



ENVIRONMENTAL ECONOMICS IN ACTION 7.1 Social Capital and the EKC

We defined social capital as 'shared norms, trust and social networks' which help people respond co-operatively and collectively. A long-standing argument in economics is that high levels of social capital, other things being equal, lead to greater well-being, since social capital allows people to respond better to shocks, and since the quality of institutions (e.g. lack of corruption) is related to how much wasteful effort is expended in avoiding regulation, committing crimes or in gaining rents (Knack and Keefer, 1997). Some authors have also argued that communities with higher levels of social capital manage environmental resources (particularly common property resources) in a better way than areas with low social capital, and are more able to withstand external shocks such as storms and droughts.

Paudel and Schafer (2009) construct a measure of social capital for parishes in Louisiana, USA, and relate this index to measures of water quality. Their hypothesis is that variations in water quality over space and over time will be related to variations in social capital. The social capital index is constructed from data on membership of civic associations per 10,000 persons over the period 1988-1997. A panel data model is used to explore the relationship between three measures of water quality (nitrate levels, phosphate levels and dissolved oxygen), social capital and population density. The authors found no significant relationship between social capital (as measured) and either phosphate or dissolved oxygen levels. However, they found a significant relationship between social capital and nitrate pollution. Interestingly this showed that higher pollution is associated with lower levels of social capital, but also with the highest levels of social capital. Pollution was lowest when social capital was at intermediate levels (that is, neither high nor low). So, on the basis of this study, the shape of the EKC for social capital and pollution is the opposite of that proposed between income and pollution.