformist" bureaucrats in Mexico for the organization of "indigenous" peasant organizations in Oaxaca is an excellent example of what I am talking about. (It also illustrates the significance for SCF of the shifts in power balances within agencies, and in their links to outside actors, in that the reformist bureaucrats "used" the "indigenous" associations they helped form and support with program funding to turn around and "pressure" the conservative bureaucrats in their own agency, who were less sympathetic to the program's attempts to shift services and subsidies to truly needful farmers. Fox calls what they did a "sandwich strategy"--the reformists and the NGOs being the two pieces of bread, and the resisting bureaucrats being the meat that was "surrounded" by them.) Ultimately, moreover, the indigenous associations bit the government arm that had fed them earlier, disagreeing on many occasions with what their reformist benefactors were proposing.

A variation on this story can be told of the cooperative small-firm associations created by the even more "overbearing" Sandinista government, some of which not only became successful and independent enough to bite the Sandinista arm--taking literally the democratic rhetoric drilled into them by the regime--but survived the transition to the post-Sandinista regime. Another variation on this example is those among the rural labor unions in Brazil that have become truly creative forces for social change in their communities, as noted above, despite the fact that they were originally spawned by the corporatist legislation of a repressive military government.

These stories raise a series of questions. Why do some of these "government-created" or government-nursed associations evolve into successful and/or truly independent groups, while others do not? Which kinds of interventions by government do better at leading to the formation of such groups? Which interventions are clearly beneficial, and which are hostile or undermining? Which kinds of interventions or supports from government tend to work in the interests of SCF, even when the groups do not become independent? Though these questions are obvious ones, they aren't being asked (1) because the field sees government actions as only smothering SCF (which it indeed often does); and (2) because community associations have a deeply-felt need to see and tell their histories as tales of independent action. Finally, the results of such research are messier than prevailing views: they will often show that the same intervention by government has led to both coopted or "excluding" groups, on the one hand, and independent, public-interest-serving groups on the other.