

THE EXPANDING CONCEPT OF CAPITAL: THE ROLE OF SOCIAL AND HUMAN CAPITAL IN ECONOMIC DEVELOPMENT

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Abstract. The *purpose* of this paper is to analyze the concept of social capital, its theoretical evolution, and its role in socio-economic development. The study explores how social capital interacts with human and economic capital, highlighting its significance in fostering economic growth, democracy, and social cohesion. *Methodology.* This study employs a mixed-methods approach to examine the role of social capital in the economic development of Ukraine. The research combines quantitative analysis of statistical data with qualitative insights gathered from surveys and expert interviews. *Results.* The findings of this study highlight the significant impact of social capital on Ukraine's economic development. Higher levels of trust and civic engagement contribute to stronger economic performance. Regional differences in social capital affect economic stability and development potential. Strengthening institutional transparency and community-led initiatives is vital for sustainable economic growth. *Practical implications.* The findings of this study provide valuable insights into how social capital can be leveraged to foster economic development in Ukraine. The practical implications are relevant for policymakers, business leaders, and civil society organizations aiming to enhance economic resilience and long-term growth. *Value / originality.* This study contributes to the existing literature by offering a comprehensive analysis of the role of social capital in driving economic development in Ukraine, a context that has been underexplored in academic research.

Keywords: Social capital, human capital, economic development, trust, governance, institutional efficiency, social cohesion, democracy, Ukraine, public trust, regional disparities, policy recommendations.

JEL Classification: O15, I25, I21

1. Introduction

In the context of global economic transformations and geopolitical challenges, the role of social capital as a driver of economic development has gained increasing academic and practical interest. Social capital, encompassing trust, cooperation, and network interactions among individuals and institutions, plays a crucial role in shaping economic resilience and fostering sustainable growth. For Ukraine, a country undergoing significant socio-economic and institutional changes, understanding the mechanisms through which social capital influences economic development is particularly relevant. Despite the literature on social capital, its impact on economic development in Ukraine remains insufficiently explored. Existing studies primarily focus on

institutional reforms, economic policies, and macroeconomic stability, often overlooking the social dimensions that contribute to economic performance. This research fills this gap by offering a comprehensive analysis of the relationship between social capital and economic development in Ukraine, considering the country's unique historical, cultural, and political context.

2. Social Capital as a Factor of Economic Development

In the second half of the 20th century, with the discovery of new forms of social knowledge, the concept of "capital" underwent a significant expansion and deepening. In the late 1980s, its theoretical variants such as "human capital"

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and "social capital" emerged. "Human capital" encompassed individual knowledge, skills, and abilities, while "social capital" referred to the set of norms, rules, and social connections that not only form a favorable environment for economic activity, but also result from the socio-economic behavior of the subject (Dasgupta, Serageldin, 2000).

Gradually, the focus shifted from material production to social relations and relationships, which became key components of capital formation, particularly economic capital. The term social capital was first introduced by Pierre Bourdieu in *Forms of Capital* (1983), where he used it to refer to social ties that can serve as a resource for profit. He argued that capital can take three main forms depending on the sphere of its operation and the possibility of transformation for effective action.

1. Economic capital is directly convertible into money and institutionalized in the form of property rights.

2. Cultural capital – under certain conditions, it can turn into economic capital and acquire an institutional form, for example, in the form of educational qualifications.

3. Social capital is formed on the basis of social obligations and connections, which can also be converted into economic capital and acquire institutional expression, such as aristocratic titles (Bourdieu, 1986).

According to the definition of the World Bank, social capital is institutions, relations and norms that shape social interaction qualitatively and quantitatively. Social capital is distinguished alongside productive, financial, human and natural capital and consists of the bonds created by belonging to a group that inspire trust, solidarity and cooperation among members. We know that good social capital has enormous potential for development, positively influencing, among other things, economic growth, democracy, and cognitive development.

According to Francis Fukuyama (2005), one of the founders of the definition of the concept of "social capital": "Social capital is necessary for prosperity and what is commonly called competitiveness, but even more important are those consequences that are not felt in the economy as strongly as in social and political life".

Fukuyama considered trust as the foundation of social relationships and believed that the level

of social capital can be assessed through research on the level of trust in society. In his opinion, trust is higher in highly developed countries compared to less developed ones, which, in turn, affects their socio-economic development. In 1993, Robert Putnam, developing the concept of "social capital", identified its key components: moral principles and norms, social values (in particular, trust) and a network of social infrastructure that ensures effective cooperation between members of society. Revealing the economic meaning of the concept, Robert Putnam emphasizes that social capital is a special resource that provides a person with the opportunity to receive advantages and new chances through participation in social relations.

Like economic capital, social capital can be exchanged for other resources, such as power, prestige or finance, effectively used in different life situations and multiplied through active participation in social networks. It is based on trust – a phenomenon that regulates social life, contributes to the legitimization of social relations and increases their effectiveness.

The experience of developed countries demonstrates that rapid and sustainable economic growth is possible only thanks to investments in social and human capital. This growth is ensured through education, continuous professional development, development of professional and public relations, coordination of interests of different social, religious and ethnic groups, as well as consideration of cultural and gender aspects. Therefore, in our opinion, it is important to understand the essence of social capital. Sikora claims that social capital is gradually becoming the leading direction of economic thinking in the field of economic development, forming a new paradigm. According to his estimates, social capital is about 78% of the total wealth of developed market economies. He emphasizes that it is social capital that creates the basic condition for the functioning of a market economy – trust between people (Sikora, 2001).

Specialist in the field of economic sociology M. Granovetter studied the role of social capital and proposed a very simple classification of social ties – strong (relatives and close friends) and weak (acquaintances and friends, colleagues, people with whom we have little to do except work, study or circumstances). Mark Granovetter's theory emphasizes that weak ties are more important

than strong ones. They promote mobility, social integration and innovation, because through them people gain access to new opportunities, ideas and knowledge.

The economic value of social capital lies in its ability to reduce the costs of coordinating joint actions by replacing contracts, formal rules, and bureaucratic procedures with relationships built on trust, professional standards, ethical behavior, and informal norms formed through cultural traditions and education. Like any other type of capital, social capital brings benefits only if it is actively involved: exchange, integration and transfer. The process of accumulation of social capital in the economic system can be described as a unity of three key components:

- resource component – human capital;
- environmental component – socio-psychological and institutional environment;
- the effective component is the level of well-being of the population.

3. Ukrainian Context: Challenges and Prospects

Let's take a closer look at each of the components of social capital in Ukraine. The resource component of social capital, that is, human capital, is the basis for its formation. People are the key goal, determining factor and driver of social and economic development.

Every year, the United Nations Development Program calculates the Human Development Index (HDI) for the countries of the world. In Ukraine, this indicator has shown a downward trend in recent years (Fig. 1), and in 2022 the country took 100th place among 193 countries (2023-2024 Human Development Report).

The HDI is a generalized indicator for assessing average achievements in three main dimensions of human development: long and healthy lives, access to knowledge and a decent standard of living.

UNDP Resident Representative in Ukraine Jako Silje noted that while development in Ukraine has proved to be sustainable, given the effects of the COVID-19 pandemic and full-scale war, challenges for Ukraine still lie ahead, as the difficulty of data collection, especially in the occupied territories, makes it difficult to assess the full depth of the impact of a full-scale invasion of Ukraine. Silje believes that action and support will be needed to mitigate the negative consequences and keep Ukraine on the path to sustainable development (UNDP Report).

In addition, significant regional disparities were observed in Ukraine even before the full-scale war. The highest HDI indicators were registered in Kharkiv, Chernivtsi, Lviv, Ivano-Frankivsk and Zakarpattia regions. On the other hand, in other regions, the HDI level remained below the average, which indicates the uneven development

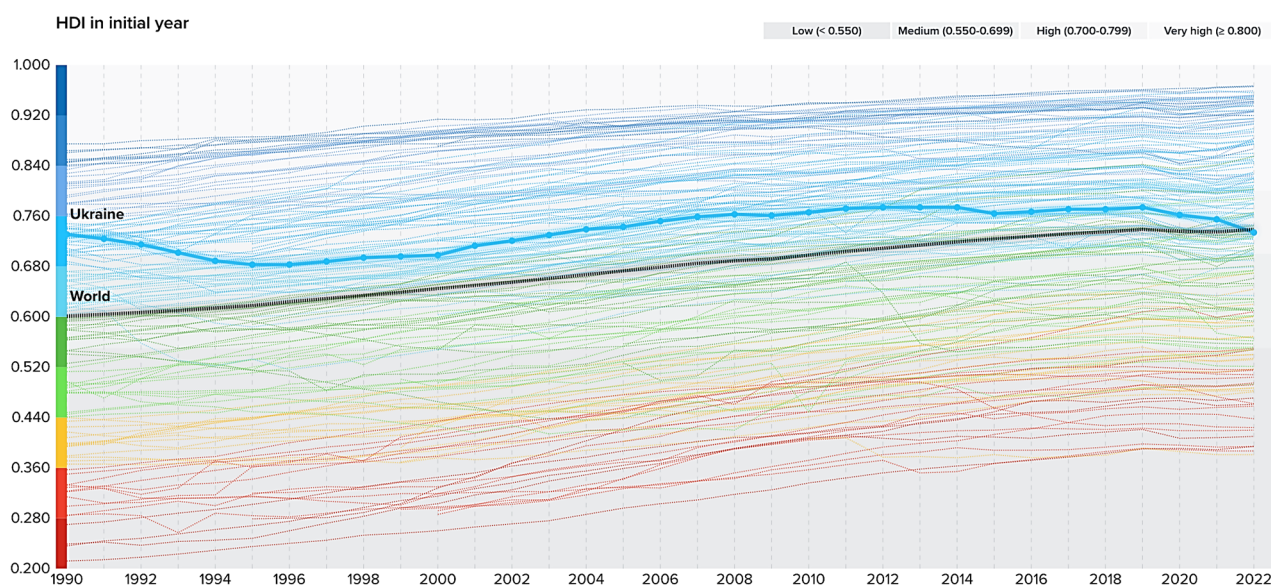


Figure 1. HDI of Ukraine in comparison with the world average for the years 1990-2022 (2023-2024 Human Development Report)

of human capital in the country. According to the 2020 Human Capital Index, 33 out of 48 countries in Europe and Central Asia are in the top third of the global ranking, and almost all are in the top half.

At the same time, significant differences are observed within the region. For example, a child born in Poland has the potential to achieve 75% of the productivity of an adult with a full education and optimal health, while in Tajikistan this figure is only 50%.

In Ukraine, a child born today can expect to achieve 63% of the productivity of an adult, provided they have quality education and a proper level of health. Although this result exceeds the average for countries with a similar level of economic development, it is still lower than the average level in Europe and Central Asia.

The biggest concern is the lack of progress: unlike most countries in the region and the world, Ukraine has not shown improvement in human capital between 2010 and 2020. This indicates the need for larger and more targeted investments in the education system, health care and social protection for the full realization of the country's human potential.

The formation of social capital occurs under the influence of the socio-psychological and institutional environment. The socio-psychological environment includes social norms and the level of trust in society. Common goals, values, norms and mutual trust contribute to the cohesion of society, which determines the level of institutional receptivity and the effectiveness of policies aimed at socio-economic development.

According to the Legatum Institute, Ukraine has the strongest indicators in education and social capital, but the weakest in security.

The famous American economist R. Reich wrote: "Politicians, of course, do not understand that the real potential of a nation is not even the possession of certain technologies, but the ability of citizens to solve more complex tasks of the future, based on the ability to adequately solve them in the past or present" (Robert B. Reich, 1992).

But measuring the ability of citizens to solve the tasks of the future and to trust each other is quite difficult, because these are subjective categories that are difficult to measure.

Scholars offer various indices and scores, including the Human Development Index and

the Prosperity Index. According to the Legatum Prosperity Index, Ukraine in 2023 took 74th place among 167 countries of the world. The Prosperity Index was created in 2017 based on 104 different indicators, including:

- Economic development
- Conducting business
- Government
- Education
- Health care
- Security
- Personal freedoms
- Social capital
- Ecology.

Indicators are divided into objective and subjective. For example, the "Health care" indicator is based on 11 differently weighted indicators, of which nine are objective and two are subjective: population prevalence of diabetes and obesity, level of access to sanitation (which includes, among other things, the percentage of the population with access to quality waste disposal that prevents human, animal and insect contact with excreta), life expectancy, mortality rate, immunization rate, tuberculosis incidence rate and community mental health indicators.

The indicator of the "Doing business" category is based on the indicators: availability of financial services, ease of obtaining a loan, ease of connection to electricity networks, ease of resolving insolvency issues, speed of opening a new business, fixed broadband Internet access, ease of hiring and firing employees, protection of intellectual property, logistics efficiency index, public perception of ease of starting a new business, assessment of labor efficiency, severance pay upon dismissal.

Ranking positions of Ukraine among the countries of the world according to the components of the Legatum Well-being Index in 2023: economic development – 77th position, doing business – 78th, public administration – 91st, education – 40th, health care – 101st, security – 131st, personal freedom – 68th, social capital – 59th, ecology – 88th, investment environment – 124th, infrastructure – 76, living conditions – 74.

The best positions of Ukraine in the sub-indices of social capital and education, and the biggest lag in the sub-indices of public administration and personal freedom (Figure 2).

Research by the Legatum Institute found that the public administration in Ukraine has a low level of public trust: only 21.1% of Ukrainians trust the government, 10.2% support the government's actions in overcoming poverty.

The level of corruption in Ukraine exceeds the world average and is 83.3%. The low level of trust in Ukraine in state institutions, in particular, the judicial branch of government is trusted by only 18.2%, while the world average is 52.6%. 20.5% of Ukrainians believe in the integrity of elections in Ukraine (The 2014 Legatum Prosperity Index).

State-legal institutions affect all aspects of social capital, and the inefficiency of public administration becomes a significant obstacle to the accumulation of social capital. In international ratings, Ukraine shows the worst results in terms of such indicators as the level of trust, the independence of the judicial system, the effectiveness of the legal system in settling disputes, the reliability of the work of law enforcement agencies, the level of corruption and favoritism in the decisions of officials.

The weakness of state and legal institutions significantly complicates the process of accumulation of social capital. For example, in an environment where corruption and favoritism are widespread, the connection between a person's personal and professional qualities and his financial situation decreases. Thus, the institutional environment does not create conditions for the capitalization of human resources.

The last component of the accumulation of social capital in the economic system is the level of well-being of the population. The level of well-being of the population is a multidimensional indicator that includes economic, social, psychological and environmental aspects of life.

It determines not only material well-being, but also access to quality social services, the level of life satisfaction, the state of health of the population and safety. The effective interaction of these elements creates conditions for the formation of a high level of social trust, social cohesion and sustainable economic development.

A number of indicators are used to assess the effective component, which can be grouped according to the main aspects:

1. Economic indicators:

– Gross domestic product (GDP) per capita reflects the level of economic activity and material security.

– Income level – the average and median income of households, the share of the population below the poverty line.

– Employment level – availability of jobs, working conditions, unemployment rate.

2. Social indicators:

– Human Development Index (HDI) – includes life expectancy, level of education and income.

– Access to social services – education, medicine, housing, communal services.

– The level of social trust is a measure of social cohesion and trust in institutions.

3. Indicators of quality of life:

– The happiness index is a subjective assessment of life satisfaction.

– The level of health of the population – life expectancy, the level of morbidity.

– Security – crime rate, sense of security among citizens.

3. Public activity:

– The level of involvement in volunteering and charity reflects the willingness of citizens to invest in social development.

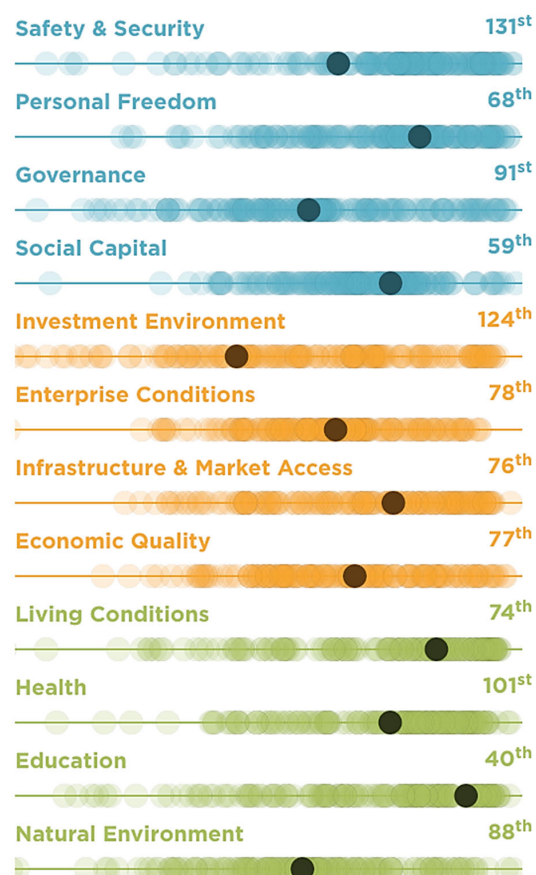


Figure 2. Legatum's well-being index in 2023 (The 2014 Legatum Prosperity Index)

4. Environmental indicators:

- Environmental quality – clean air, water, access to natural resources.
- The ecological sustainability index is an indicator of the impact of ecology on well-being

Social capital directly affects the level of well-being. A cohesive society based on trust, shared values and effective institutions creates favorable conditions for economic growth and social stability. A high level of social capital ensures:

- Reducing the level of crime and corruption.
- Increasing efficiency of public administration.
- Strengthening the social responsibility of business.

At the same time, weak institutions, corruption and a low level of social trust become obstacles to the accumulation of social capital and the achievement of a high level of well-being.

To overcome these problems, it is necessary to strengthen social capital through the development of institutions, increased transparency, and the formation of a culture of trust and cohesion.

The main directions of strengthening social capital at the national level are:

1. Formation of the rule of law and an effective judicial system. Citizens should feel that their rights are protected and be sure of a fair hearing in court. It is necessary to ensure the inevitability of punishment for crimes regardless of the position or financial status of the offender, to overcome corruption in the judicial system and to guarantee the rule of law.

2. Raising the standard of living of the population. In the conditions of low incomes and social standards in Ukraine, social inequality is growing, which hinders economic development, complicates the fight against poverty, exacerbates social contradictions, and slows down the formation of the middle class.

3. Development of the system of education and science. Education is a key factor not only for the formation of social capital, but also for the general development of the state. It contributes to the acquisition of social skills, reducing the level of violence and increasing the level of trust in society.

4. Patriotic education of youth. The unification of society around the national idea contributes to the strengthening of social ties and the harmonization of social relations. This is a fundamental factor both for the accumulation of

social capital and for the development of regions and the state in general.

Social capital promotes self-regulation of the economy, reducing the need for government intervention. Similarly, corporate social responsibility reduces the need for government regulation of environmental measures, labor relations, and product quality control. One of the key conditions for the formation of positive social capital is the state policy aimed at improving the welfare of citizens and creating favorable conditions for their development. Each person should have the opportunity to fully realize their potential and choose their own strategies for self-realization.

This will not only contribute to personal growth, but also lay the foundation for the formation of a stable political, social and economic system of the state. An important element of building social capital is investment in the development of a person's intellectual abilities, including both early education and lifelong learning.

Therefore, one of the primary tasks facing the state is the construction of an effective education system. It will contribute to the development of human capital, will have a positive impact on the formation of strong social networks in society. In addition to the educational process, education gives young people an understanding of the norms and values that prevail in society. Another positive consequence of the high level of the educational system is the higher productivity of the employed population. In addition, with effective school classes and extracurricular clubs for children's development, parents will also be able to work more and more efficiently.

If working parents are confident that their children are receiving proper care and education, their effectiveness in the work process will be greater. A high-quality workforce increases the chances of business success and, in turn, improves the economic situation of the community.

The key factors in the formation of strong social capital are the availability of housing, safety of the habitat, environmental safety, guarantees of proper care and support for children and people in old age, investments in youth educational programs, creation of spaces for an active and healthy lifestyle, as well as the possibility of obtaining a quality education with subsequent

employment. All these aspects directly depend on the level of development and efficiency of the country's social sphere.

The main task of state institutions, governments and public organizations is to build a fair and equal society, where all citizens have equal access to social benefits, and existing imbalances are gradually eliminated. The social and moral stability of society directly affects its economic growth, since the level of well-being is proportional to the level of economic development.

At the same time, it is rather difficult to measure social capital and compare its development in different countries. Insufficient study of social capital complicates the formation of a single generally accepted definition of this phenomenon, which, in turn, creates difficulties with its measurement.

Different countries and social institutions use different evaluation methods. This leads to the fact that the results of measuring social capital are incompatible between countries, which makes it difficult to conduct a comparative analysis and assess its impact on the development of society.

The level of development of the social sphere can, for example, be measured by The Good Country Index. It measures what each country on earth contributes to the common good of humanity, and what it takes away, relative to its size.

In 2024, Ukraine took 57th place among 169 countries. It is noteworthy that according to the indicator of science and technology, Ukraine took 1st place, which indicates a high level of educational processes.

At the same time, all other indicators are not so good: according to the indicator of culture – 90th place, security – 153rd, world order – 17th, climate – 137th, prosperity and equality – 47th, health and well-being – 55th. Of course, the security and climate indicators were significantly exacerbated by the consequences of the full-scale Russian invasion.

4. Conclusions

The results of the study confirmed the importance of social capital as a key factor in economic development, in particular its influence on the effectiveness of institutions, support of entrepreneurship and stimulation of innovative activities. It was revealed that in the Ukrainian context, the development of social capital faces a number of challenges, including a low level of interpersonal trust, a high level of corruption, and insufficient integration of social capital into state policy.

At the same time, positive dynamics are observed in the field of civic activity, digitalization of society and implementation of European management practices. This creates favorable conditions for the implementation of long-term reforms aimed at increasing the level of social capital and its effective use in the economic development of Ukraine.

Further research in this area may focus on the following aspects:

- Quantitative analysis of the impact of social capital on economic indicators – development of models that will allow to accurately estimate the contribution of social capital to GDP, the level of employment and business productivity.
- The study of regional characteristics is the study of how the level of social capital affects economic development in different regions of Ukraine, taking into account local socio-cultural factors.
- Evaluation of the effectiveness of state initiatives – analysis of programs aimed at the development of social capital and evaluation of their impact on economic growth.
- The role of digital technologies in strengthening social capital – exploring how e-government, online platforms and social networks contribute to the development of trust and social interaction.

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