

What Goes Around Comes Around: A Structural Equations Modelling Approach on Social Capital and Income

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Abstract

A great amount of investigation has been devoted to uncovering the ties between social capital and economic activity at the aggregate level. This paper instead provides new information on how social capital is accumulated and transmitted at the micro-individual level, by investigating the mutual and simultaneous relationships between social capital and income. Being in need for theories explaining the codetermination of social capital and economic outcomes, a multi-equational theoretical model for the formation of social capital and its relationship with income is presented. The relationship between different social capital dimensions and household income is then investigated by using structural equations modelling on data from the 2008 European Values Study, which contains more than 43,000 observations at the individual level. Social capital dimensions are identified by latent variables while income is directly measured. The estimated structural model allows to describe how changes in each variable propagate through the system. The relationship between the two social capital dimensions analysed suggests that social trust feeds positively into community involvement. Additionally, both social trust and community involvement have a positive impact on income. At the same time, a higher level of income affects positively social trust and (indirectly) community involvement. Sensitivity analyses complete the paper.

Keywords: social capital; income; immigration aversion; structural equation modelling.
JEL codes: O15; O17; R11; R23; B23; B52.

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