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**Communist Friendship Ties in Creation of Human Capital
During the Transition to Capitalism: The Case of Poland.**

(Preliminary version. Do not quote)

The role of social capital in an occupational attainment process has been widely discussed in the social sciences literature. However, there is a lack of an empirical research that examines the dynamics of social capital influence on occupational status during the transition from communism to capitalism. In this paper, I assume that certain friendship patterns considerably help in formation of assets that are useful on the job market. I test the hypotheses that the friendship ties established in communism era pay off in capitalism as they influence improving economic well-being, attaining better occupational positions, and becoming an entrepreneur. The survey panel data used in my analyses are drawn from the representative sample of adults in Poland; it covers three important time points: 1988, the beginning of the transformation; 1993, a middle of this process; and 1998, the advanced phase of transition. This research shows that the impact of having "advantage" friends at the end of communism era on the subsequent improvement in economic well-being belonging to the winners' category is strong and significant. In addition, the fact of being acquainted with an entrepreneur at the end of the initial phase of transition considerably influences the chances of becoming an entrepreneur in the advanced phase of transition.

The role of social capital in an individual achievement is an important and well-explored topic within social science. Social capital provides resources for actors to achieve their goals, appearing in different forms and resulting in different types of human capital. In this paper, I assume that certain friendship patterns help in formation of essential assets for advancement in occupational dimensions. Further, I assume that friends who perform non-manual jobs are the most advantage group in terms of social capital that may be potentially used. I demonstrate that an individual's choice of social ties significantly influences future outcomes. In particular, I demonstrate that the type of social linkages and friendship patterns influence gaining higher socio-economic position, the advantage position in the social structure, or the entrepreneurship's business. My examination of the impact of the social capital on occupational career refers to the initial and advanced phases of the post-communist transition in Poland, 1988-1993, 1993-1998; it covers ten-year period.

Theoretical Background

Personal relationships, including friends and acquaintances, represent social capital. According to Secord and Backamn (1964, ch.7) "friendship is the outcome of sampling and estimation, bargaining, commitment and, finally, institutionalization." Therefore, relationships depends on the level of closeness, kind of commitment and obligations, sense of uniqueness, intensity of interactions and usefulness. One of the major benefits that stem from possessing "good" friends is the formation of new skills and knowledge, as well as referring oneself to the advantage group. Silver (1990) states that market relations should be calculating and rational. People may use their friends in the instrumental way. The calculation of returns on the job market in the use of interpersonal connections is an important aspect of the interactions between friends. The strong relationship between the type of social ties and a kind of job is quite common.

The Impact of Social Networks on Status Attainment Process

The rational choice approach is an important contribution to the discussion of the interrelation between social capital and the labor market. From this perspective (Coleman, 1988 and 1990), an individual occupational career is an effect of a sequence of decisions regarding accumulation of assets that can be utilized in the labor market. Within this theory human beings are rationally oriented towards gaining benefits. The creation of social ties and a choice of friends are also considered as determined by self-interest, and friends – as being instrumentally treated.

Social networks theory has been used in prediction of the association between social ties and labor market outcomes. Past research have shown that there is a substantial effect of social networks on the status attainment (e.g. Wegener 1992; Lin 1982; Marsden & Hurlber 1988). However, there is still a discussion about the mechanism of how social networks produce different prestige outcomes. In this paper, I contribute to this debate by focusing on the use of friendship ties during the transition from communism and capitalism.

The Social Networks and Mobility to Privilege Positions

The linkages between social capital and a job depend significantly on the friends' utility on the labor market. Most of good networks allow getting good jobs (Erickson 2001) and, as a consequence, improving economic well-being. For example, Burt (1992), who studied the effects of network characteristics on job mobility, found that the network characteristics are significant determinants of job mobility. Another study has shown that in case of Poland and Slovakia education translates into higher income not only because it provides people with human capital but also because it endows people with sources of social capital (Buerkle and Guseva 2002).

Angelusz and Tardos (2001) have shown that after the collapse of the communist regime wealth and the material benefits became more significantly related to social capital and the friendship pattern (2001). During the transition from communism to capitalism one could hypothesize that the chances of

moving to the privileged position or retaining it are greater for those who have good friends than for those who have not made this kind of investment. In this paper I test this hypothesis.

Social Networks and Entrepreneurship

The existence of the reciprocal relation between friendship ties and the creation of various economic activities has been frequently proven and examined by such approaches as social capital, network analysis, rational choice theory, and game theory. Granovetter (1985) called the interrelation between social networks and economics as “embeddedness” of economic activity, emphasizing the important role of social ties on economics. Social networks play an important role in creation of new ventures (Dubini and Aldrich 1991). According to Steier (2000) the success of a new venture depends significantly on an entrepreneur’s ability to establish a network of supportive relationships. He states: “understanding the role of networks remains a significant, but imperfectly understood, aspect of the entrepreneurial process.” (p. 16).

According to Castanias (2001), “advanced capitalism required the movement away from the entanglements of traditional social relations to the impersonal, individual relations we associate with modern economies in the West.” (p.1). Examining properties of the friendship relations that were established before becoming an entrepreneur might provide understanding of the small business start-up process (Vekataaman,1989:126), and be crucial for studying the emerging capitalism such as in Poland.

Hypotheses

The general premise of this paper is that friendship ties with those who occupy the advantage position in the social structure tend to improve the individual’s economic well-being, strengthen upward mobility and evoke the individual’s entrepreneurship. In the context of the post-communist transition, one could expect that societal changes cut old friendship ties and weaken their

consequences. Is it true? Or, do communist friendship ties still exercise some positive impact on the career of individuals? My hypotheses are as follows:

(1) Socio-economic index (SEI) reflects people's well-being, by taking into account occupational prestige as a function of education and income. According to the Hypothesis 1, individuals with advantage friendship ties in 1988 are more advantage in terms of economic well-being in both 1993 and 1998, than others. Those with disadvantage friendship ties are more likely to decrease their position on the SEI scale.

(2) The occupational position of managers, experts and "private business", signifies the "winners" of the post-communist transition. Hypothesis 2 states that individuals with advantage friendship ties in 1988 are more likely to improve their social position over the time, i.e. gain the relatively high position within the social structure in 1998 and 1993. I assume that, the impact of advantage friendship ties on upward mobility is stronger for 1993 than 1998.

(3) Becoming an entrepreneur, whom I define by possessing own business, is treated as an indicator of positive adjustments to new systemic rules. Hypothesis 3 states that those acquainted in 1993 with an entrepreneur are more likely to become an entrepreneur in 1998 than others. Entrepreneurs, who were acquainted with entrepreneurs, are more likely to sustain their entrepreneurship over time than those who were not acquainted with entrepreneurs.

Data and Mode of Analysis

In order to test posed hypotheses, I use the data set called POLPAN (Slomczynski, 2002). The POLPAN refers to three waves of a panel study conducted in Poland in 1987-1988, 1993 and 1998. The random sample of men and women, aged 21-65, was initially interviewed at the end of 1987 and the beginning of 1988. They were re-interviewed in 1993 and 1998. The interview schedule used in the 1987-1988 study, called here as the 1988 study, included an extensive set of questions on social ties, friendship, and the job situation of the respondent. The 1993 study contained information on friends and an occupational carrier. In 1998, a representative sample of those

interviewed in 1988 and 1993 was investigated with an additional cohort of those aged 21-30 (N = 2,278). This wave of study is based on the questionnaire that includes an extensive part devoted to the job situation of the respondent.

I use regression and logistic regression for prediction of SEI and advantage occupational position respectively. I also regress the dependent variable of being an entrepreneur on being acquainted with the entrepreneur, in its logic form. For all analyses, I use the standard set of demographic characteristics control variables.

Variables

In this research, I use three types of dependent variables:

- 1A) SEI in 1998 (socio-economic index in 1998)
- 1B) SEI in 1993 (socio-economic index in 1993)
- 2A) Being in the “winner” category, 1998 (managers, experts, “private business”)
- 2B) Being in the “winner” category, 1993 (managers, experts, “private business”)
- 3) Being entrepreneur in 1993 (a dichotomous variable: yes=1, no=0)

The main independent variables are:

- (1) Advantage friendship ties in 1988. This variable reflects the fact that the proportion of non-manual friends among all friends is very high. If this proportion is higher than .8 that the respondents receives 1, otherwise 0.
- (2) Disadvantage friendship ties in 1988. Lack of non-manual friends among all friends' equals 1, otherwise 0.
- (3) Being acquainted with entrepreneur in 1993 (a dichotomous variable: yes=1, no=0)

Analyzing the impact of advantage and disadvantage friendship ties in 1988, I use total number of friends in 1988 as a control variable. For being acquainted with entrepreneur in 1993, I use total number of friends in 1993. Other control variables include gender (male=1), age (years), and education (years of schooling).

Findings

An individual's position within the social structure does not significantly determine the number of friends. Self employed, managers, and office workers have the highest number of friends, on the average more than 9. However, farmers (one of the most disadvantage group) and experts (one of the most advantage group) have the similar number of friends, about 8. Supervisors, skilled and unskilled manual workers, as well as non-working declared, on the average, around 7 friends.

In this paper, I define the advantage friendship ties on the basis of having predominantly non-manual friends. Individuals from the top social classes - such as managers, supervisors, experts and employers - are those who have the highest number of advantage friends. Self-employed fall into the middle category with respect to the total number of advantage friends, the average for them is 4.6. Non-working group, which is a non-homogenic group, represents medium category with respect to the number of non-manual friends. In contrast to the most advantage groups, social classes representing the lowest categories in terms of human capital, such as unskilled workers and farmers, have the fewest non-manual friends.

Socio Economic Status

In the examination of the impact of friendship ties on the respondent's socio-economic status in 1993 and 1998, I use two dichotomous variables, which reflect the fact of having advantage vs disadvantage friendship ties. The reference group consists of individuals whose majority of friends are manuals, or who do not have friends at all. I control the impact of these two variables by the total number of friends.

Results show the presence of strong relationship between the type of friends and the individual economic well-being. For the 1998 and 1993 data, the effect of both dichotomous variables, advantage vs. disadvantage friendship ties on the score on the socio-economic scale is clear and in expected direction on the basis of the social capital and self-interest theories. Advantage friendship ties, established in 1988 increase position in the socio-economic scale in 1993, while disadvantage

friendship ties considerably decrease it. Both variables affect the position on the SEI scale regardless the impact of total number of friends, which is insignificant. Interestingly, the advantage, disadvantage friendship ties and total number of friends variables explain about 22% of the SEI variance. After adding to the model the SEI 1988, the coefficients decrease, but remain statistically significant, with exception of disadvantage friendship ties for the 1993 model.

(tables 1,2 about here)

Results confirm the posed hypothesis stating that individuals with advantage friendship ties in 1988 are gaining in terms of economic well-being, in both 1993 and 1998. The impact of advantage friendship ties on future economic well-being is stronger in 1998 than in 1993. The fact of having disadvantage friendship ties is negative in terms of score on the SEI scale and the impact of this variable increases over time.

Privilege Positions

Further analyses demonstrate that the advantage friendship ties of 1988 influence significantly the fact of belonging to the “winner” category in 1993 and 1998. This category consists of managers, experts, and business people; it is composed of privilege occupational positions.

Poles whose friends in 1998 occupied the privilege occupational position are more likely to improve their social position over 10 and 5 years by more than twice then those whose majority of friends are manuals, or who do not have friends at all. In contrast, the fact of having disadvantage friendship ties decreases the chances of belonging to by about 50%.

(tables 3, 4 about here)

The findings are in accordance with hypothesis 2, which states that individuals with advantage friendship ties in 1988 are more likely to improve their social position over the time, by gaining an advantage position within the social structure. The impact of being in 1988 acquainted with advantage friends on being in the “winner” category is stronger for 1993 then 1998.

Becoming an entrepreneur

In addition, my analyses prove that those who were acquainted with an entrepreneur in 1993 are more likely to become an entrepreneur in 1998 than others. Having at least one entrepreneur among friends in 1993 increases the chances of becoming an entrepreneur in 1998 by more than 6 times. The effect of being acquainted with entrepreneur in 1993 on becoming the entrepreneur, even if controlled the by the fact of being an entrepreneur in 1993, respondent's education, age and gender, remains significant and is in an expected direction: those with an entrepreneur friend in 1993 are more likely to become an entrepreneur in 1998 by about 3.4 times more than those who did not have an entrepreneur among friends. Results also show that those who in 1993 were entrepreneurs and acquainted with the entrepreneur are more likely to sustain their entrepreneurship over the time than others. Therefore, in the process of becoming the entrepreneur the key asset is to have a friend with business skills.

(table 5 about here)

These finding confirm the posed hypothesis that people being acquainted with the entrepreneur in 1993 are more likely to become the entrepreneur in 1998 than others. Since the fact of becoming the entrepreneur, defined as possessing own business, is treated as an indicator of an adjustment to the new rules of games, therefore I claim that being aquatinted with an entrepreneur helps to posses skills and knowledge necessary to establish own business and to adjust to new capitalist rules of economic game.

Conclusions

The type of social linkages and friendship patters significantly influence the fact of gaining such advantages as higher score on socio-economic index, the "winner" position in the social structure, or owning a business. In this paper, a special attention was devoted to the timing of effects. Moreover, I showed that the social capital such as advantage friendship ties positively influence the individual's position within the social structure measured in various ways.

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Table 1. Regression of 1998 SEI on Advantage and Disadvantage Friendship Ties in 1988, Controlling for Number of Friends, and 1988 SEI.

Independent variables	B	SE	Beta
		Model A	
Advantage Friendship Ties, 1988	12.456	2.210	.358***
Disadvantage Friendship Ties, 1988	-7.132	2.272	-.213**
Number of Friends, 1988	.053	.112	.030
Constant	34.671	1.828	
Adjusted R ²	.224		
		Model B	
Advantage Friendship Ties, 1988	3.204	1.710	.092*
Disadvantage Friendship Ties, 1988	-3.641	1.691	-.107**
Number of Friends, 1988	.010	.090	.005
SEI, 1988	.072	.005	.695***
Constant	9.843	2.132	
Adjusted R ²	.605		

*p < .10 **p < .05 ***p < .01

Table 2. Regression of 1993 SEI on Advantage and Disadvantage Friendship Ties in 1988, Controlling for Number of Friends, and 1988 SEI.

Independent variables	B	SE	Beta
	Model A		
Advantage Friendship Ties, 1988	17.730	1.623	.454***
Disadvantage Friendship Ties, 1988	-4.425	1.420	-.137**
Number of Friends, 1988	-.049	.059	-.034
Constant	31.884	1.144	
Adjusted R ²	.027		
	Model B		
Advantage Friendship Ties, 1988	5.926	1.139	.115***
Disadvantage Friendship Ties, 1988	-.859	.935	-.027
Number of Friends, 1988	-.028	.038	-.020
SEI, 1988	7.630	1.188	.741***
Constant	.069		
Adjusted R ²			

*p < .10 **p < 0.05 ***p < .01

Table 3. Logistic Regression of Being in the “Winners” Category in 1998 on Advantage and Disadvantage Friendship Ties in 1988, Controlling for Number of Friends, Age, Gender, and Initial Position.

Independent variables	B	SE	ExpB
	Model A		
Advantage Friendship Ties, 1988	.854	.279	2.348**
Disadvantage Friendship Ties, 1988	-.656	.302	.519**
Number of Friends, 1988	-.016	.015	.984
Age	-.048	.011	.954***
Gender	.219	.232	1.245
Constant	.169	.510	1.184
-2Log Likelihood	517.928		
Model Chi-Square	44.830***		
Cox & Snell R ²	.058		
	Model B		
Advantage Friendship Ties, 1988	.394	.307	1.483
Disadvantage Friendship Ties, 1988	-.630	.322	.533*
Number of Friends, 1988	-.020	.017	.980
Age	-.061	.013	.941***
Gender	-.048	.252	.953
Being in the advantage occupational position, 1988	2.214	.280	9.156***
Constant	.474	.567	
-2Log Likelihood	455.789		
Model Chi-Square	106.969***		
Cox & Snell R ²	.133		

*p < .10

**p < .05

***p < .01

Table 4. Logistic Regression of of Being in the “Winners” Category in 1993 on Advantage and Disadvantage Friendship Ties in 1988, Controlling for Number of Friends, Age, Gender, and Initial Position.

Independent variables	B	SE	ExpB
Model A			
Advantage Friendship Ties, 1988	1.717	.292	5.570***
Disadvantage Friendship Ties, 1988	-.769	.380	.463**
Number of Friends, 1988	-.002	.013	.998
Age	-.021	.011	.979*
Gender	.380	.259	1.462
Constant	-1.683**	.555	
-2Log Likelihood	437.118		
Model Chi-Square	68.295***		
Cox & Snell R ²	.087		
Model B			
Advantage Friendship Ties, 1988	1.332	.340	3.790***
Disadvantage Friendship Ties, 1988	-.722	.420	.486*
Number of Friends, 1988	-.004	.016	.996
Age	-.033	.014	.967**
Gender	-.057	.306	.944
Being the advantage occupational position, 1988	2.935	.305	18.825***
Constant	-1.668**	.660	
-2Log Likelihood	336.894		
Model Chi-Square	168.520***		
Cox & Snell R ²	.201		

*p < .10

**p < .05

***p < .01

Table 5. Logistic Regression of Being Entrepreneur in 1998 on Being Acquainted with Entrepreneur in 1993, Age, Gender, and Education (non-working excluded).

Independent variables	B	SE	ExpB
Model A			
Being Acquainted with Entrepreneur in 1993 (yes=1)	1.816	.242	6.145***
Number of Friends, 1993	-.013	.006	.987**
Constant	-2.859	.225	
-2Log Likelihood	711.841		
Model Chi-Square	73.826		
Cox & Snell R ²	.070		
Model B			
Being Acquainted with Entrepreneur in 1993 (yes=1)	1.228	.300	3.415**
Number of Friends, 1993	-.176	.095	.838**
Being Entrepreneur, 1993 (yes=1)	3.505	.290	33.287***
Age	-.005	.015	.995
Gender	.282	.248	1.325
Education, 1988	.129	.049	1.138**
Constant	-4.368***	.837	
-2Log Likelihood	515.184		
Model Chi-Square	262.282		
Cox & Snell R ²	.227		

*p < .10 **p < .05 ***p < .01