Social, Human and Spiritual Capital in Economic Development

Dr. Theodore Roosevelt Malloch, CEO, The Roosevelt Group

Templeton Foundation, Working Group of the *Spiritual Capital Project*
Harvard University
October, 2003

The social sciences are replete with a mature literature and treatments, both empirical and theoretical, on economic development.[1]The concepts of social capital and human capital are by now rich and extend beyond economics to management, human resources, political science and sociology. Indeed, both have become in recent decades important, twin pillars in capitalism and democracy at the individual, corporate, societal, and global levels.

Less developed by far is the emerging concept of *spiritual capital*. The concept is pregnant with possibilities drawing on the intersection of economics and religion and such classic works as R.H. Tawney's, Religion and the Rise of Capitalism[2] and Max Weber's The Protestant Ethic and the Spirit of Capitalism[3] as well as more recent political economy thinking on economics and development. But does "spiritual capital" pass the so-what test? Is it possibly the hidden motivation in economic booms as far apart as Ireland and Singapore? How exactly does religion affect economic behavior at both the macro and micro levels? Can we fully demonstrate the relevance, validity, and potential of the notion that spiritual mores and underpinnings demonstrably effect development?

Here is the *hypothesis*: In the ultimate sense spiritual capital is the missing leg in the stool of economic development, which includes its better known relatives, social and human capital.

Social Capital

In, In Good Company, Don Cohen and Laurence Prusak (2001)[4] examine the role that *social capital* – a company's "stock" of human connections, such as trust, personal networks, and a sense of community – plays in thriving organizations. Social capital, it turns out is so integral to business life that without it, corporate action – and consequently productive work – is not possible. Social capital involves the social elements that contribute to knowledge sharing, innovation, and high productivity.

The World Bank defines social capital as, "the norms and social relations embedded in social structures that enable people to coordinate action to achieve desired goals."[5]Robert Putnam, the Harvard political scientist, describes it similarly. "Social capital" Putnam writes, "refers to features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit."[6]

In Cohen and Prusak's recent seminal study, social capital consists of the "stock of active connections among people, the trust, mutual understanding, and shared values and behaviors that bind members
Of human networks and communities and make cooperative action possible."[7] Social capital makes any organization or any cooperative group, more than a collection of individual's intent on achieving their own private purposes.

The term *first* appeared in print in 1916 in the context of academic debates on the decline of America's cities and close-knit neighborhoods. In present decades sociologists have given the term more credentials. Glenn Loury used the phrase in 1977[8] to describe sources of certain kinds of income disparities and Pierre Bourdieu[9] described it as one of the forms of capital that help account for individual achievement. Chicago sociologist, James Coleman.

As yet, most of this literature has little to say about *how* managers can actually increase an organizations' stock of social capital. And most recently, Nan Lin's trilogy on social capital: theory of social structures and action; theory and research; and foundations of social capital, has further refined what has become a more and more widely used social construct now in popular parlance.[10]

In the realm of politics, Robert Putnam's landmark 1993 book, Making Democracy Work,[11]convincingly demonstrated that the political, institutional, and economic value of social capital is substantial. In 2000 Putnam brought out Bowling Alone,[12]a scholarly and provocative account of America's declining social capital. Numerous findings of comparative economic studies by the World Bank and United Nations corroborate Putnam's thinking; i.e., some regions of the globe lag behind while others thrive due to social capital.

Human Capital

The term "human capital" first appeared in a 1961 in an *American Economic Review* article, "Investment in Human Capital", by Nobel-Prize winning economist, Theodore W. Shultz. Economists have since loaded on much baggage to the concept but most agree that human capital comprises skills, experience, and knowledge. Some like Gary Becker add personality, appearance, reputation, and credentials to the mix.[13] Still others, like management guru Richard Crawford, equate human capital with its owners, suggesting human capital consists of "skilled and educated people".[14]

Newer conceptions of **total human capital** view the value as an investment. Thomas O. Davenport, in Human Capital: What It Is & Why People Invest It (1999) looks at how a worker performs depending on ability and behavior. For him, the choice of tasks also requires a time allocation definition. The combination of ability, behavior, [15]effort, and time investment produces performance, the result of personal investment, THC = A&B x E x T, where a multiplicative relationship enhances the outcome.

Davenport further elaborates a worker investment notion, describing what it means to work in the relationship nexus between the employee and the employer. He explains in mostly anecdotal, company specific detail, how companies that treat workers as investors can attract, develop and retain people. These people both
get much value from their organization—and give so much in return that they create a *competitive advantage* for their firms. A further quantitative refinement in this field is the so-called business case for ROI in human resources. Works such as The HR Scorecard by Jack Phillips, among others, put forward a measurement case for viewing the employee as a human asset.[16] It has become almost trite to recite the fact that in both economic development and in firm behavior—the most important assets are the human ones.

Spiritual Capital

When you do a thorough web search not much comes up on the topic s*piritual capital*. In Amazon.com an index search of all categories, books included, yields much the same result. It turns up Seven Capital Sins by Bishop Fulton Sheen; Witchcraft and Welfare in Puerto Rico; and an out of stock pamphlet on capital cities and urban planning. So why bother? Is this a virgin field or a foolish endeavor? Can the development literature fill in any of the gaps and provide an adequate framework on spiritual capital?

Among the many facts that confront us in the contemporary world, uneven development is among the *most* glaring. One stark reality of the 21st century, is that most of the world has little wealth or power. The majority of citizens in developed countries and a small elite in developing ones—are well fed, housed, educated, and live relatively long and healthy lives. The overwhelming majority of persons in developing countries, by contrast, are subsisting in a preindustrial era. The economies they know are, by and large, based on either subsistence agriculture or the export of primary products. The standard of living in much of the world hovers perilously close to the level of subsistence. Except for a small elite the populations of much of the globe are afflicted by a myriad of ills in their shortened lives. This set of problems is the stage for development economics.

The concept of betterment or “development” is based on the *hope* that people everywhere will attain an improved standard of living. Beyond this statement—little agreement exists about development or the various forms of *capital* on which it is based. Standard indices of development abound and typically include such elements as: per capita income, the poverty line, ratios of energy consumption, railroads, telephones, internet usage, TVs, schools, teachers, students, literacy, death rates, you name it.

Some economists working out of various *ethical frameworks* have argued that standard of life should not be narrowly defined, as is sometimes the case in positive economics.[17] Development, for them would also include aspects of human well-being, or what economists call welfare, such as health, food, education, housing, employment, the environment, religious and cultural values, and the even sustainability of each of these. Significant as any of the indices of development may be, this view suggests they do not *alone* capture the whole sense of what it means to develop.

Nearly fifty years of economic research has concluded that improvement in the standard of life is difficult to imagine in countries or in populations with environments dominated by tribal and agrarian elites who do not want change; who lack the administrative capacity to stimulate, regulate, and coordinate activities; and who are plagued by violence caused by either external or internal actors, and uncertainty about rewards. Researchers, however, do not agree on the goal or vision
Underlying development or on the significance of anything called spiritual capital.

Three major competing theoretical models, or strategies of development -– “neo-classical”, “neo-Marxist”, and “structuralist”—have become prominent over the course of the last five or so decades. Each has in its own way affected development economics and the policies pursued by developing and developed countries, alike.

The early neo-classical or “modernization” models, rooted in the growth experiences of Western industrial nations, assumed that development occurred when nations progressed through “stages of growth” as articulated by Rostow, among others beginning in a traditional society and arriving at the final stage of high-mass consumption.[18] The history of South Korea, Taiwan, Hong Kong, and Singapore were often cited as illustrations. All economies it was argued could be expected to pass through these same stages, as technology, skills and attitudes were transferred and transformed via development aid and foreign direct investment. The modernization model (*ala* Apter) said that the burden of change rested on the developing countries themselves.[19] It emphasized entrepreneurship and innovation, the mobilization of domestic resources—including human and social capital—capital formation and technical progress as the sources of economic growth. It also considered favorably the role of external finance and the need for liberalized and expanded trade. Focusing on economic growth, the neo-classical theories are widely accepted today by most professional economists, developed county aid agencies, and the post-war international economic institutions, such as the World Bank, IMF, and WTO.

The “dependency” perspective on development was derived from Marxist assumptions. It maintained that the industrial countries had enriched themselves at the expense of the third world. This occurred first in colonial exploitation and later through capitalism and imperialism, particularly through the vehicle of the transnational corporation. According to various dependency theorists, exploitative relations have to be broken in order for true economic development to occur. Little attention was focused on the internal dynamics for growth in individual nations. Rather, the international capitalist system was castigated.[20]

Borrowing heavily from earlier Marxists, the dependency theorists sprung up, first in Latin America and then *via* the New International Economic Order throughout the entire developing world. They utilized dialectical logic to present capitalism as the sole cause of developing country economic stagnation. Underdeveloped "peripheral" regions with their cheap labor and raw materials were they thought drained by the developed "core" counties in Europe and North America.

It was argued that diffusion of modern farm technology to large farmers caused prices of crops to drop due to increased supplies; land holdings to increase in size; and poorer farmers—who could not adopt—to migrate to cities to look for unskilled wage labor. Some even argued that foreign aid programs increased inequalities between countries and among social classes within countries because of built-in biases" against the poor".

"Structural" hypotheses about development were formulated in the 1960s and 70s by numerous third world economists. They argued that general inflexibility applied to developing countries and that production structures in those counties were 'essentially different' from those in developed countries. According to these authors, in order to achieve development the structures in the third world needed to more closely approximate those of developed countries. While distrusting the price mechanism, the socialist-oriented structuralists tended to ignore the influence of prices. [21] Interdisciplinary in focus, these structuralists offered more of a socio-political, than a technical economic, theory of the development process.

The structuralist position held that the money supply is exogenous, and that only by changing the structure of the economy—land reform, import substitution to make the economy less dependent on foreign trade, educational advancement, and improved fiscal systems—is of any avail in the long run. An inelastic supply of exports, or inelastic world demand or both were essential parts of the structuralist view. Import substitution was favored, as were overvalued currencies, import controls, rapid industrialization, and the discouragement of export-led growth.

In the last two decades more recent debates in development macro-economics have revolved around debt management and relief, the appropriate role of the price mechanism, trade policy, the effect of policies in developed countries on the rest of the world, and the transition from closed or centrally planned economies to open market ones. At the micro-level, questions concerning choice of planning techniques have continued with a renewed debate on whether capital-intensive projects and globalization produce the most growth. There has also been at the UNDP in particular, an emphasis on human economic development in a broadly defined sense.[22]

But development is not just a goal of rational actions in the economic, political, and social spheres. It is also, and very deeply, the focus of redemptive hopes and expectations. In an important sense, as Peter Berger reminded us in Pyramids of Sacrifice,

development is also a “religious category”.[23] Even for those living on the most precarious margins of existence, development is more than a matter of improved material conditions—although that is included. Development is clearly a vision of redemptive transformation. This sense of spiritual capital is founded on an understanding that **all** resources are entrusted to people. That both individual persons and groups are called to preserve and develop a wealth of resources for which they are accountable here and later and which endowments must be managed. Thus, spiritual capital is about this entrustment of responsibility and a care for the creation it exhibits. Within various religious traditions, creative obedience or norms in economic activities are one primary way for adherents to acknowledge and demonstrate faith.

Within this frame of reference, economic development can be seen as a process through which persons and communities learn to care for and use the resources that sustain life.[24] Economic development can be viewed as creative management of endowed resources by stewards who act on their faith commitments. Here, genuine economic growth is guided by normative laws, character, and principled habits and practices that take into account the preservation needs of human beings, their environments, and their physical, mental, social, cultural and spiritual lives. In the ultimate sense, spiritual capital may be the third or missing leg in the stool which includes its better known relatives, namely: human and social capital.

International Relations theory and development economics since the 1980’s have similarly argued that as more advanced (West/North) nations progress with respect to technology, capital formation, growth, and diversification of economic sectors, in an era of rapid globalization and greater “interconnectivity” and interdependence across national boundaries, a “feedback” effect on culture, politics, and society occur.[25] To what extents are spiritual variables or spiritual capital the missing component ignored in much of recent academic inquiry and policy analyses of global economic growth?

One can rightly ask which factors and issues development economists and practicioneers should add to their future studies to gauge this missing link. In other words, can we operationalize

Spiritual capital so that the concept and empirical findings can be made more plausible and evident? Since the notion of spiritual capital is closely connected to on-going debates on trust, corruption, governance, sustainability, and entrepreneurship, this is a critical *next* step. Some things to look at include:

- The role and scope of personal religious ethics on private economic decisions which face all persons and groups;

- The exegetical, economic and historical roots and traditions which give rise to contrasting work ethics and economic systems;

- The role of societal institutions based on faith ranging from companies to trade unions to political parties to non governmental and intermediating structures;

- Interpretations and practices concerning interest, investment, inflation, growth, government authority, charity and trade in various spiritual worldviews;

- The impact of religion on conduct and rules as employees and employers, consumers and producers; and citizens at every level of existence; and,

- The degree to which religious practices and policies directly or indirectly affect economic behavior, choices and economic policy.

There may be no one set of religious principles regulating any given economic polity but all religious peoples, regardless of their faith community, make individual and collective choices in which personal faith colored by longstanding and deeply rooted historical religious traditions are highly relevant and important factors.

Spiritual capital can become a useful concept and term for a vital feature of economic development that has been largely overlooked in modern theories of development. Indeed, the often used terms social capital and human capital themselves are based to a large extent on the existence of good faith, trust, stewardship, a sense of purpose and other moral characteristics which cannot persist in the absence of the piety, solidarity and hope that come from religion and spiritual sentiments. When this is lost, societies and economies often decline rather than grow. When this abounds societies and economies prosper.

FOOTNOTES

[1] See the “Annotated Bibliography” on this topic by Fred Van Dyke, AuSable Institute, Madison, WI, 1996.

[2] R.H. Tawney, Religion and the Rise of Capitalism, New Brunswick: Transaction Books, new edition, 1998

[3] Max Weber, The Protestant Ethic and the Spirit of Capitalism, London: Penguin, 1905.

[4] Dan Cohen and Laurence Prusak, In Good Company: How social capital makes Organizations Work, Cambridge: Harvard Business Press, 2001.

[5] The World Bank, *World Development Report*, 1985, p.29.

[6] Robert Putnam, ed., Democracies in Flux: The Evolution of Social Capital in Contemporary Society, New York: Touchstone, 2001.

[7] Cohen and Prusak, p.14.

[8] The many works of Glen Loury

[9] The works of Pierre Bourdieu

[10] The many works of James Coleman

[11] Nan Lin’s three works are: Social Capital: A Theory of Social Structure and Action; Social Capital: Theory and Research; and, Foundations of Social Research

[12] Robert Putnam, etal. Making Democracy Work, Princeton: Princeton University Press, 1993

[13] Robert Putnam, Bowling Alone: The Collapse and Revival of American Community, New York: Touchstone, 2000

[14] Gary Becker, The Economic Approach to Human Behavior, 1978 and other works

[15] Works by Richard Crawford on management

[16] Thomas O. Davenport, Human Capital: What It Is and Why People Invest It, San Francisco: Jossey-Bass, 1999.

[17] Jack Phillips, etal., The HR Scorecard, New York: Butterworth, 2001

[18] See “Planetheonomics” Papers on Economics, Ecology and Christian Faith, AuSable Institute, 1996 which includes papers by economists such as: Mark Thomas, Robert Hamrin, Bob Goudzwaard, Herman Daly, Donald Hay, Lans Bovenberg, and Theodore Malloch

[19] W.W. Rostow, his many titles on the stages of economic growth, economic development and Asia.

[20] David Apter, his many works on modernization, Africa, and political culture

[21] See for instance: Cardoso, Emmanuel, Frank, Hymer, Leys, Wallerstein, Finn and Brown

[22] See for instance: Rodan, Lewis, Prebisch, Chenery, and Nurskse

[23] This is in part due to the resurgence of neo-classical development economics in the late 1970s (Solow, Kaldor, Kahl, and Smith) which coincided with a more radical movement toward increased concern for unemployment, poverty, and ‘basic needs”. Some of these thinkers would place themselves outside of the mainstream of development thinking (Healy, Myrdal, and Singer, among others).

[24] Peter Berger, Pyramids of Sacrifice, 1986 and other works by this author

[25] See “Development from a Christian Perspective”, Lans Bovenberg and Theodore R. Malloch, AuSable Institute paper, 1996

[26] See Willy Brandt on North-South and the generation of literature on sustainable economic development