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**How novel is social capital:  
Three cases from the British history that reflect social capital**

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ABSTRACT

Social capital increases efficiency by reducing transaction costs, creating new forms of information exchange and by inducing change in individual attitudes. How Royal Society of London, the Media and the Private Prosecution Societies functioned in the 17<sup>th</sup> and 18<sup>th</sup> century Britain display astonishing similarities with these three elements that have been identified by contemporary scholars. By and large current literature treats social capital as novel phenomenon, as “manna from heaven”. We argue that social capital is no such magical discovery and it could emerge whenever and wherever social networks exist.

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There has been a recent surge in the literature on social economics and social interactions (e.g., Becker and Murphy, 2000; Scheinkman, 2008). Along those lines the concept of social capital has received extensive attention in explaining economic development and other socio-economic outcomes. This interest is conditioned on the belief that social capital increases efficiency of social exchange mediating via the information channel and by reducing transaction costs. Over 2500 articles have appeared in scholarly journals on social capital since the introduction of the concept about two decades ago. In the beginning of 1990s there were about 0.1 social capital articles per human capital article but now there are 1.2 social capital articles per human capital article (Akcomak, 2009). The term social capital coined first by Jacobs (1961) and Loury (1977) has become a major point of attraction because it acted as a saviour to explain the unexplained residual of any empirical and theoretical model in social sciences. This (mis)use of the term created a research environment in which social capital is viewed as a novel phenomenon that explains almost everything.<sup>1</sup>

But how novel is social capital? If social environment, norms and values could affect individual behaviour and if community character is important in explaining social and economic outcomes why did it take us, the social human beings, so long to invent a term like “social capital”? The existence of social capital should reach to the ages when human beings started to live in communities. Indeed, in an evolutionary psychology framework, Savage and Kanazawa (2005) argue that human survival in pre-historic times was dependent on the cooperation among other humans and failing to act accordingly in a cooperative manner resulted in death. In this sense, it might be

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<sup>1</sup> Social capital is now associated with higher economic growth (e.g., Knack and Keefer, 1997); better public health (e.g., Kawachi et al., 1997); higher value creation by firms (e.g., Nahapiet and Ghoshal, 1997); higher education (e.g., Coleman, 1988; Goldin and Katz, 1999); higher financial development (e.g., Guiso et al., 2004); lower homicide rates (e.g., Rosenfeld et al., 2001); lower suicide rates (e.g., Helliwell, 2007); lower property crime (e.g., Buonanno et al., 2009) and better innovative outcomes (e.g., Akcomak and ter Weel, 2009).

useful and interesting to analyse how social capital was utilized in certain cases in history.

Hinging on examples from the British history from the 17<sup>th</sup> and 18<sup>th</sup> centuries we argue that the social capital phenomenon is actually nothing new, only that the label ‘social capital’ has carried the discussion to another level. Britain is taken as a case because starting from the late 18th century the United Kingdom witnessed a massive economic and social change that, in some circumstances, produced its own informal social organizations. While a time of great macro-economic progress, at the micro-level workers and entrepreneurs had to deal with a great deal of change and uncertainty. As Morris notes:

“Such an economic system needed to accumulate and maintain the value of capital, it needed stability, it needed predictability. A capitalist may be a risk-taker, but the wise capitalist prefers to reduce that risk to a minimum. A growing number of organizations were created to fill those needs of capitalism which capitalism itself could not provide through the profit motive. These were collectivist agents of capitalist production.” (Morris 1993: 404)

The uncharted and risky economic climate Britons found themselves within required new mechanisms and strategies to cope with social and business dilemmas. Government at the time was incapable of monitoring and managing the economy given the rapid pace of development, so by default it was left up to civic society alone to adopt new attitudes and practices. For instance, about 350 years ago the Royal Society of London played an important role in the development of science and technology by codifying information and by making information gathering less costly. Codification reduces the cost of knowledge acquisition and at the same time makes the diffusion process easier (Cowan and Foray, 1995). As Mokyr (2005) puts it

“counting, classifying and cataloguing” were central elements in the program of the Royal Society (see also Hunter, 1989). Royal Society started from informal voluntary meetings that later turned into a semi-formal institution, which was complementary to the existing traditional universities in the 17th and 18th century. Its role as an information channel and its relation with formal institutions displays astonishing resemblance to how social capital is conceptualized nowadays. In a similar vein, English private prosecution societies that emerged in the mid 18th century due to inefficient law enforcement played an important role in making the criminal justice system more accessible, thus indirectly affecting criminality in 18th and 19th century Britain. The emergence of media, especially in the 17<sup>th</sup> and the 18<sup>th</sup> centuries, provided the necessary humus of literacy and learning in such an environment where voluntary associations were flourishing. Media not only played crucial role in disseminating information to wider public, but also functioned as a tool of propaganda. Before going into depth, we briefly discuss how social capital increases (economic) efficiency.

#### HOW DOES SOCIAL CAPITAL INCREASE EFFICIENCY?

Where do the efficiency gains from social capital come from? For social capital to render socially and economically efficient outcomes the current state should not be Pareto optimum (Durlauf and Fafchamps, 2005). In other words, social capital works only in a second best world and it improves efficiency by fixing an imperfect information problem, by resolving a coordination failure or by altering individual incentives. These efficiency gains could mostly be achieved via three channels.

First, social capital enhances information exchange within and between social networks. The importance of social networks in diffusing information on labour market opportunities constitutes a good example of how social capital could create new ways of information exchange (Granovetter, 1974, 1995). Barr (2000), for

instance, argues that social networks among small firms play a crucial role in exchanging information about new technological developments in Ghana. Information exchange is also important to maintain social order. For example, exchange of information on malignant behaviour in communities with dense social relations and informal social control could prevent future criminal behaviour (Sampson, Morenoff, and Earls, 1999).

Second, social capital could reduce transaction costs, such as search and monitoring costs. Search and trust are fundamental elements of economic exchange (Hayek, 1945; Akerlof, 1970). Zak and Knack (2001) show that finding trade partners is costly as agents incur search costs while collecting information regarding the reputation of an agent to assess trustworthiness. Even after engaging transactions, lack of trust may further constrain economic exchange. Similarly, in environments where institutions are not binding trust is a lubricant that increases efficiency in economic exchange (Fafchamps and Minten, 1999).

A third possible channel is that social norms and community codes may alter individual behaviour. Mechanisms like shame, damage to reputation and guilt could act like social constraints that may cause changes in individual attitude (e.g., telling the truth to build up reputation or because of the fear of social exclusion). On the other hand, individuals might behave cooperatively due to morality. The rotating savings and credit associations (ROSCAS) are good examples to this (Geertz, 1962; Ardener, 1964). Members of ROSCAS contribute fixed amounts regularly and the resulting sum is allocated to a member on a random basis (lottery) or on the basis of a bidding system. Members continue to contribute until all contributors receive the sum once. The system strongly hinges on the existence of strong ties among members to enforce social sanctions and to punish deviant behaviour. Hence, trustworthiness of the members acts as a guarantee that commitments will be kept. Similarly, among the explanations for why subjects behave cooperatively in trust experiments, contrary to

the expected Nash equilibrium Berg, Dickhaut, and McCabe (1995) suggest social history as an explanation since social history provides common knowledge to agents about each other. The main point here is that social capital changes individual's incentives. For instance, benefits arising from social networks make involvement in criminal activity more costly and less probable. Williams and Sickles (2002) show the role of social norms and stigma in influencing the decision to commit crime. When deciding to participate in criminal activity individuals incorporate both social consequences, such as divorce and loss of social status as well as economic costs, such as loss of job, income and gains from crime. In a similar manner, neighbourhoods in which people are involved in community activities face lower levels of crime because the opportunity cost of committing crime is higher (Rosenfeld, Messner, and Baumer, 2001).

All in all, in any empirical research investigating the impact of social capital on social and economic outcomes the following hypothesis is implicit:

“Social capital leads to positive socio-economic outcomes by reducing transaction costs, creating new forms of information exchange and by inducing change in individual attitudes.”

Most of the observed beneficial effects of social capital broadly fall under one of these categories. Contemporary examples include: use of reputation to signal confidence in others; gathering information through social networks that is obtainable at a higher cost in the absence of social capital; the trust between business partners which reduces the need for monitoring which in turn reduces transaction costs; and finally informal social controls that prevent crime and anti-social behaviour. In each instance, the defining aspect is for groups within civic society to step forward and

provide public goods that the free-market or government had hitherto failed to address.

The historical cases we consider in this paper highlight the three benign mechanisms surrounding social capital. We start with how the Royal Society of London facilitated new information channels and exchanges, then we consider how the media coupled with increasing literacy rates reduced the transaction costs of information exchanges and also changed people's collective attitudes, and finally we outline how the development of private prosecutions improved access to, and confidence in, the criminal justice system which in turn increased individuals collective 'we' attitude which has proved to be so essential for the social capital thesis (Coleman, 1990; Putnam 1993, 2000).

#### INFORMAL SOCIETIES TO SOCIAL CAPITAL: THE ROYAL SOCIETY OF LONDON

In mid 17th century Europe, there were over 160 universities in 150 cities. Beside their role in creating human capital, universities were also viewed as institutions of culture, thus acted as repositories where national (regional) identity and values were cultivated (Readings, 1996). Most universities were supported by the state, heavily relied on public funding, and were extensively controlled by the church. The existing 'traditional' university system witnessed a major organizational innovation in the second half of the 17th century. The emergence of academic learned societies brought a major change in how scholarly activities were organized and how information was disseminated. Learned societies sprang from informal meetings where philosophical discussions were held regarding the need for a new experimental design of research. This necessity created many learned societies within a short period of time. By the beginning of the 18th century there were already more than 50 learned societies operational in about 20 cities across Europe, such as Académie Française (1635),

Royal Society of London (1660), Académie des Sciences (1666) and Accademia dei Dissonanti di Modena (1683). Most learned societies in Europe were based on a new approach and seemed distanced from traditional institutions, but they were by and large complementary to universities.

Learned societies were a merger of two organizational structures (Hall, 1975). On the one hand, informal societies functioned as clubs where intellectuals met to discuss subjects relating to the natural philosophy and experimental science of the time. They were not based on an established organizational structure with rules, customs and fixed membership. On the other hand, some were more formal as they were given certain privileges by the governing bodies. The Royal Society of London is a good example to illustrate the crucial role that learned societies played in the 17th and 18th century. The Royal Society rose as an amateur body, an ‘assembly of Gentlemen’, but was also legitimized by the Royal Charter as an incorporated body (Hunter, 1976). Its success was partially based on the reliance on experimental science and partially on the social background that brought people from different occupations and origins together setting up a collective environment where people share information.<sup>2</sup> But what really made the Royal Society a success story was its emphasis on collection and dissemination of information. The society also acted as an intermediary among scientists who live abroad and nothing existed in that period that came close to this function. In the 17<sup>th</sup> century there were no mechanisms to verify that a particular scientific work was genuine and eminent. Functioning like authentication body the Royal Society also played role to verify the quality of the research and possessed an important node in the network of trust and verification that emerged in the 17<sup>th</sup> century in west Europe. After all, science can also benefit from trust as a cost-saving

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<sup>2</sup> For instance, the membership structure in the first phase shows that there were more than 200 members by 1670, 10 percent of whom were foreigners. Of the English fellows, 15 percent were politicians or diplomats; 14 percent were gentlemen scientists who were self-funding scientist with private means such as Robert Boyle; 14 percent were medical doctors; 13 percent were aristocrats; 10 percent were professional scholars or writers; 6 percent were merchants and 4 percent were lawyers (Hunter, 1976).

device (Mokyr, 2005). The main argument is that without the Royal Society, gathering information about discoveries, new methods and scientific advancements in other countries was either impossible or possible only at a higher economic cost. Three tools were used for assembling and disseminating information: the regular meetings, letters and official publications.

The Society held meetings every week. However, the informal structure frequently showed itself as the meetings were not as organized as they seemed and there were significant fluctuations in attendance (Hunter, 1976). The meetings were based on informal discussions about new methods in experimental science and natural philosophy, which occasionally involved presentations by local and foreign scientists. One particularly interesting feature that shows the informality was the presentations on natural curiosities, which were referred as 'learned entertainments' (da Costa, 2002). These presentations that involved abnormalities in nature that fed curiosity, were highly informal and the presenter was often disturbed for questions and further elaborations like the custom at seminars today. For instance, anatomical preparations by physicians and surgeons of 'weird' and 'monstrous' births constitute a good example for learning with entertainment. Although the topics were most of the time extraordinary, it was quite common to see prominent scientists, such as Isaac Newton participating in the discussions. However, the presentations were taken seriously and there was a common belief that the 'curiosities' were useful as they blend entertainment, diffusion of knowledge and learning. At some point the curiosities became so popular that the chief curator of experiments was asked to hold presentations in London coffeehouses and inns (da Costa, 2002). There were other forms of informal meetings in numerous coffee houses and inns of London that brought the scientist and the entrepreneur together and helped the social gap between the scientist and the practitioner to slowly close down (Mokyr, 2005). The intellectual origins of the industrial revolution emerged in the 17<sup>th</sup> century in such meetings.

Another interesting channel of communication was the letters. The letters received from researchers around the world were read out loud in the meetings followed by a discussion on the subject matter. A thorough investigation of the archives of the Royal Society reveals that starting from the early 1660s there were practical steps towards sharing information by means of letters.<sup>3</sup> At first the information exchange was handled informally until Henry Oldenburg<sup>4</sup> put effort in developing a more methodological recording system. All letters received and replies sent were recorded in the Letter Book. According to Hall (1975) this was of particular significance as it implied transmission as well as reception and collection of knowledge. As a further illustration of the significance of these letters, the first communication of Isaac Newton's mathematical work was made by Oldenburg to René François de Sluse (1622-1685), who was a prominent Belgian mathematician of the period (Hall, 1975). Oldenburg was also an intermediary between Newton and Leibniz for quite a long time until Leibniz visited England in 1673 and presented in the Royal Society meetings.<sup>5</sup>

One of the most interesting components towards codifying knowledge was the 'history of trades' programme, which started in 1660 (Houghton, 1941). The mastermind behind the programme was Francis Bacon, who suggested forming 'histories of trade' to improve industrial practices. He argued that "the researchers who viewed nature through the lens of the crafts could more easily gain knowledge and improve the arts" (Ochs, 1985, p. 131). Under Baconian program, codifying

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<sup>3</sup> For instance, on 4 September 1661 "Sir Kenelme Digby...read...a French letter from Monsieur Frenicle to himself, dated at Paris, 31 August 1661, concerning that gentleman's hypothesis of the motion of Saturn; and was desired to write to Mr. Frenicle, and to return him the thanks of the society" (cited in Hall, 1975, p. 178).

<sup>4</sup> Henry Oldenburg served as the first secretary of the Royal Society of London and was the founding editor of the Philosophical Transactions of the Royal Society.

<sup>5</sup> There were other means of codified communication such as the official publications. It was common for members to send letters, research notes, book reviews and accounts drawn from foreign journals to support information collection (Hall, 1975), which were summarized and put together. This informal practice soon led to a formal publication, the Philosophical Transactions of the Royal Society. Started in 1665, the Philosophical Transactions was important in setting the standards and accepted to be one of the oldest academic journals.

knowledge became one of the most important tasks of the Royal Society. The 'histories' described a certain production process in detail based on facts, practical observations, accounts of travellers and craftsmen's techniques (Ochs, 1985). The aim was to codify knowledge of craftsmen that would transfer applied knowledge to science and, to a certain extent, the industry. In 1660 six histories began followed by eleven others in 1661 (Ochs, 1985). For instance, William Petty was given the task of writing a history of wool cloth and Christopher Merrett produced a history of glass. Individual contributions such as letters, comments and questions as well as the information arising from joint experiments were collected and catalogued carefully. All these were then merged with the partial history to form a complete history of trade.

Despite the efforts and involvement of scientists, such as Robert Boyle and William Petty, the programme failed to reach its immediate projections and did not benefit the contemporary industry of the period. There were various reasons for this: the 'histories' were very complex; the craftsmen were often difficult to communicate with and reluctant to share sensitive knowledge. Moreover the industrial structure operating in craft fashion lacked the absorptive capacity to acquire information. However, this does not necessarily mean that the programme was unsuccessful. For instance, Petty described the silk production and dyeing process in great detail in a partial history titled "Apparatus to the History of the Common Practices of Dying", which was followed by other partial histories on textile (for details see Ochs, 1985). The impact on industrial practice was not immediate but it definitely provided useful insights that eventually resulted in England's industrial revolution a century later. As codified information, especially on innovative techniques, the 'histories' promoted transfer of manufacturing knowledge from the craftsman to the engineer and firms and moreover helped to create a receptive innovation-prone environment in England compared to other European countries (Ochs, 1985; Mokyr, 2005). It is an interesting

irony to observe that scholars still try to understand the science-industry link, about 350 years after the histories of trade programme.

## INFORMAL SOCIETIES TO SOCIAL CAPITAL: MEDIA AND LITERACY

Learned societies provided spontaneous and specialist focal points for information to be shared and knowledge to be developed and disseminated. But the effectiveness by which such information and knowledge can be disseminated to wider audiences depended largely on the ability of wider audiences not only to receive the information, but to actually understand it. It is here we find a crucial role played by the emerging media, which provided an incentive for some sections of the public to become literate. In this sense, learned societies assembled and categorized knowledge – the media and improving literacy rates made all of this more widely accessible. As Black and Gregory note: “the century and a half after 1600 saw a great explosion in the world of print and the development of new forms, itself a sign of a changing society” (1991: 6). While this period witnessed a growth rate in literacy across all of Western Europe, England, along with the Netherlands, managed to achieve relatively superior rates of growth (Allen, 2003). Because of this, the information spread by the media was able to reach a large and divergent population in both countries.

According to D’Anjou (1996), the media in Britain in the 18<sup>th</sup> century served three purposes: dissemination of wider public information; giving information on special topics of interest; and finally, the print media functioned as propaganda, as a way of mobilizing constituencies. These were of course predominantly enjoyed by the middle classes, but the rapid economic transformation accompanied by the growth in the middle classes meant that by the end of the 18<sup>th</sup> century, large sections of the

public from workers in small shops to wealthy land owners could access and understand the various media publications.

Literacy...was closely linked with social and economic position. The growth of the retail sector, of trade and business, rested on the ability to read. [It] was also closely linked with urbanisation and the demands of urban living: it was 'part of the agenda for modernity, the city and the Enlightenment, as well as for religious leaders and social reformers'. (Oldfield, 1998: 10)

It is claimed that Britain produced the first daily newspaper, the *Daily Courant*, 1702. Soon to follow were special interest publications including the *Tattler* (1709), the *Spectator*, *Gentleman's Magazine* (1731), and the *Monthly* and *Critical* reviews (1749). Individual subscribers came from a variety of class backgrounds and the ongoing practice of readings in coffeehouses had a significant impact on the print media's exposure. However, by far the biggest and most heterogeneous readership was reached through lending libraries and reading societies (Kelly 1966). Often known as proprietary libraries, they were found across the South and North of England as well as Scotland. Although membership was limited, sometimes to as low as 500 in the case of Leeds, access could be gained through the simple purchase of a proprietary share. So long as a 25 shillings annual subscription was paid, the share could be freely exchanged.

The model of association here was that of the joint stock company. It was to appear again and again for items of social capital which varied from public baths to botanical and zoological gardens. These libraries were another instance of the manner in which collective voluntary action removed the provision of an important service for the elite from the

market economy in order to ensure control and permanence. (Morris, 1993: 406)

The increasing freedom of expression enjoyed through various literary institutions engaged people's attentions more towards issues of public life. A notable and well documented change which occurred in collective attitudes is the important role the print media and voluntary associations played in the anti-slavery movement in Britain. (Oldfield, 1995; Whyte, 2006). The fact that literacy rates were improving across multiple social sectors in Britain allowed for a large scale circulation of abolitionist ideas. This ultimately played a key role in the success of the abolition movement.

Parliament received one hundred and two petitions in favour of abolition in 1788. In the same year, the Dolben Act became law, creating more humane conditions for black slaves who were transported on ships and resulting in a loss of profit for slavers in the West Indies whose supply of slaves became limited by the new regulations. Eighteenth century Britain serves as an historical example of the direct connection between literacy and political transformation. (Gunn 2007: 14-5)

This example of the effects of an increasingly literate public supports the claim that such education can have a 'subversive' effect on society, in the sense of the adoption of attitudes that undermine the status quo. Nonetheless, the prevailing view seems to be that beyond providing individuals with the basic skills to drive the industrial revolution forward, increasing literacy also had the effect of producing a greater sense of humility and a general respect for authority (Brown, 1991: 215)

## INFORMAL SOCIETIES TO SOCIAL CAPITAL: PRIVATE PROSECUTION SOCIETIES IN BRITAIN

In some cases informal societies dealt with community wide problems such as criminality. Private prosecution (or felons) societies as an extralegal approach to crime control are particular examples to this (Little and Sheffield, 1983). The industrial revolution in Britain had massive social and economic implications due to the creation of a large working class, mobile populations and increased urbanization. The criminal justice system in that period was unable to adapt to these changes, which created inefficiencies in dealing with the threat and treatment of crime. This was mainly due to the lack of personnel, the high (private) cost of prosecution and the lack of a central police authority (Frank, 1989; Emsley, 1996). Until 1856 when the government made it compulsory to establish police forces throughout England and Wales dealing with crime was by and large a personal issue (Philips, 1989). Main problem was the difficulty and cost of finding and apprehending the offender and the cost of prosecution. The prosecution costs had to be covered by the victim, which by and large meant that only wealthy citizens had the opportunity to access legal authorities. Moreover, the increase in the number of offenses in the first half of the 19th century caused a huge increase in the burden on courts.<sup>6</sup>

Private prosecution societies evolved as a community reflex and as a simple form of insurance to inefficiencies in the British common law that place the burden of detecting and prosecuting the offender mainly on the victim. The English law enforcement system offered very little official help to the victim unlike their counterparts in France, USA and Scotland (Philips, 1989). The only cancellation was availability of a reimbursement system that pays a small portion of the cost of

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<sup>6</sup> Felon societies were established as a tool to prevent property crime. An investigation for Essex between 1764 and 1801 reveals that there was a high correlation between the recorded number of property crimes and the number of felon societies that place an advertisement in the local newspaper (King, 1989:186)

prosecution back to the victim. Before the public police force became widespread and efficient in the 1860s, it is estimated that there were about a thousand felon societies in England and Wales (Philips, 1989; Emsley, 1996). How these societies functioned was similar to how contemporary rotating savings and credit associations function. The monetary resources of the members were pooled and then used to assist members who became victims of crime. The association paid any possible cost to detect, apprehend and prosecute the offender such as cost of placing advertisement in local newspapers, reward for information, transportation, travel and legal bills. The associations first tried to seek reimbursement from the county allowance. Anything left over was paid from the budget of the felon society. Most felon societies operated with similar aims.<sup>7</sup> Market Rasen Association for Prosecuting Felons in Lincolnshire summarizes the aim of the society in a poster on 16 January 1840 as follows:

“The Object of this Association is the prevention, as far as may be, of the Commission of Crime, rather than the punishment of Offenders. ... .By becoming Members of such a Union, those Classes of Society whose employments and situations more particularly place them at the mercy of the evil-disposed, ensure that assistance towards defraying the unavoidable and necessary cost of effectually pursuing after, and prosecuting to conviction, the guilty Parties, which would otherwise, in many instances, fall heavily upon Individuals; and the consideration of which not unfrequently makes one of the many chances of escape from punishment which the Offender already possesses.” (Philips, 1989: 113-4)

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<sup>7</sup> For a list of associations for the prosecution of felons and their known establishment dates see Philips (1989).

Felon societies were local institutions covering an area as small as a town or even a small village and concentrated on prosecuting crimes such as horse and sheep steeling, highway robbery, house and shop break in. The average size of an association varied in great extent from 10 to 100 and even more, but most societies were in the range of 20 to 60 members (Philips, 1989). Members' occupational background varied composing of gentlemen, farmers, tradesmen and merchants. Members had to pay a fixed annual fee and in some cases additional contributions when needed. There were associations that collected different fees for different occupation groups, (poorer members paying less) and some even associated the membership fee to the value of member's property (King, 1989). The budget (and the fees) of the societies varied depending on the service they provide such as private police, printing handbills, placing newspaper advertisements, assistance in detection, apprehension and prosecution etc. Some associations even employed solicitors who assisted the victim in the prosecution thus relieving the victim from a technically complex, costly and discouraging process (King, 1989).

We do not have quality data to assess the actual impact of felon societies on crime prevention and reduction. To give an idea on the extent of these societies, on average more than 10 percent of the commercial, professional, farming, and gentry households of eastern and central Essex was a member of a felon society and about 15 to 20 percent of total number of prosecutions in the area was linked to a felon society (King, 1989). Since we do not have comparative figures for other regions it is difficult to say whether these numbers are high are not. However, as Little and Sheffield (1983) argue felon societies were important in making the legal justice system accessible thus improving the enforcement of existing laws.<sup>8</sup> Prosecution

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<sup>8</sup> Felon societies in England never sought punishment, which makes it different from American vigilantism that exercised all the process of law enforcement – detection, prosecution and punishment (see Little and Sheffield, 1983; Philips, 1989).. Among thousands of cases in England there were only few instances reported where punishment was also exercised in the society meetings.

societies induced change in attitudes towards the administration of the criminal law so to ensure that laws are applied in a consistent manner (King, 1989).

As in the contemporary social capital literature, felon societies affected crime in several ways. First, members exchanged information regarding the offenders and stolen property. Information channel did not only operate within the society but also between societies and even wider public. The rise of provincial printing in the 18<sup>th</sup> century made it easier to disseminate information regarding offenders (Styles, 1989). Through advertisements in the local newspaper and handbills -that gave particular information regarding the extent of crime, description of the stolen property and in some cases the reward money for informants- criminal act was widespread known (Philips, 1989). Second, as we have mentioned, one of the biggest difficulties in criminal investigation in the 18<sup>th</sup> century Britain was to retrieve information about offences and offenders. The emergence of mass media made it easier to diffuse information on criminal acts and thus reduce search (transaction) costs. Finally, felon societies induced change in individual attitude. For instance, the societies frequently advertised the name of the members to signal that any offense against the members would be brought to trial (Philips, 1989). This was quite an innovative way to prevent crime assuming that criminal acts against members would reduce. In a similar way, group norms induced change in individual attitudes in cases where members of felon societies (un)willingly declared that they would not purchase stolen property. As in the case of the Royal Society felon societies were complementary to formal institutions by increasing access to the judicial system by sharing information about felonies and reducing the cost of prosecution. The private prosecution societies slowly became redundant in the second half of the 19th century with the establishment of the more effective police force and justice system (Taylor, 1998).

The disappearance of the private prosecution societies does not necessarily mean that they were ineffective. As has been emphasized, these informal societies

complement the existing institutions, enabling the poor to access legal system. Extensive reform in the justice system surmounted the inefficiencies and these societies lost their main purpose of existence. However, most of them evolved through time and function in a different manner. Current world provide many examples of similar associations, such as the neighbourhood (or crime) watch. Crime watch is an informal organization formed by citizens who are devoted to the prevention of crime and vandalism. The major role of these organizations is to prevent crime and to make neighbourhoods safer by working together with the police, legal authorities and other voluntary organizations. Such associations are operational in many countries especially in the US and the UK.<sup>9</sup> This constitutes a good example for the existence of informal institutions even in environments where formal institutions are binding.

## CONCLUSION

The wealth of evidence testifying to social capital's positive economic role has meant that the goal to facilitate its development has almost become axiomatic for Western governments. Indeed, with reference to three cases, we have demonstrated in this paper that this positive role is longstanding; the ability for civic society to step in and provide the means for growth and prosperity where governments and the free-market have failed to do so is by no means a new and recent phenomenon. The emergence of knowledge-based economies, based on widespread information sharing, and the need to reduce transaction costs is all evident in 18<sup>th</sup> century Britain. The Royal Society of London and Private Prosecution Societies sprang from informal meetings and addressed an efficiency problem by making it easier to share and transmit information and by reducing transaction costs. We also highlighted the role of the media, not only

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<sup>9</sup> See for instance the webpage of National Neighbourhood watch Institute, <http://www.nnwi.org/> for US and <http://www.neighbourhoodwatch.net/> for UK. For a more organized version see Netherlands Centre for Crime Prevention and Community Safety webpage <http://www.theccv.eu/>.

as a novel information channel, but also as a powerful propaganda device that focused people's attention and interests.

If we place these findings into the broader context of the industrial revolution, it would seem that Britain was enjoying economic growth at the very least in part because of the continuing development of social networks and social capital benefits. This links to one of Putnam's original claims regarding social capital – that it is a product of a path dependent process. In *Making Democracy Work* (1993), he demonstrated that in northern Italy citizens participate actively in sports clubs, literary guilds, service groups and choral societies, and that a corollary of this is that regional governments are "efficient in their internal operation, creative in their policy initiatives and effective in implementing those initiatives." (Putnam 1993: 81) In southern Italy, however, patterns of civic engagement are far weaker and regional governments tend to be corrupt and inefficient. Recent works confirm Putnam's hypothesis and show high correlations of past social capital and recent economic outcomes even after controlling for the impact of formal institutions (even the institutions that does not exist in contemporary world) (e.g., Guiso, Sapienza, Zingales, 2008a). Given that societies and charity clubs have a long history in Britain, the three cases we considered can be seen as a continuation of a trend where voluntary societies were flourishing. In this sense the accumulation of social capital is important where, given the right conditions, these networks and their benefits will persist across time. The question of why these benefits persist in the long-run still remains as a puzzle despite recent attempts that show that long-term persistence could be either due to intergenerational transmission of values and beliefs (Guiso, Spaienza and Zingales, 2008b) or because of past formal institutions that praise decentralized decision making (Tabellini, 2009). However sound the path dependency argument may seem, it still does not explain how these values and beliefs came into being in the first place. Future research in this direction may bear fruitful discussion.

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