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THE NEW ECONOMIC
SOCIOLOGY

DEVELOPMENTS IN AN EMERGING FIELD

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Social Capital and Community Development

ALEJANDRO PORTES AND MARGARITA MOONEY

THE PURPOSE of this chapter is threefold: to review the origins and definitions of the concept of social capital as it has developed in the recent literature; to examine the limitations of the concept as a causal force able to transform communities and nations; and to present several relevant examples from the empirical literature on regional and community development. These examples point to the significance of social networks and community solidarity in the viability of grassroots economic initiatives and the simultaneous difficulty of institutionalizing such forces.

Current interest in the concept of social capital in the field of development stems from the limitations of an exclusively economic approach in the achievement of the basic developmental goals: sustained growth, social equity, and citizenship. The record of application of neoliberal adjustment policies in less developed nations is decidedly mixed, even when evaluated by strict economic criteria. Orthodox adjustment policies have led to low inflation and sustained growth in some countries, while in others they have failed spectacularly, leading to currency crises, devaluations, and political instability (Portes 1997a; Centeno 1994). The one-size-fits-all package of economic policies foisted by the International Monetary Fund and the U.S. Treasury on countries at very different levels of development has led to a series of contradictory outcomes that orthodox economic theory is itself incapable of explaining (Filgueira 1996; Diaz 1996; Castells and Laserna 1989).

In the social terrain, the record is even more problematic: giving

way to unrestrained market forces by removing state protections has produced growing income disparities and an atomized social fabric marked by the erosion of normative controls. Rising crime and widespread corruption of public institutions, including those charged with maintaining public order, have been associated with this normative decline. In the new "everyone for himself" environment promoted by the free reign of the market, there is little incentive for public officials to adhere to standards of probity or for the poor to respect the social order that has abandoned them. Instead of promoting growth with justice, current market liberalization policies may be leading to a Hobbesian problem of public order as individuals fight for survival under the harsh conditions in which they find themselves (Diaz 1996; Castells and Portes 1989).

Although the situation in most Third World countries has not yet reached this crisis level, the trend is visible enough to inspire policymakers to seek ways to reinstitute or create anew community bonds and social institutions. It is in this context that we have seen the appearance of the notion of social capital, which holds out the promise of a popular, grassroots-initiated alternative to the top-down policies promoted by international financial organizations in the recent past. In the more optimistic versions, the rise of social capital performs double duty as a counterweight to the unfettered individualism of the market and, simultaneously, as a means to gain advantages in it (Putnam 1993, 1995). Such rosy views have not gone unchallenged and in fact have been subjected to extensive criticism.

In the next sections, we review the origins of the concept of social capital, its evolution from an individual trait to a feature of communities and nations, and its limitations as a potential new model of development.

Social Capital: Origins and Definitions

Much of the controversy surrounding the concept of social capital has to do with its application to problems at different levels of abstraction and its use in theories involving different units of analysis. Its original systematic development by the French sociologist Pierre Bourdieu (1979, 1980) and the American sociologist James Coleman (1988, 1990) centered on individuals or small groups as the units of analysis. With some significant variations, both scholars focused on the potential benefits accruing to individuals or families by virtue of their ties with others. Bourdieu's treatment of the concept, in particular, was instrumental, going as far as noting that people intentionally build their relations for the benefits that they will bring later on. In a few brilliant

pages (Bourdieu 1979, 3–6; 1980, 2–3), the French sociologist deals with the interaction between money capital, social capital, and cultural capital, the latter being defined as an individual's formal educational credentials and the more intangible complex of values and style in demeanor. Bourdieu's key insight was that these three forms of capital are interchangeable, that is, they can be traded for each other and actually require such trades for their development. Thus, social capital of any significance can seldom be acquired without the investment of some material resources and the possession of some cultural knowledge, enabling the individual to establish relations with valued others.

The subsequent literature followed, for the most part, these guidelines by focusing on the ability of individuals to gain access to resources by virtue of their social connections and the types of resources that become available through them. In sociology a tripartite family of effects developed as researchers explored the implications of the concept. Social capital became defined as a source of social control, a source of family-mediated benefits, and a source of resources mediated by nonfamily networks. The last usage of social capital, exemplified by the personal connections that facilitate access to jobs, market tips, or loans, comes closest to Bourdieu's original definition of the concept.

On his part, Coleman paid particular attention to the first usage of social capital, that is, as a source of control. In the waning years of his life he became preoccupied with the disintegration of what he called the "primordial" social ties that guarantee the observance of norms. A whole gamut of pathologies follows from this state of affairs, he warned, from crime and insecurity in the streets to freeloading by teachers and students in American public schools. In seeking remedies to these social ills, Coleman pursued a double path. First, he wrote in defense and celebration of the community ties that remain in place. Second, he advocated the replacement of the primordial social structures that have disappeared with "purposively constructed" organizations in which schedules of incentives will take the place of vanishing social capital (Coleman 1993).

Sources of Social Capital

The definition of social capital as the ability to secure resources by virtue of membership in social networks or larger social structures is the most widely accepted definition of the term in sociology at present. This definition is not without problems. First, there is a common tendency to confuse the *ability* to secure resources through networks

with the resources themselves. This can easily lead to tautological statements in which a positive outcome necessarily indicates the presence of social capital, and a negative one its absence. In fact, an actor's ability to obtain resources through connections does not guarantee a positive outcome. Given the unequal distribution of wealth and resources in society, actors may have trustworthy and sound social ties and still have access to limited or poor-quality resources. Saying that only those who secure desirable goods from their associates have social capital is tantamount to saying that only the successful succeed. (This point has been developed in greater detail in Portes 1998; and Portes and Landolt 1996.)

Second, the literature on this topic tends to emphasize the positive consequences of social ties, to the exclusion of their less desirable consequences. Yet the same mechanisms that are appropriable by individuals as social capital can lead to a set of negative outcomes for others. Recent studies have identified at least four such negative consequences of social capital: exclusion of outsiders, excess claims on group members, restrictions on individual freedoms, and downward leveling norms (Portes and Sensenbrenner 1993). For instance, the same strong ties that enable group members to obtain privileged access to resources bar others from securing the same assets. The particularistic preferences granted to members of a clan or circle of friends is commonly done at the expense of the universalistic rights of others. For the latter, the situation is tantamount to *negative* social capital, and they often resort to legal means to break down the barriers created by cozy social ties (Waldinger 1995).

Similarly, under certain conditions, community closure may prevent the success of business initiatives by enforcing excessive claims on entrepreneurs. In Bali, for example, Clifford Geertz (1963) observed that successful businessmen were constantly assaulted by job- and loan-seeking kinsmen on the strength of the community norms enjoining mutual assistance. As a result, the growth of their business initiatives was stunted and they were eventually bankrupted (see also Granovetter 1995). In the Ecuadoran highlands many successful cloth and leather artisans have converted to Protestantism. The reason has little to do with their religious convictions or affinity for the Protestant "ethic," but with the need to escape the host of obligations enforced by the Catholic *cofradías* (parish-based guilds). For these hardworking artisans, negative social capital comes in the form of repeated requests to finance religious festivities and bear the cost of food and drink for the rest of the community (Portes and Landolt 1996).

From the point of view of recipients, the resources made available

through social ties have the character of a gift. More problematic, however, are the motivations of donors. This points to a third problem with our definition of social capital: it leaves untheorized the motivations of donors in these transactions. Drawing from the observations of Durkheim, Marx, Weber, and Simmel on the dynamics of groups (see Portes and Sensenbrenner 1993), we have identified four sources of social capital distinguished by the presence or absence of overarching structures that define the character of the transaction. There are two primary sources of altruistic social capital: granting resources to others out of moral obligation (parents' gifts to their children, alms to the poor), in gestures that are undergirded by values that were introjected by individuals during the process of socialization; and granting resources to other members of one's territorial, ethnic, or religious community ("bounded solidarity"). Acts arising from this latter source are not based on general values but on particularistic loyalties to a relevant ingroup (for example, endowing a scholarship for young co-ethnics, or donating time to a union of fellow workers).

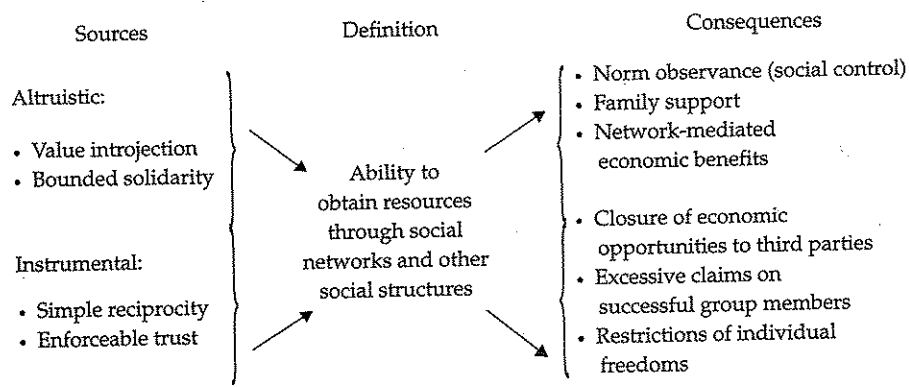
There are also two sources of instrumental social capital: face-to-face reciprocal transactions, which carry the full expectation of commensurate return by the benefited party ("simple reciprocity"), and the resource transactions embedded in larger social structures that act as guarantors of full returns to donors, either from the benefited party or from the community at large ("enforceable trust"). The latter source is exemplified by the granting of loans without collateral to members of the same community on the expectation that community controls will guarantee repayment and, in addition, generate status and approval for the donor.

Trust exists in these situations precisely because it is *enforceable* through the power of the community. This source of social capital is closely associated with the emphasis placed by Coleman on community structures as a mechanism of social control. This was actually the theme that caught the eye of scholars in other disciplines as they proceeded to transform social capital into a remedy for social ills, oblivious to its negative consequences and the distinction between its causes and effects. This distinction and the preceding discussion are summarized in figure 12.1.

Social Capital as a Feature of Communities and Nations

For Bourdieu, Coleman, and other sociologists, social ties were important for the benefits that they yielded to individuals or small groups

Figure 12.1 Individual Social Capital: Sources and Effects



Source: Adapted from Portes 1998a.

in the form of reliable expectations. A subtle transition took place as the concept was exported to other disciplines where social capital became an attribute of large political structures. In this new garb, its benefits accrued not so much to individuals as to the collectivity in the form of reduced crime rates, lower official corruption, and better governance.

This conceptual stretch, led by the political scientist Robert Putnam, produced the metaphor of a "stock" of social capital possessed by cities and even nations. Social capital as a property of nations is not the same as its individual version, a fact that explains why the research literatures based on Bourdieu's and Putnam's definitions have diverged. There are several differences between the two that deserve careful attention. First, the transition of the concept from an individual asset to a national characteristic was never theorized explicitly, giving rise to the present state of confusion about the meaning of the term. In one sentence social capital is an asset of intact families; in the next it is an attribute of networks of traders; and in the following it becomes the explanation of why entire cities are well governed and economically flourishing. The heuristic value of the concept suffers accordingly as it risks becoming synonymous with all things that are positive or desirable in social life.

This confusion becomes evident when we realize that the individual and collective definitions of the concept, though compatible in some instances, are at odds in others. For instance, the right "connections" allow certain persons to gain access to profitable public con-

tracts and bypass regulations that are binding on others. Individual social capital in such instances consists precisely in the ability to undermine collective social capital, defined as "civic spirit" and grounded on impartial application of the laws. To cite another instance, the strong bonds in Mafia families and inner-city gangs confer benefits on their individual members at the expense of public order and peace (Gambetta 1993).

Second, the causes and effects of social capital as a feature of collectivities have not been disentangled, giving rise to much circular reasoning. The theoretical spadework done by Bourdieu and his successors prevented this from happening to social capital as an individual trait. At this level, the sources of social capital are clearly associated with a person's networks, including those that he or she explicitly constructs for that purpose, while effects are linked to an array of material and informational resources.

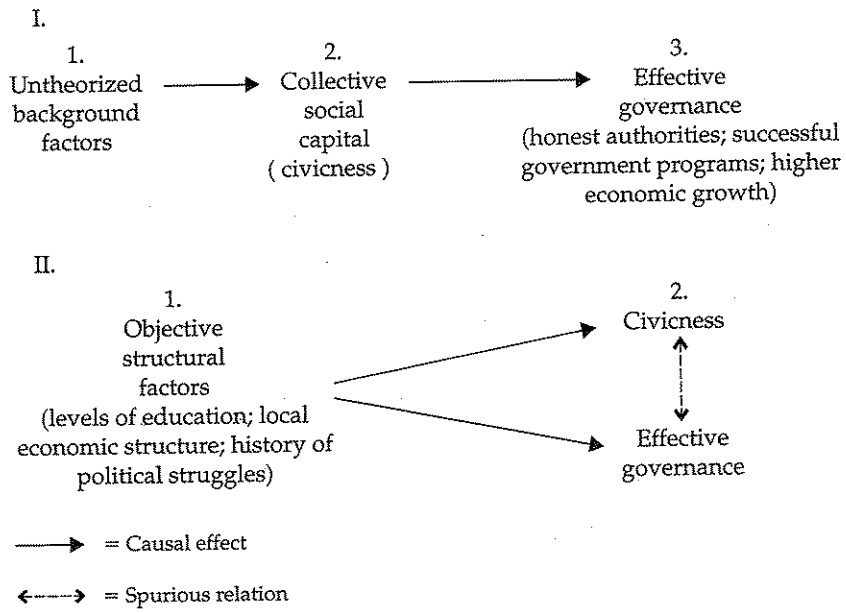
Collective social capital, or "civicness," lacks this distinct separation. As a property of cities and nations, measurable in stocks, social capital is said to lead to better governance, and its existence is simultaneously inferred from this outcome. When not tautological, the argument takes the form of a truism:

For every political system,
 If authorities and the population are imbued with a sense of collective responsibility and altruism,
 Then the system will be better governed and its policies will be more effective.

It is difficult to see how it could be otherwise. Yet, paradoxically, the self-evident character of the argument made it popular in policy circles: the "truth" that such a statement conveys is immediately graspable without need for complex explanation. Thus, if some cities are better governed and richer than others, it is because they are "blessed" with substantial stocks of social capital. The intuitive appeal of such an argument conceals but does not remove its basic flaw, namely, that the actual factors leading to social capital are left untheorized. Without a clearer understanding of its sources, arguments involving collective social capital inevitably become circular.

A third and related issue is the possibility that the causal role attributed to "civicness" is spurious. In other words, the celebrated traits of the population, such as greater membership in associations and greater political participation, and their alleged effects in terms of better governance may both be consequences of other exogenous factors. Once these are controlled, all or most of the assumed effect of

Figure 12.2 Alternative Causal Patterns of Collective Social Capital



Source: Adapted from Portes 2000.

civiness may disappear. Likely candidates for such a causal role include the literacy and education of the population, the structure of the local economy, and the history of past struggles for equality and incorporation. Figure 12.2 illustrates these alternative interpretations.

These limitations must be kept in mind when attempting to apply the concept of social capital to problems of development. It is possible to find instances in which high levels of collective solidarity have accompanied sustained economic growth or other positive developmental outcomes. The all-too-common logical fallacy is to conclude that one causes the other without consideration of the possibility that both are determined by common external causes. It can be those external factors, not social capital, that play the key role in the process. Even when strong collective solidarity plays an unambiguous causal role, the question remains as to how it came about. Without this understanding, it is impossible to determine whether such bonds and their alleged effects can be re-created elsewhere.

Lastly, as with the individual version of the concept, it is possible that strong community bonds do not always have positive effects but

sometimes yield unanticipated and negative consequences. These may take the form of restrictions on individual freedoms and enterprise or arbitrary exclusion of nonmembers. Searching for positive developmental outcomes to which a social capital story can be attached is a particularly pernicious form of sampling on the dependent variable.

In the following sections, we review several instances of the relationship between social capital and community development that highlight both its potential contributions and its limitations. It is necessary, however, to begin by clarifying what is meant by “development” in different contexts. Like the concept of social capital itself, “development” also has different meanings at various levels of generality that must be disentangled.

Development: Nation and Community

The concept of development refers to a set of positive outcomes that benefit certain collectivities and the processes leading to them. The most common of these collectivities is the nation-state, especially the nation-state in the Third World or on the periphery of the world economy. At this level the outcomes of interest include sustained economic growth, the fair distribution of economic resources leading to greater equality, and the consolidation of democratic political institutions (Hirschman 1963; Cardoso and Faletto 1979; Portes and Kincaid 1989). “Community development” refers to similar positive outcomes at a subnational level involving smaller collectivities—towns, neighborhoods, or rural communities, or a set of such contiguous communities within the same region. The most common developmental goals at this level are physical infrastructure, entrepreneurship and investment, wealth distribution, and the quality and effectiveness of local political institutions (Bunker 1989; Massey et al. 1998, ch. 9).

Though “development” has been applied to even smaller units, the most common usages of the concept are at the national and community levels. The two are not synonymous. It is possible for poor and backward communities to exist within an advanced nation-state; and for prosperous regions to emerge in otherwise stagnant countries. It is even possible for a nation to be fractured into regions that are at very different levels of political and economic development; Italy is a poignant example (Brusco 1982; Piore and Sabel 1984). At the national level, arguments for the positive effects of social capital are commonly made in terms of civiness, as indexed by survey items indicating participation in associations, exposure to the media, and generalized expressions of trust (Putnam 1993).

Arguments about the role of social capital in national development are invariably *ex post facto*: causes are inferred from events that have already occurred, leading to circular reasoning. These interpretations are also widely open to the problem of spuriousness noted previously. In the 1980s, for example, efforts to attach a social capital story to the economic success of Japan and other Asian nations became something of a cottage industry. According to these accounts, it was the strong networks of solidarity within and between Japanese firms and the "embeddedness" of Japanese state agencies in these networks that provided the basis for rapid economic development (Chalmers 1982; Arrighi 1994; Evans 1995). By the same token, the lack of such embeddedness in agencies of the U.S. federal government and the more competitive, less solidaristic orientation of American firms condemned the American economy to stagnation and decay. With the reversal of the economic fortunes of the two countries during the 1990s, these *post hoc* arguments quickly disappeared from view. They even gave way in some quarters to the opposite interpretation, one based on a triumphalist celebration of free markets and unrestrained competition.

The difficulty of disentangling cause from effect and of ruling out possible sources of spuriousness makes the proposition that collective social capital leads to national development very dubious. No persuasive empirical proof has yet been offered that national participatory behavior, in its various guises, produces its alleged economic and social effects, controlling for other factors. By contrast, the relationship between social capital and *local* community development is easier to establish and to study, for two reasons. First, at this level, the definition and sources of social capital are the same as those theorized for individuals. In other words, rather than generalized "civiness," measured by survey questions, we return here to the social structure of the community and the character of its networks. It is thus possible to speak of bounded solidarity and enforceable trust at this level, focusing on its effects for the *entire community* rather than for its individual members.

Second, it is easier to trace the historical development of specific community structures and to observe their operations in daily life. At this closer range, it is feasible to establish causal direction unambiguously and to rule out sources of spuriousness because of the visible and recurrent presence of networks and the evident character of their effects. Thus, Jeremy Boissevain (1974) had little difficulty establishing the historical roots of the tightly knit social structures in the Maltese villages that he studied and to show their effects in terms of effective social control and the suffocation of personal initiative. Sim-

ilarly, Min Zhou and Carl Bankston (1998) persuasively traced the history of the Vietnamese community of New Orleans and showed how, despite its poverty, its strong networks and bounded solidarity had decisive effects on the educational and occupational achievements of its children.

We follow these leads and leave national civiness behind, focusing instead on the relationship between social capital and development at the level of particular communities. The following cases illustrate some of the disparate manifestations of this relationship.

First, we examine the phenomenal post-World War II industrial growth in Emilia-Romagna, a region of Italy. We analyze how particular historical circumstances led to instrumental and altruistic sources of social capital that propelled the region's development. Second, we present the case of Ecuadoran indigenous entrepreneurs from Otavalo, who have built transnational businesses of crafts and music based on trust enforced through community bonds. The case of Otavalo also demonstrates how the ability of one group to produce "closure" through tight social bonds can have negative consequences for other groups excluded from such networks. In the third case, bounded solidarity, an altruistic source of social capital, led Salvadoran migrants to the United States to donate resources for community development in their places of origin. Despite the initial success of these projects, trust between U.S.-based migrants and local political leaders has not been strong enough to guarantee the continued success of migrant-led development efforts. These three cases show different sources and consequences of social capital, as represented in figure 12.1.

Flexible Specialization and Industrial Growth in Emilia-Romagna

The phenomenal post-World War II economic growth of Emilia-Romagna, one of Italy's twenty-two political-administrative regions, led to a proliferation of studies seeking to uncover the key to its success. During its high-growth period, Emilia-Romagna developed an agglomeration of industrial districts whose production accounted for an increasing share of Italian exports. Because of these industries, Emilia-Romagna had greater labor force participation, lower rates of unemployment, greater household incomes, and higher wages than other regions of Italy (Brusco 1982; Capecchi 1989; Harrison 1994). The success story of Emilia-Romagna intrigued economists and sociologists because this growth took place under a model of flexible specialization. This mode of production differed greatly from the

vertically integrated mass production that dominated industrial production at the time. In this section, we analyze the origins of the ties between government officials, entrepreneurs, and workers and the effects of these ties on the development process in this particular region and time.

Social Capital in a Flexible System of Production

In the 1970s the region of Emilia-Romagna had several industrial districts comprising numerous small and medium-sized firms, the largest of which had about three hundred employees (Brusco 1982). Each of these firms specialized in making a component of a certain product that was later assembled under another roof. A significant amount of the production also came from the informal economy, through homework or the "putting out" system (Capecchi 1989). Emilian firms used machinery and techniques that allowed them to produce in short series and thus they could shift quickly from one product to another, providing great flexibility in output. These networks of small and medium-sized firms produced diverse goods such as knitwear, motorcycles, tomato canning, and various kinds of machinery (Brusco 1982).

The decentralization of production in Emilia-Romagna required cooperation between firms to maximize the efficiency of flexible short runs. Sebastiano Brusco (1982, 173) describes the regionwide associations created by the small entrepreneurs of Emilia-Romagna: they "prepare the pay slips, keep the books, and pay the taxes of the small firms, giving to the latter the expertise of a large office in administration and accountancy at a minimal price." These associations also provide consulting services for firms on technical matters, promote cooperation in the acquisition of raw materials, coordinate marketing strategies, and form cooperatives to offer loans at low interest rates.

In addition to high levels of interfirm cooperation, the specialization of production has encouraged individual entrepreneurship and innovation in Emilia-Romagna. Workers often learn a trade in a large factory and then start their own business to complement already-existing production (Brusco 1982; Capecchi 1989). The potentially negative effects of the extensive use of informal labor and industrial housework are mitigated by social welfare programs and high levels of solidarity between workers and employers. The resulting flexibility is a key component of the success of Emilia-Romagna's industrial system: it allowed the region to absorb external shocks without suffering a recession in the twenty-year period from 1960 to 1980.

The type of interfirm cooperation that fueled the development of

Emilia-Romagna cannot be explained by individual interests alone. As Mark Granovetter (this volume) points out, such cooperation can be explained only by social relationships based on trust. The firms in Emilia-Romagna rely on two instrumental sources of social capital, simple reciprocity and enforceable trust, to provide services for each other. Entrepreneurs obtain a reliable flow of resources from these social ties, resulting in network-mediated economic benefits (see figure 12.1).

Historical Antecedents of Community Social Capital

It is worthwhile at this point to examine the historical process leading to the notable sources of social capital in this region. Vittorio Capecchi (1989) notes that agricultural production in Emilia-Romagna at the turn of the century was characterized by a higher degree of entrepreneurship than existed in other regions of Italy. In addition, before the beginning of the twentieth century, intellectuals had founded several technical schools in the region that helped train workers and entrepreneurs. A couple of small industries using flexible specialization methods were started in the 1920s. These seed conditions allowed entrepreneurs to take advantage of a series of political and economic changes that occurred after World War II.

Since the beginning of the twentieth century, the people of Emilia-Romagna have strongly supported the Socialist and Communist parties. In response to threats from fascism during World War II, agricultural workers and other working-class groups overcame previous conflicts and united under the Communist banner. After the war ended, numerous Communist Party officials were elected to office in Emilia-Romagna. These regional government officials provided strong support for both entrepreneurs and workers. For example, the regional government encouraged the development of small industries by providing credit to entrepreneurs (Capecchi 1989). Other social services, such as day care and affordable housing, promoted labor force participation and social welfare for workers. Finally, the regional government also organized cultural events and tried to revive old urban centers, further strengthening Emilian identity among entrepreneurs (Brusco 1982).

Another intriguing aspect of this case is that the growth in Emilia-Romagna took place without the support of the national government. In fact, the regional government clashed on numerous occasions with the national government, which was controlled by the center-right Christian Democratic Party. Because of the hostility between regional

and national politicians, the Italian government built few public or semipublic firms in Emilia-Romagna, which at the time would have represented a significant form of government investment. Furthermore, compared to other regions of Italy, the national government invested less in public infrastructure and gave fewer credit concessions in Emilia-Romagna (Brusco 1982).

The central government's neglect of, even hostility toward, Emilia-Romagna had several unanticipated but positive effects. First, tax collection was weak, allowing Emilian firms to keep and reinvest a greater share of their profits. Second, the clash between local authorities and the central state reinforced solidarity between workers, entrepreneurs, and regional officials. For example, the people of Emilia-Romagna responded to the government's decision to close munitions factories by helping displaced workers start their own businesses, an altruistic action based on bounded solidarity. In summary, key historical antecedents to community solidarity in this instance are found in past struggles against fascism. These struggles, and a continuing struggle with the political party in national power, created a strong class ideology among the local population, which strengthened the preexisting bonds underlying entrepreneurial development.

The Emilian experience is a justly celebrated instance of the role played in community development by the sources of social capital examined previously—bounded solidarity and enforceable trust. In this instance, the process was not limited to a single village or town but encompassed an entire region. Ironically, successful capitalist entrepreneurship in Emilia-Romagna was cemented by a solidaristic class ideology that was opposed to large capitalist firms and the state. This shows how good proletarians can make effective small entrepreneurs by drawing on the community bonds created by past class struggles. In addition, however, the Emilian industrial districts drew on a set of unique historical resources, including entrepreneurial traditions dating back to the medieval period and the strong influence of an artisanal-technical culture promoted by specialized trade schools (Capecchi 1989).¹

This successful experience has inspired a number of scholars who have seen Emilian flexible specialization as a blueprint for economic growth with greater social equality (Piore and Sabel 1984). The truth, however, is that the conditions giving rise to bonds of solidarity and trust among small producers travel poorly. The normal pattern revealed by studies of small firms in other national contexts is one of competition and mutual distrust, with only sporadic instances of cooperation. In Spain, high-tech electronic firms in the suburbs of Madrid never developed the requisite social networks to give rise to in-

dustrial districts (Benton 1989), and informal producers of garments, toys, and furniture in Alicante never coalesced into anything resembling solidaristic communities but reverted instead to atomized production and exploitative labor practices (Ybarra 1989).

A deliberate search for instances of solidaristic entrepreneurial communities resembling the Emilian model in five Caribbean Basin countries yielded consistently negative results (Portes, Dore-Cabral, and Landolt 1997). In those countries market behavior and individualistic competition were usually the norm. In the single instance of bounded solidarity found by the study—an indigenous Mayan community in Guatemala—the absence of support from the authorities and lack of technical know-how confined entrepreneurs to the role of producing low-value-added garments at the bottom of a subcontracting chain (Pérez-Sáinz 1997).

The Transnational Migrant Entrepreneurs of Otavalo

Our next example of social capital and community development examines how a particular indigenous community in South America, the Otavalans, have used social capital based on bonds of solidarity and trust to create and maintain a market niche for their crafts and music. Using the framework laid out earlier, we argue that Otavalan transnational businesses have succeeded because of their ability to recognize their advantageous position vis-à-vis other indigenous groups. The case of Otavalo is in line with Ronald Burt's point (this volume) that dense networks do not always guarantee positive outcomes. Individuals must be able to connect members of their network to outside opportunities, as seen in this example.

The region of Otavalo, Ecuador, is inhabited by an indigenous people who live in several contiguous communities and speak the same language, share a common dress, and have a common identity. Otavalans have combined international migration and entrepreneurship to create a market for their cultural identity through handicrafts and music. In his fieldwork in Otavalo, David Kyle (1999) found that Otavalans travel back and forth to at least twenty-three different countries to sell locally produced handicrafts. In addition, hundreds of groups of Otavalan musicians travel through North America and Europe and enjoy notable success. Otavalan artisans represent the single documented experience of something resembling an "industrial district" in Latin America. The social resources behind the success of this indigenous community offer additional lessons on the distinct

origins of this resource and its bearing on local economic development.

A Privileged Colonial Relationship

As in the case of Emilia-Romagna, the roots of Otavalan entrepreneurship lie in the region's unique historical development. Early on during the colonial period, Spaniards singled out Otavalans from other indigenous groups in Ecuador for being "cleaner" and "more businesslike." Noticing that Otavalans were highly skilled in weaving, Spanish colonials hired them to make specialty fabrics, such as "English" tweed, because they could produce it at a much lower price than was obtained for European imports (Kyle 1999). The proximity of Otavalo to the colonial administrative capital of Quito also facilitated the transportation and sale of these goods.

This special relationship between Otavalan weavers and the white and mestizo elite had several effects. First, as the work of Otavalans came to be known throughout colonial Spanish America, the market for Otavalan products expanded and their positive ethnic identity was strengthened. Second, Otavalan weavers worked as independent entrepreneurs. This independence was not granted by a benevolent colonial authority but rather resulted from the failure of local elites to industrialize cloth production to compete with cheap imports from Europe. Had these industrialization efforts been successful, Otavalan weavers probably would have been proletarianized as wage workers in textile factories. However, because they worked as independent producers, Otavalans developed a privileged position in the colonial system and gained a direct link to the cash economy (Kyle 1999). The positive external and ingroup identification created durable bonds of solidarity and trust among Otavalan artisans. The opportunity for entrepreneurship and direct interaction with consumers allowed Otavalans to develop external ties and to gain skills in dealing with outsiders.

In the twentieth century another set of factors came together to transform Otavalans from a locally privileged indigenous group into a transnational entrepreneurial community. In the 1940s a few Otavalan communities began to industrialize their production. Their resulting prosperity allowed them to purchase even more advanced technology, further increasing production. In the 1960s international development agencies, including the Peace Corps, recognized the potential of Otavalan trade and offered technical and financial assistance. At this time Otavalans began to develop products that marketed their own cultural identity, such as woolen ponchos and indigenous hats and scarves. They even incorporated the designs of

nearby native communities. The number of Otavalan handicraft producers grew as community members supported each other's efforts to gain access to the credit and raw materials needed to start a business. These instrumental sources of social capital allowed Otavalans to obtain valuable resources through their network memberships.

The shift to the production of indigenous textiles and styles made Otavalo a "poster city" for Ecuador's growing tourist business, and a tourist market was built in the center of town. In the 1970s the ability to commercialize goods outside of Otavalo was increased by the construction of the Pan-American Highway, which reduced the trip from Otavalo to Quito and its international airport to about two hours. Otavalans used connections they had been cultivating for centuries to establish markets for their garments in the rest of the country and then made their move abroad. Some permanent Otavalan settlements were established in large American and European cities, but most producers and merchants continued to travel to and from these overseas "colonies," staying in them for periods of less than one year. Hence, unlike other Ecuadoran and Latin American immigrants, Otavalans do not settle permanently in their places of destination but use them instead as outposts of a dynamic international trade. The boom in production and sales created significant prosperity in Otavalo, one of the few places in Latin America where an indigenous people actually enjoys a higher standard of living than the otherwise dominant whites and mestizos.

Not all Otavalans are able to participate in the handicraft trade. Indeed, by the 1980s greater competition and higher capitalization costs had made it difficult for young Otavalans to start new handicraft businesses. Around this time Otavalan folk music groups began to enjoy success abroad. As with the handicraft business decades before, Otavalans recognized that their cultural identity provided them with an advantageous position, and they used their position to create a new niche—music—in which young Otavalans could participate. By the late 1990s, Kyle (1999) estimates, hundreds of such groups of Otavalan musicians were traveling through Europe and North America. Because these groups are so successful, local travel agents are willing to issue international plane tickets on credit. Thus, to get a start in this new occupation, potential touring musicians need little more than their cultural identity to get access to the resources they need, such as credit, to start their business.

Ethnic Identity as Economic and Social Capital

Among Otavalans, group identity has become a resource that opens a door to a productive activity (handicrafts and folk music) and the

financial resources to initiate it (loans for production, credit for plane tickets). According to Kyle (1999), the key to Otavalans' success has not been their weaving or music in and of themselves, but rather their ability to *market* their cultural identity and to establish and maintain political and economic ties abroad without losing their distinctness. Despite numerous changes that have taken place in Otavalo during the last forty years, such as urbanization, new industrial technologies, and greater contact between Otavalans and outsiders through trade and tourism, Otavalans maintain a strong group identification. Even those who drive luxury cars maintain their distinctive traditional dress. Their success at weaving and trade since the colonial era and today's successful marketing of their handicrafts have heightened a sense of cultural distinctness that forms the basis for bounded solidarity. Nearby villages that are not Otavalan but have a similar lifestyle and history have not been able to enter the profitable handicraft market.

The early success of Otavalan weavers has become a source of social capital that is available to group members but not to others. As described by Kyle (1995, 330):

Far from being atomized actors, the actions of an Otavalan weaver, merchant or musician depend very much on what other Otavalans have done before them and are currently doing. Group membership carries with it . . . the possibility for social capital, though not necessarily in the form of direct aid, and also sets parameters on what is acceptable and what is not.

A common ethnic identity implies norms and values that set limits on entrepreneurial competition and individual aggrandizement. This normative structure is not kept in place by legal contract but rather by enforceable trust—the capacity of the community to monitor and regulate its members. The proven success of economic strategies grounded on such bonds reinforces them and guides the course of future entrepreneurial activities.

Burt's concept of "structural holes" (this volume) is helpful in understanding how Otavalans created a niche for their products. However, as the editors point out in chapter 1, Burt does not theorize precisely how individuals and groups discover such opportunities. It is clear that the privileged social location of Otavalans vis-à-vis other indigenous groups dating back to the colonial era provided them with expertise in a particular craft, knowledge of external markets, and the capability to capitalize on the advantages they held. For Otavalans, their privileged social location was a necessary condition

to perceiving a sequence of external opportunities that passed other groups by.

Internal Competition and Social Capital

The existence of social capital does not imply the absence of social hierarchies. Indeed, the growth of transnational migration in Otavalo reinforced preexisting social inequalities. At the individual and family levels, financial resources and technical expertise differ greatly among entrepreneurs. Successful Otavalan weaving families have their own networks of social ties linking them to external markets, and they closely guard information about markets and clients abroad. There is indeed a clear status hierarchy differentiating the more successful, internationally oriented artisan families from those producing for the local market with more primitive methods.

Social differentiation and internal competition may seem to run contrary to the ideal of an entrepreneurial community driven by social capital. This is a mistake. As illustrated in the case of Emilia-Romagna, there is room for competition and differentiated success among entrepreneurs. The significance of social capital in these settings is manifested in the *normative limits* imposed on competition and the *elective affinity* that leads entrepreneurs to seek loans and market advice within their community and hire their members in preference to outsiders.

Looking for vocal expressions of solidarity as evidence of social capital overlooks the fact that the sources and effects of this mechanism can be measured only over extended periods of time. In addition, they can be assessed only through the aggregate effect of numerous individual transactions (Portes 1997b). Thus, we must examine not just what groups of people *say* about each other, but how they treat each other *in practice*, such as through hiring and marketing norms and the prevalence of informal business transactions that require enforceable trust.

In Otavalo, as in Emilia-Romagna, the existence of social capital does not eliminate all forms of competition between producers or cause all financial resources and information, such as contacts, to be shared equally. Nonetheless, competition can coexist within a normative system grounded on enforceable trust. In both cases, however, the origins of social capital must be traced to unique historical processes that culminated in distinct cultural patterns and community networks. Evidence that such outcomes are exceptional and not easily reproducible is found by looking no further than nearby indigenous communities whose socioeconomic condition is quite different. De-

spite the consistent success of Otavalans, other Andean peoples have been unable to reproduce their entrepreneurial performance and indeed have fallen into a relationship of dependency, as Otavalans acquire other groups' handicrafts to market them abroad as their own.

Committees of Salvadoran Migrants and Community Development

We turn now to a case that manifests primarily altruistic sources of social capital—Salvadoran migrants in the United States and their organization of civic hometown committees. From 1980 to 1992, El Salvador suffered a civil war during which one in every five Salvadorans left the country. By the end of the 1990s an estimated 1.2 million Salvadorans were living in the United States (Landolt et al. 1999). Throughout the 1980s remittances sent by these migrants to their families in El Salvador consistently reached a total of \$600 million annually. By 1996, four years after the end of the civil war, this amount had doubled to \$1.26 billion (Landolt et al. 1999). Remittances sent directly to family members constitute crucial sources of support and thus are spent on subsistence needs, including food and health. Sometimes remittances are invested in a business or land. In a certain number of cases, however, groups of migrants have pooled their resources to contribute to community development projects in their hometowns. This last phenomenon has attracted the attention of scholars and politicians alike, because it represents an instance of spontaneous collective altruism outside established institutional structures.

With the end of the Salvadoran civil war in 1992, civic associations of immigrants began to appear. These associations were often led by former members of the solidarity network that had supported the insurgent guerrilla force, the Frente Farabundo Martí para la Liberación Nacional (FMLN). Rather than being organized around party lines, however, these groups used community of origin as their basis for solidarity. The groups are called *comités del pueblo* (hometown associations). Their objective is to support the reconstruction process in El Salvador, in particular by contributing to public works in their communities.

The primary motivation for the founding of these associations was solidarity based on a sense of bounded moral obligation to family and friends who remained in El Salvador after the civil war. The emergence of the *comités* was also influenced by Salvadoran migrants' reception in the United States. Despite the fact that they were fleeing political violence, Salvadorans did not receive official recognition as refugees. As a result, most of them entered the United States as illegal

migrants at a time when the U.S. economy was in a recession and the backlash against immigration was increasing. This precarious legal situation, their social marginalization, and fear of deportation further encouraged Salvadorans both to bond together in the United States and to remain closely linked to their places of origin. At the same time their past history of political struggle, both in the Salvadoran war and in support of migrants' rights in the United States, provided the leadership experience necessary to found the new civic committees.

Although their initial poverty prevented Salvadoran immigrants from making significant contributions to their hometowns, the subsequent improvement of their economic situation led to both the proliferation of the committees and more significant civic projects financed by them. Thus, while solidarity grew among Salvadoran migrants as they settled in the United States, they could use it to pursue development in their hometowns only after their economic situation in the United States had improved. This observation accords with Burt's point that the quality of social capital varies with changes in social location and supports our earlier argument that one must pay attention to the quality of resources to which social capital provides access.

Patricia Landolt and her colleagues (1999) report that more than seventy hometown organizations exist in two of the most concentrated settlements of Salvadorans in the United States, Los Angeles and Washington, D.C. These associations vary in size from just a few *paisanos* (people from the same town) up to twenty-five core members. Leaders of these groups have forged extensive ties among Salvadorans residing in different U.S. cities who share a common origin. Ingroup solidarity is further strengthened by committee sponsorship of social and cultural events in the community. These efforts both reinforce Salvadoran identity in the United States and generate significant contributions for public works at home.

Civic committees have collected up to \$50,000 for community development projects in their towns. Projects financed by these funds—roads, parks, schools, and hospitals—have the character of public goods, that is, they are equally available to all community members. To be successful, such projects depend on local cooperation with municipal and provincial authorities or with counterpart *comités* in El Salvador. In the absence of any supervisory authority, the success of such projects depends on the norm observance guaranteed through enforceable trust. It is here that problems have emerged, given the uncertain contours of the transnational community underlying these initiatives.

Despite the committees' initial success in raising funds, the fact

that many Salvadoran migrants still live in precarious economic and legal conditions decreases their ability to continue contributing to these organizations. In addition, migrants have competing sets of relations and obligations that weaken their ties to hometown associations over time. Most important, the operation and success of community projects depend on personal ties between migrants and hometown leaders without any supervising institutional structure. Conflicts have sometimes developed because the migrant associations and local leaders do not necessarily share the same vision of development. Because they are populated largely by new residents who settled there during or after the civil war, some communities find it more difficult to establish trust and common goals with the expatriates.

Despite the hometown committees' humanitarian goals and their leaders' efforts to promote cooperation, the context of reconstruction in El Salvador has given their work an unintended political dimension. For example, to carry out a project a local counterpart in El Salvador must be chosen. Inevitably this choice becomes a political statement. Furthermore, the substantial remittances sent by Salvadoran migrants to their families and often to their hometown as well for civic projects have sparked reactions from the local and national governments. The government of El Salvador has become aware of this economic potential and has encouraged its consulates to create organizations that essentially compete with the hometown associations by raising funds for local investment. Thus, although the comités arose as a series of grassroots efforts, the transnational fields of actions that they have created have evolved into a contested terrain (Landolt et al. 1999). Unlike the case of Emilia-Romagna, government action does not support popular initiatives but competes with them.

The Salvadoran experience highlights the fragility and unexpected effects of community development projects based solely on social capital. Despite the strong commitments of many expatriates to their home communities, their efforts are hampered by the absence of institutional enforcement mechanisms to guarantee appropriate behavior by all parties involved. The tenuous nature of ties across national borders weakens enforceable trust, while the legal system of the home country is seen as illegitimate. A great deal of suspicion arises concerning the real motivations of immigrant and local leaders, the destination of funds, and the viability of projects. Finally, those instances of successful completion of local works give rise to unintended consequences, including the reactions of nearby communities that lack a comité abroad and vigorous efforts by national authorities to co-opt and redirect this flow of resources.

Conclusion: Theoretical and Practical Lessons

The three cases we have examined are illustrative, but not exhaustive, of all the variations that the relationship between social ties and community development can take. As mentioned at the start, other cases include those studied by Geertz (1963, 1965) in Bali and by Boissevain (1974) in Malta, places where dense social ties ended up suffocating individual initiative and entrepreneurial ventures. Taken together, these various instances indicate that bounded solidarity has a positive impact on local development when found in conjunction with well-established entrepreneurial traditions, artisanal or technical skills of some sort, and a favorable external environment. The successful local economies of Emilia-Romagna and Otavalo possess these elements in various measures. The development potential of Salvadoran transnationalism is stunted, on the other hand, by an adverse environment in which powerful political actors seek to co-opt rather than support these ventures.

Granovetter (this volume) argues that a key goal of economic sociology is to demonstrate under what circumstances trust can be used for development. We contribute to this agenda by exploring three distinct network structures that have propelled local initiatives. One could correctly describe the cases of Emilia-Romagna, Otavalo, and Salvadoran migrants as groups of entrepreneurs who learned how to access external opportunities and implement grassroots initiatives. The history of how social capital emerged in each case and was sustained (or not) over time, however, is *sui generis* and not easily subject to reproduction. In each instance, changes in external conditions also affected the continuation of particular developmental experiences. For example, the success of industrial districts in Emilia-Romagna sparked interest and successful takeover bids by large corporations (Harrison 1994), and the amount of resources channeled by Salvadoran hometown committees to their communities led to political competition in the effort to control this economic flow and its allocation. Hence, the very success of grassroots initiatives can draw into the picture external actors who change the nature of the interactions.

In summary, these examples illustrate three key aspects of social capital as bonds of solidarity and trust within a community: first, in conjunction with other factors, this economic and political mechanism can lead to successful, grassroots-led outcomes; second, it is quite difficult to bring it about; and third, unexpected consequences often

emerge in the process of building the required preconditions. For the most part, the research literature has not found successful attempts at "social engineering" that seek to build solidaristic networks when few or none exist. More often than not, such attempts end in failure, either because of free-riding by some participants or because the communitarian structures quickly weaken after outside supports are removed (Portes and Itzigsohn 1994). Rather, successful developmental experiences build on what already exists, reinforcing existing social ties and working alongside definitions of the situation that are the product of specific historical trajectories. Colonialism in Ecuador, fascism in Italy, and a civil war in El Salvador are the direct historical antecedents for the surge of bounded solidarity in these particular settings.

There is no generalized formula to put such social ties to use in development. Instead, future successful experiences of community development will be achieved one at a time by combining existing community networks with careful nurturing of local skills and the provision of strategic external support. Bureaucratic top-down formulas that posit social capital as a magic wand for local ills will consistently fail. The best chance of positive developmental outcomes is offered by a more modest approach that departs from the need to adapt any external intervention to local traditions and forms of solidarity and to support popular initiatives with appropriate material resources.

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Note

1. This heritage is not social capital, as defined previously, but is akin to Bourdieu's (1980) definition of cultural capital as the skills and traditions common to members of a particular collectivity.

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