

The Republic of Serbia on a Global Social Capital Index Scale

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THE REPUBLIC OF SERBIA ON A GLOBAL SOCIAL CAPITAL INDEX SCALE

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ABSTRACT

The most important lecture we all need to learn from the literature investigation and research conducted so far on the topic of social capital is how the ways and conditions bonding people to the others imply on to the community welfare, regardless of the fact if they live in rich or poor countries. Numerous findings appeared independently in interdisciplinary social research which correspond to a contemporary perspective in social capital understanding. It refers to the findings how a community plentiful in social capital achieves better economic results and has no need for omnipresent and wasteful state government. This type of social community is not marked by a high corruption level and unnecessary social expenses and issimultaneously very well bonded and self-organised as acontrolling and corrective body of the state government. Social capital structured out of social and institutional trust brings people together for collaboration, association and collective action. Thus reaching and achieving collective interests abandoning far beyond the individual action frame contributes to societal and legal norm collective respect.

This paper is based on the conjoint data of the Legatum Prosperity Index through the correlationresearch of social capital and Prosperity Index as well as nine belonging subindices in 149 countries of the world: Economic Quality, Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom and Natural Environment in order to determine the closest bond of Social capital to the indexes named. The paper shows social capital index movement from 2007 until 2018 and places The Republic of Serbia on the global social capital indexscale.

Keywords: Social Capital, Legatum Prosperity Index, The Republic of Serbia

1 INTRODUCTION

Current literature and research results show that social capital contributes to the prosperity of the community to the extent that it is used by community members. Social capital in this context implies trust between people, trust in institutions, respect for norms and association. Most of these studies are based on World Values[1] [2] [3] [4] [5] [6] [7] [8] [9] [10] [11] [12]. [12] within Legatum Prosperity Index (LPI), collects social capital research from the Gallup World Pool and the International Institute for Democracy and Electoral Assistance (IDEA) and stresses that social networks, and the cohesion and society experience when people trust and respect one another, have a direct effect on the prosperity of a country. A person's wellbeing is best provided in a society where people trust one another and have the support of their friends and family. Societies with lower levels of trust tend to experience lower levels of economic growth. Thus the word "capital" in "social capital" highlights the contribution of social networks as an asset that produces economic returns and improves wellbeing.

[13] defined national prosperity as the well-rounded combination of material wealth but also the life satisfaction of people. Its purpose is to encourage policymakers, scholars, the media, and the interested public to take a holistic view of prosperity. Prosperity extends beyond material wealth [14]. LPI is the global measure of economic and social wellbeing and presents an insight into international wellbeing by identifying the conditions required for prosperous nation. Its broad range of indicators allows the Prosperity Index (PI) to pinpoint not only the drivers, but also the obstacles to a nation's prosperity. It is based on nine pillars of prosperity: Economic Quality, Business Environment, Governance, Personal Freedom, Social Capital, Safety and Security, Education, Health and Natural Environment. Each of the subindices provides two important analyses: an economic assessment, and an assessment of a country's subjective wellbeing, or happiness. Wellbeing is more closely linked to prosperity than it is to GDP. A rise or fall in prosperity is correlated with a rise or fall in wellbeing. On the other hand, a rise in GDP per capita is not particularly

correlated with a rise in wellbeing, although countries with falling GDP will experience a drop in wellbeing [12]. The study [15] which evaluated the Legatum Prosperity Index as an effective measure of wellbeing or prosperity by comparing it with the Gross National Income, concluded that the Legatum Prosperity Index may be considered a valid source of wellbeing assessment because it refers to those dimensions that are fundamental to individual or national wellbeing and it allows tapering off the dependence on GDP measures. By determining the factors that are most closely related to prosperity and country valuation by these factors, the Legatum Prosperity Index identifies countries that have the right foundation for creating a strong economy and citizen welfare.

This paper based on published data by Legatum Prosperity Index examined the statistical correlation of its subindices. The relative position of: 1. Serbia in the world, 2. Serbia as a part of Eastern Europe excluding the countries of Western Asia, and 3. 28 EU countries including Serbia was examined in the period between 2007 and 2018.

2. THEORITICAL FRAMEWORK

According to [12] The Social Capital pillar measures countries' performance in three areas: social cohesion and engagement (bridging social capital), community and family networks (bonding social capital), and political participation and institutional trust (linking social capital). This understanding of Social Capital is explained in [16]. This pillar evaluates how factors such as volunteering, helping strangers, and donating to charitable organizations impact economic growth, life satisfaction and improved wellbeing. It measures levels of trust - whether citizens believe they can rely on others and whether they can rely on institutions such as the police force. It also measures whether citizens feel and act as if they have a say in the political process. Empirical studies on social capital have shown that citizen wellbeing improves through social trust and family and community ties.

The views of the Legatum Institute are in line with the previous studies, such as [17], [7] and [18], suggesting that a higher level of confidence could lead to more intensive economic growth. Furthermore, [2] found that the effect of confidence in economic growth is more present in the poorer countries, contrary to the results of [1], [19] and [20] which showed that generalized trust among citizens is significantly and negatively related to productivity growth and economic growth, respectively. In the structure of social capital, empirical evidence indicates that social networks, ie. participation in the society, is one of its most important dimensions [21]. The literature generally shows both sides of the participation in associations. Thus, according to [22] participation is the main economic driver of the community and [23] portrays that managers who actively engage in associations produce better business results. However, according to [7], there is a weak support to a higher level of active participation in civil associations has a positive increase in economic growth. [21] [24] demonstrate that institutional trust and trustworthiness are weakly correlated with the perception of civism, and that if citizens believe that predatory behavior is not present in the region, their trust in institutions can be higher than in regions where, for example, government is perceived to be corrupted. The results presented by [25] show how regions of Middle and East Europe show a decrease in levels of social capital. According to this finding, the extremely low level of social capital is present in Serbia [26]. According to [27] and [28], the double implications of primary bonding are most common in transition countries when close family and friendships are not used for the benefit of everyone but for the realization of their own interests. The state of social capital in Serbia is best illustrated by [29], it is necessary to create a social climate and culture in which network contacts, activities and impacts - social capital would not be the privilege of a few transitional beneficiaries.

3 THE POSITION OF SERBIA ACCORDING TO PI AND SUBINDICES

Overall results in 2018 by [12] show that prosperity has grown globally and is at its highest ever point in the history of the Index and the gap between the highest and lowest score is the largest it has ever been. The most important driver of this improved prosperity is the significant strengthening of the world's Business Environment [30]. Accordingly, the value of PI and most of the subindices in Serbia has increased. Table 1 shows Prosperity Index (PI), Economic Quality (econ), Business Environment (Business) and Social Capital (associates). Although there was no change in 2018 in PI, compared to 2017, Serbia has risen to one place in a row. The subindex grew and Serbia grew three places in the ranking, while the subindex business, despite the increase in value, did not record a change in rank. Social capital in Serbia has risen by 3.38%, and this increase is significant (increase for 16 seats).

The relative changes in PI values and the econ, business and partner index are shown in chart 1. The changes range from 2007 to 2018 and show changes in the previous year (the previous year = 100).

Table 1. PI, econ, busi and soci in Serbia in the period between 2007 and 2018

year	PI			econ			busi			soci		
	value	Δ*	rank	value	Δ*	rank	value	Δ*	rank	value	Δ*	rank
2007	58,7	-	64	56,5	-	92	43,3	-	82	42,4	-	120
2008	58,9	0,28	65	56,7	0,30	93	43,4	0,39	88	42,4	0,08	123
2009	59,4	0,85	65	57,7	1,82	91	44,2	1,68	94	42,4	0,00	117
2010	58,6	-1,31	69	55,8	-3,30	100	46,2	4,57	91	40,7	-4,04	135
2011	59,0	0,65	71	54,5	-2,35	110	46,1	-0,17	92	41,0	0,85	134
2012	58,8	-0,39	73	53,4	-2,06	117	47,2	2,29	88	41,3	0,74	128
2013	58,8	-0,03	76	53,2	-0,34	118	50,1	6,18	82	43,9	6,18	113
2014	59,0	0,44	75	53,0	-0,27	119	49,8	-0,63	78	43,0	-2,07	131
2015	60,3	2,16	66	56,3	6,23	102	49,0	-1,47	91	44,3	3,04	122
2016	60,4	0,13	67	56,7	0,54	98	49,8	1,50	92	44,2	-0,30	123
2017	62,0	2,61	57	57,8	1,96	92	52,0	4,41	81	46,4	5,05	107
2018	62,2	0,42	56	58,3	0,86	95	52,7	1,35	81	47,9	3,38	91

*% change relative to the previous year

Source: Authors according to data [12]

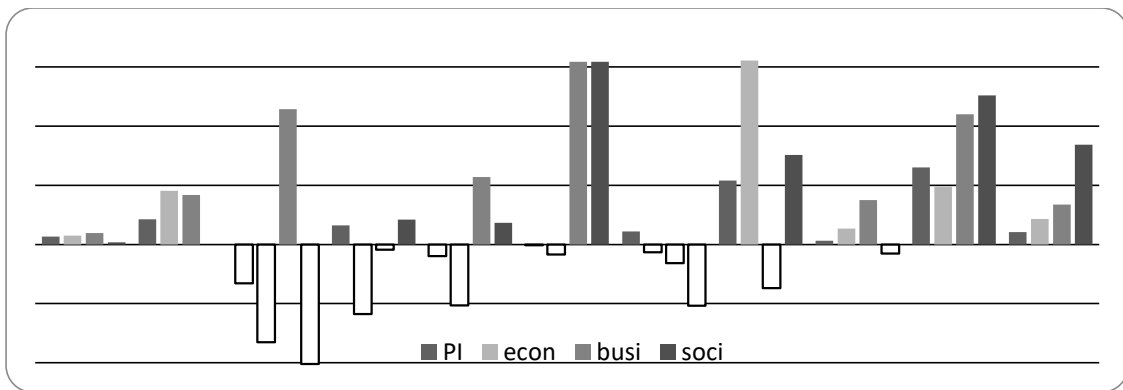


Chart 1. Relative changes in value PI and subindex econ, busi and soci

Source: Authors according to data [12]

In order to compare Serbia based on social capital with the countries of Europe with the highest and lowest levels of social capital, Chart 2 shows Norway with the highest level and Greece with the lowest level of social capital. The highest and lowest levels of social capital of the countries of Europe also belong to the countries of the EU28 + Series.

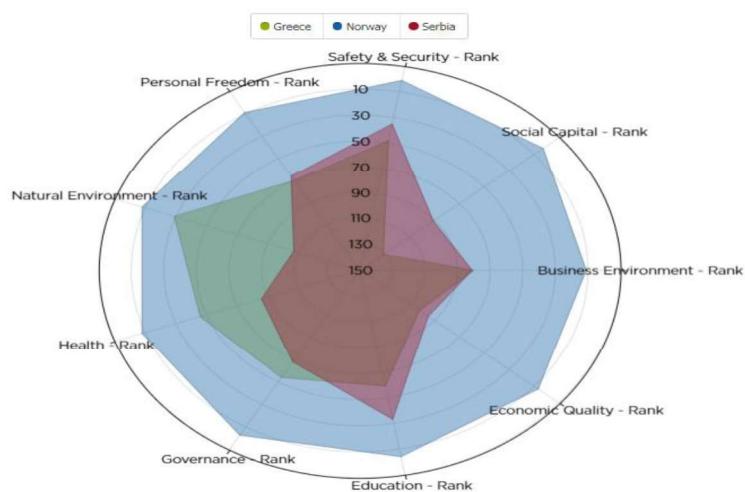


Chart 2. Subindices by rankings for Norway, Greece and Serbia

Source: Generated by The Legatum Institute, <https://www.prosperity.com/data-explorer?country>

Norway as the country with the highest PI in the EU shows a high level of all subindices. Greece, with the lowest level of social capital in the EU, also shows a lower level of economic outcomes than Serbia, but a higher level in the areas of population health, state management, democratic and encouraging citizen participation and the quality of the natural environment.

4 METHODOLOGY

LPI covers 149 nations and based on 104 indicators and 15,000 data points. The Methodology Report [31] describes the methodology of calculating The Legatum Prosperity Index and individual subindices. The research used in this paper was the data used to calculate the The Legatum Prosperity Index. Based on the conjoint data of the Legatum Prosperity Index this paper research correlation of Social Capital and other eight subindexes in 149 countries of the world in the period 2007-2018.

4.1 Data

Data for the 104 variables listed in the Prosperity Index are drawn from a wide range of sources including intergovernmental organizations such as the United Nations, World Bank, International Monetary Fund and World Health Organization; independent research and non-governmental organizations such as Freedom House, Amnesty International and Transparency International; and databases compiled by academics. For the subjective variables, two major global surveys are used: the Gallup World Poll and the Executive Opinion Survey organized by the World Economic Forum. All the data for the Pillar (subindex) Social Capital have been collected from the Gallup World Pool, in addition to voter turnout data collected from the International Institute for Democracy and Electoral Assistance (IDEA) [31]. Table 2 describes the area. Pillars of Prosperity are explained in detail in the Methodology Report [31]

Table 2. Pillars of Prosperity – Subindices of Legatum Prosperity Index

Subindex	Description
Econ	The Economic Quality - ranks countries on the openness of their economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency
Busi	The Business Environment - measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility
Gove	The Governance - measures a country's performance in three areas: effective governance, democracy and political participation, and rule of law.
Educ	The Education - ranks countries on access to education, quality of education, and human capital.
Heal	The Health - measures a country's performance in three areas: basic physical and mental health, health infrastructure, and preventative care.
Safe	The Safety & Security - ranks countries based on national security and personal safety.
Pers	The Personal Freedom - measures national progress towards basic legal rights, individual freedoms, and social tolerance.
Soci	The Social Capital - measures the strength of personal relationships, social network support, social norms, and civic participation in a country.
Envi	The Natural Environment - measures a country's performance in three areas: the quality of the natural environment, environmental pressures, and preservation efforts

Source: Authors according to [32]

Each subindex was created through a statistical analysis of data describing per-capita income and living satisfaction of the country's citizens. The Social Capital subindex is designed to answer the question of what kind of social networks and relationships, the level of trust in fellow citizens and institutions are associated with higher levels of prosperity and national income.

Some variables are important for determining the level of well-being and some for determining income, and some for both categories, such as for calculating the subindex The Governance. The weighing values of the variables are summed up with the purpose of calculating the country rank by income and well-being in each subindex. Standardized earnings and welfare results are aggregated, resulting in a subindex result for the country. Ultimately, the LPI result of the country is determined by taking the average of nine subindexes, and for each country, the overall income and total outcomes of well-being are also published.

The data thus prepared were used for further analysis of the relationship between the Social Capital subindex and other subindices, and for determining the relative position of Serbia in the world and in Europe.

4.2 Experimental design

This research attempts to answer the following question: what is the correlation between the indexes of soci, econ, busi, bove, educ, heal, safe, pers, envi. For this purpose, correlation analysis was calculated: Pearson's Correlation Coefficient [33] and Spearman's rank correlation coefficients (Spearman's Rho) [34]. For calculating the Pearson Correlation Coefficient, the calculated subindex values of all countries were used, and Spearman's calculations used the rankings of countries by subindices. In both cases there are 1788 observations. Attention is focused on the correlative relationship between Social Capital and the underlying indices.

The second step is to establish the relative position of Serbia in the world (142 countries), Eastern Europe (19 countries), Europe (42 countries), Europe without Western Asia-Eastern Europe (39 countries) and EU28 + Serbia (29 countries) for the period 2007 to 2018. LPI's subindices are used for this purpose. To determine the relative position of Serbia in prosperity compared to other countries, absolute measure of dispersion - standard deviation (σ) were calculated and then standardized variable Z-score [35] [34] for PI index and each subindex in each of the analyzed groups countries. Distribution normality was investigated and it was found that it is present only in data for the whole world and between the EU28 + Serbia countries.

5 RESULTS AND DISCUSSION

Pearson's Correlation Coefficients have shown that there is statistically significant strong positive correlation between all variables. There was a strong correlation between social capital and other subindices ($n = 1788$, $p < 0.0005$). These results are in line with some of the research findings outlined in Chapter 2. Although the results indicate that welfare is dependent on the level of social capital, yet it is a social capital variable that is least related to other variables, PI subindices (econ $r = 0.659$, $r = 0.683$, gove $r = 0.717$, educ $r = 0.545$, heal $r = 0.579$, safe $r = 0.497$, pers $r = 0.615$, envi $r = 0.581$). The correlation among other variables is strong, especially educ-heal $r = 0.866$, econ-heal $r = 0.823$, econ-bus $r = 0.807$, econ-gove $r = 0.788$, econ-educ $r = 0.795$, econ-safe $r = 0.759$, gove-safe $r = 0.733$, gove-pers $r = 0.825$.

Spearman's rho which uses the rank base for the base also show that the Social Capital variable that is statistically significantly associated with other subindices of prosperity, but that linkage is somewhat larger than when the index value is included in the calculation.

The highest variation in indices and subindices for the World (the largest variables in the bovine index) was determined by examining the variability (σ) of the index by country groups (World, Eastern Europe, Europe, Europe without Western Asia-Eastern Europe and EU28 + Serbia). The lowest variables are present in the group of countries of the EU28 + Serbia and in the group of Eastern European countries but differently in individual subindices. The EU28 + Serbia countries most differ in the subindices of business, baa and soci, and the countries of Eastern Europe in the subindices of bovine, peoples and environments. Examining the variability of countries by subindices has been found to be the highest in all groups of countries in the subindex gove, pers, soc and busi.

Preliminary analysis has shown how assumptions normality is present in data for countries of the world and countries of EU28 + Serbia. For data analyzed in Eastern Europe, Europe, and Europe without Western Asia, some assumptions of normality are disrupted. Therefore, the deviation of Serbia in the index value was examined in the group of countries of the world and in the countries of the EU28 + Serbia. The deviation was calculated using the Z-score by comparing the corresponding indexes for Serbia with the average of the world or the EU28 + Serbia expressed in standard deviations. Based on the Z-score, the percentage of countries that are worth the index is better than Serbia (Table 3).

According to the results, comparing Serbia with countries around the world, prosperity is lower in 54% of countries than in Serbia. Watching Serbia within the EU28 + Serbia, in 5-15% of European countries is lower ranked than Serbia. In the group of countries of the world there are also positive deviations from the average index (educ 0,68 σ , heal 0,11 σ , safe 0,63 σ , pers 0,21 σ). By the quality of education Serbia has significantly better results than in the established subindices. In 75% of countries, the quality and level of education is lower than in Serbia, but looking at EU28 the quality and level of education is lower in only 20% of the world countries.

Table 3. Deviation of Serbia from the rest of the world and from the EU28 countries

Index and subindex	Average Serbia	World (142 countries)		EU28 + Serbia	
		Z-value	%*	Z-value	%*
PI	59,68	0,01	46,00	-1,62	94,74
econ	55,81	-0,56	71,23	-1,79	96,33
busi	47,80	-0,26	60,64	-1,31	90,49
gove	48,08	-0,12	54,78	-1,44	92,51
educ	72,22	0,68	24,83	-0,86	80,51
heal	70,69	0,11	45,62	-1,53	93,70
safe	81,82	0,63	26,43	-1,08	85,99
pers	61,67	0,21	41,68	-1,36	89,80
soci	43,32	-0,90	81,59	-1,27	89,80
envi	55,68	-0,42	66,28	-2,30	98,93

*% of countries better than the index and subindex value of Serbia

Looking at Serbia in a group of countries, the negative deviations of the index from the average are considerably smaller than the deviation of social capital (-0.90). 81.6% of the world's countries have a higher Social Capital, and in the EU28 + Serbia 89.8%. According to most of the indexes, Serbia is in a much better position than it is when it comes to Social Capital, Economic Quality and Business Environment, and in European proportions by Social Capital and other benefits it is similar to many EU countries, while overall economic prosperity and economic quality still needs improvement.

6 CONCLUSION

Previous research on social capital is based on various sources. WVS data is most commonly used while the Legatum Institute for the calculation of the social capital level uses Gallup World Pool and IDEA data. Research results show that social capital is one of the drivers of economic development, but there are different results regarding the level of social capital linkage and economic progress.

The paper examines the linkage of social capital as subindex and other Legatum Prosperity Index subindices, and a statistically significant medium strong positive correlation has been established which relates to the relationship between social capital and economic quality, social capital and business environment. There is still a greater link between other subindices that contribute to the overall welfare of the nation (Economic Quality - Health, Economic Quality - Education, Health Quality, Economy Quality - Safety & Security, Governance - Safety & Security, Governance - Personal Freedom).

The overall prosperity in Serbia is on average higher than in other countries in the world, and in the run-up to the EU28 countries is almost at the bottom. On a world scale, Serbia's social capital in the last year has grown considerably in rankings, but still needs improvement. Economic indicators have also risen, but last year they did not follow the increase in the rank of social capital, so positive consequences are expected in the coming period.

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