

***Key Ingredients to National Economic Success:
Formation of Social Capital***

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World Islamic Economic Forum, 1-3 October, 2005
Petaling Jaya, Malaysia

I hope to make two points this afternoon: one, that social capital is a key ingredient of all economic success, and, two, that from a Koranic perspective, the formation of such social capital is an affirmative religious duty of human kind.

The Need for Social Capital

The fact that the economic development of nations – industrialization, modernization, westernization, bourgeois capitalism, globalization, neo-liberalism (the phenomenon goes by many names) – has occurred more robustly in some countries than in others has given rise to much intellectual debate and political controversy as to the causes of the different rates of growth.

Why is one country poor and another rich? Why, within one country, does one ethnic group grow wealthy from commerce and industry while another ethnic group or social class seems unable to climb out of poverty?

Who is to blame for poverty and who is to get credit for wealth creation?

Is it a matter of culture, individual genetic endowments, unfair institutions, colonialism, exploitation, unfair terms of trade, or what?

Who, if any, should we reproach? Who should we emulate?

We can be sure of one thing: many systemic injustices and imbalances along with accidents of fate keep both individuals and peoples from reaching their highest and best potentials.

But we can also be sure of a second thing: attitudes, values, habits, preferences - on both individual and societal levels - make a difference in economic development as well.

From the perspective of political institutions, Socialism, along with its more extreme extension Communism, did a poor job of creating wealth. Government, especially bureaucratic government, we have learned at the cost of millions of lives and lost hopes, is not the human institution best suited for economic development.

We have also learned that crony capitalism, while it can and does create wealth, achieves its benefits at a cost of considerable social injustice.

And, the record of history is that traditional political and social structures of feudalism and tribalism do not permit capitalist enterprise to thrive under their tutelage.

Societies without access to the written word and concepts of mathematics seem especially frozen in traditional patterns of clan and family based economic activity.

One lesson I draw from this historical anthropology is that economic development is a secondary phenomenon. It does not cause itself; rather, it follows upon certain preconditions. Once up and running, of course, economic development gains the power to change cultures, politics and social structures through the creation of new wealth. The new wealth produced by capitalism leads directly to new motivations, new values, new habits, new possibilities, new empowerment of individuals and private entities. These new motivations, values, habits, possibilities, empowered individuals and civil society entities challenge and undermine traditional orders.

But to get the economic development engine started is a different matter. Within old social and political orders, the power of capitalism, of markets, of banks, of entrepreneurs, is emergent only, lacking social substance and political heft. When we look for the origins of economic development, we see that certain conditions must be created in order for the process to start.

Countries that gain access to those conditions develop economic power. Countries that cannot put the conditions in place do not develop economically.

As Japan, South Korea, Hong Kong and Singapore have recently demonstrated, possession of ample stocks of natural resources is not a necessary precondition for economic development. To the same point has been the experience of countries possessing oil, silver, diamonds or other natural resources. Economic development has not naturally occurred in such countries, though an important form of wealth was entirely within their legal rights to exploit.

What are the conditions for the self-sustaining economic growth that benefits the common people and who is responsible for putting these conditions in their proper places?

I loosely call those necessary conditions bringing forth robust economic development “social capital”. By use of this term “social capital” I want to call attention to values, principles, institutions and social habits. These “soft” variables of social capital, I believe, drive the human manipulation of such “hard” economic variables as cash, labor, machinery, roads and bridges, ports and airfields, government regulation and corruption.

Therefore, to master the “hard” variables of economic development, we need to assess the potential of the “soft” variables and, thereafter, to put in place those values, principles, institutions, and social habits most conducive to just economic development.

Necessary to any investment in appropriate social capital is building a cultural capacity for trust as opposed to mistrust, a political capacity to use the Rule of Law ideal, a social capacity to aggregate finance capital with limited liability, and individual capacities to study, learn, and apply new technologies.

As UN Secretary General Kofi Annan recently wrote:

Each developing country has primary responsibility for its own development - strengthening governance, combating corruption, and putting in place the policies and investments to drive private-sector-led growth and maximize domestic resources available to fund national development strategies. ... Similarly, without dynamic growth-oriented economic policies supporting a healthy private sector capable of generating jobs, income and tax revenues over time, sustainable economic growth will not be achieved."

Report of the Secretary General 21 March 2005 A/59/ p 12 -13.

Legal regimes of contract and property rights, banking law and securities regulations and constitutional regimes of checks and balances and with viable independent judiciaries are also fundamental to the social capital most open to robust economic development. The individual protections we often call by the name of human rights flow naturally from such a legal and constitutional order. Extractive "rent seeking" on the part of the police, the military, politicians, officials, great families, political parties, etc., is hard to maintain when such legal social capital is thickly forested in society and pulses with vital energy.

We at the Caux Round Table have suggested a set of Principles for Governments that can be used as a guide for the creation of the appropriate legal and constitutional components of social capital. A copy of these Principles is attached as Attachment 1.

Our affiliate eStandards Forum ranks countries with respect to another aspect of social capital: 12 core best practices for the management of national financial institutions, a subset of measures that implement many of the Principles for Government. The country rankings posted by eStandards Forum may be found at www.estandardsforum.com

We have demonstrated that economic growth occurs better in countries using better practices under the eStandards Forum template of measurement. If one were to invest in countries ranked high on the eStandards Forum list, one would earn higher returns than if the money were invested according to traditional methods in international finance. The results of such improved performance, achieved by tracking higher levels of regulatory social capital, can be found at www.financialstandardsfunds.com

Finally, my associate at the Caux Round Table, Ron Lattin has assembled a little chart looking at countries from the perspective of many rankings. Those countries with the highest average of rankings are doing quite well economically, while those with the lowest averages are not particularly hospitable and generous places in which to earn a good living. Our short study of what we call social capital rankings is also attached as attachment 2 to this paper.

The Legitimacy of Social Capital Formation

The above discussion of social capital formation as a necessary condition for economic development would be irrelevant to Islamic societies if it could be shown that the norms of such social capital were in conflict with dispositive Islamic teachings.

And there are indeed some Islamic thinkers and activists who reject on normative grounds the social capital needed for economic development. For example, the United States, which has flourished economically, politically and militarily as a result of its accumulation of the social capital appropriate for modernization, has been dismissed by influential Islamic clerics as a “Great Satan”.

I am not persuaded that such rejection of the social capital described above is a wise interpretation of the Holy Koran. The teachings of the Holy Koran are available in English and in other translations so that, I would conclude, many of its central revelations are thus knowable to those who do not speak Arabic.

But there is an older text of great importance to Islamic traditions that sets a context for our understanding of the instructions given through the Holy Koran. I refer to the writings of the Jewish people as passed down in the first book of their Torah and read by Christians as the Book of Genesis in the Christian Old Testament. The relevance of this ancient text to our contemporary sense of human purpose is accepted by Islamic thinkers as well, as I understand it, as additional valid revelation from the God of Abraham who also speaks to us through the Holy Koran.

In the Book of Genesis we read of the story of Noah and the flood. After the flood recedes, the Lord God of the Torah/Old Testament (“Yahweh”) sets forth a command for Noah and his descendants. We read that “God blessed Noah and his sons and said unto them, Be fruitful, and multiply, and replenish the earth.” (Genesis 9:1) Humanity, as the agent of God’s will to implement his purpose, was to “bring forth abundantly in the earth.” (Genesis 9:7) To solemnize this principal/agent relationship, the Lord God entered into an everlasting covenant with Noah and his descendants. (Genesis 9:9) The Holy Koran in Surah 33:7, The Confederate Tribes, makes note of this covenant between God and Noah.

We can conclude from this text that there can be something blessed in humanity as it lives up to God’s command to bring forth abundantly in the earth. Humanity has, therefore, stewardship obligations for bringing to more full completion God’s creation on earth. Humanity has a duty to further the vision of God for his created realm.

Economic development in ways respectful of God’s purposes thus has ancient religious sanction.

The Holy Koran itself includes a short Surah entitled “Noah” that respectfully recalls Noah’s understanding of God’s commandments and the failure of so many others to heed those purposes and to be grateful for God’s mercies in creating a nourishing and sustaining earth for humankind.

I conclude from this instruction that part of humanity’s agency for God is to find ways in which to “bring forth abundantly in the earth.” Forming social capital to bring humanity to levels of prosperity and understanding higher than that of primitive hunting and gathering and low technology farming is very much a part of meeting God’s injunction with respect to development of the earthly realm given to us.

And, I interpret the Noahide covenant of the Book of Genesis as recalled in the Holy Koran to mean as well that we are both empowered and enjoined to go beyond today’s technology and sophistication to bring forth even more fully for ever more people abundance in the earth. Seeking the advance of human well-being through technology and science would seem to be a duty inherent in “bringing forth abundantly in the earth.”

In Surah 16 The Bee we read: “It is He who has subdued the ocean, so that you may eat of its fresh fish and bring up from its depths ornaments to wear. Behold the ships ploughing their course through it. All this, that you may seek his bounty and render thanks.”

Very similar guidance is provided by Surah 6 Cattle at 6:99: “It is He who sends down water from the sky with which We bring forth the buds for every plant. From these We bring forth green foliage and close-growing grain, palm-trees laden with clusters of dates, vineyards and olive groves and pomegranates alike and different. Behold these fruits when they ripen. Surely in these there are signs for true believers.”

And we find in Surah 10 Jonah the following: “In the alternation of the night and day, and in all that God has created in the heavens and the earth, there are signs for righteous men.” Surah 10:5

The Noahide Covenant and other passages available in the written tradition are not particularly explicit as to how humankind is to seek and realize all of God's bounty lying in and around the created earth. But a lack of detailed instruction is implicit in most agency and stewardship relationships. The agent or the steward is hired and retained to do what the principal or master is not in a position to do. Our stewards and agents are to act for us, using their best judgment and sense, in order to accomplish the ends we have set for them. Just so for humanity under the Noahide covenant: as God's agents he trusts us to use our reason and judgment to "bring forth abundance in the earth."

In that use of reason and judgment, if social capital becomes useful for bringing forth more abundance, then we are under a moral compulsion arising from our divine agency obligations to form and accumulate such social capital.

But as human beings, we are prone to abuse the powers given to us by God. We are agents appointed for a task, but we can degenerate into faithless agents through selfishness and acts of oppression. The Holy Koran stands as vital guidance against such abuse of power. Consider the following admonitions:

- "God loves those who do good." Surah The Table 5:12
- "Do not devour one another's property by unjust means, nor bribe the judges with it in order that you may wrongfully and knowingly usurp the possessions of other men." Surah 2 The Cow 2:188
- "Believers, do not consume your wealth among yourselves in vanity; but rather trade with it by mutual consent." Surah 4 Women 4:26
- "Men shall be rewarded according to their deeds." Surah 4 Women 4:26; see also Surah 11 Joseph 11:104
- "My Lord has forbidden ... wrongful oppression." Surah 7 The Heights 7:29
- "Do not transgress; God does not love the transgressors." Surah 5 The Table 5:87
- "Give just weight and full measure." Surah 6 Cattle 6:149

- “Do not walk proudly on the earth.” Surah 17 The Night Journey 17:31
- “Those that preserve themselves from their own greed will surely prosper.”
Surah 64 Cheating 64:12

The Holy Koran reveals God’s knowledge that many people will fall short of his expectations. We therefore read such guidance as: “When they are told “Have Fear of God” vanity carries them off to sin.” Surah 2 The Cow 2:206; “Yet man prays for evil as fervently as he prays for good. Truly man is ever impatient.” Surah 17 The Night Journey 17:10; “Indeed, man transgresses in thinking himself his own master...” Surah 96 Clots of Blood 96:1; “Your hearts are taken up with worldly gain from the cradle to the grave.” Surah 102 Worldly Gain 102:1; “Indeed, in no way does God wrong mankind, but men wrong themselves.” Surah 10 Jonah 10:35; and “Because humans of this world are drawn to sinfulness, and because they deceive themselves about the true teachings of God through pride, arrogance and emotions, God suggests in the Koran submission of the human will to his own.” Surah 2 The Cow 2:136

Thus, if humankind is to properly and respectfully “bring forth abundance in the earth”, we must devise such means and measure to complete that task that also constrain our temptations towards sin and arrogance. Our human institutions need to provide checks and balances, good values and constructive habits in order that we can develop earth’s bounty without transgression and oppression.

The social capital that I have described above as appropriate for economic development also provides those very checks and those very values and habits. There is a profound congruence between the social capital needed for economic development and the social capital that will restrain abuses of human power. This is as it must be for where there is abuse of power – in many forms – there will be distrust, fear, and unfair exploitation. Investment in productive enterprise, invention, and innovation will necessarily be stillborn.

Where people earn one another's trust, they refrain from abuse of power. Where laws are clear and fairly enforced, abuse of power recedes. Where political institutions of checks and balances – popular elections, an independent judiciary, written laws, fixed terms of office, multi-party rivalries, a limited executive – there abuse of power does not become habitual.

The social capital that fosters economic development simultaneously promotes the values and habits calling forth good stewardship.

I suggest consideration of the fitness of this social capital for the admonition from God that “Let there become of you a community that shall call for righteousness, enjoin justice and forbid evil.” Surah 3 The’Imrans 3:102

The stage has been set for us; we have been empowered with reason and sense but left vulnerable to temptations and arrogance; it is up to us to play our rightful parts. The choice as to right conduct, I believe, is ours. The course of our development – cultural, social, political, economic – is largely up to us. How should we best choose to bring forth abundance in the earth?

The recommendations of the Caux Round Table for building the social capital necessary for economic development are contained in our Principles for Business, the book *Moral Capitalism*, the management process we call *Arcturus*, our Principles for Government, our handbook *Moral Government*, our implementation self-assessment questionnaires for politicians, civil servants and government departments, our Principles for NGOs and a set of suggested Principles for the Owners of Wealth. All of these are at your disposal to help in the formation of needed and legitimate social capital.