

ANTHEM STUDIES IN DEVELOPMENT AND GLOBALIZATION



# THE HIDDEN FORM OF CAPITAL

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Spiritual Influences  
in Societal Progress



EDITED BY PETER L. BERGER  
AND GORDON REDDING



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## Spiritual Influences in Societal Progress

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# The Hidden Form of Capital

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## PREFACE

The idea that societies have economic cultures as well as aesthetic, literary, and artistic cultures is well-embedded in a number of major studies attempting to identify the origins of national wealth and progress. From Adam Smith's recognition of the role of moral sentiments, to the recent acknowledgement by Nobel prize-winning economic historian Douglass North that culture plays a key role in economic progress, there has always been awareness that it needed to be understood more completely. That it still is not speaks more to its complexity as a question than to the efforts devoted to its understanding.

Explanation in this field has to meet the challenge of the great number of factors in the equation, and the parallel challenge that many disciplines find culture hard to handle – too fuzzy, not visible or measurable enough, a residual perhaps after all the other more tangible things have been counted. Our aim here is to place it more centrally, not by further theoretical speculation, but by presenting evidence from several parts of the changing world about how the realm of the spirit affects the economy. The evidence comes from recent studies in Europe, Asia, Africa, Russia, and the US. The book is not entirely without theory, but its main intent is the presentation of new findings from the fields.

The initiative for this collection of work began with a collaboration between the Metanexus Institute, Pennsylvania, and the Institute on Culture, Religion and World Affairs of Boston University. The support of Metanexus for the project included the funding of a meeting in Washington, D.C. in 2006, at which the writers were able to present initial schema, and a later partial meeting in Paris at which the final shape of the project and the book was set. This generous support is gratefully acknowledged.

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## Chapter 1

# INTRODUCTION: SPIRITUAL, SOCIAL, HUMAN, AND FINANCIAL CAPITAL

Peter L. Berger and Gordon Redding

Explaining the role of religion in societal progress has for long remained a major challenge to thinkers observing the varieties of success and failure in the progress of societies towards wealth and a better life for their people. In the Western world, from the full analysis by Adam Smith two and a half centuries ago, and his insistence on addressing the question of ‘moral sentiments’, to more recent returns to the same issue by writers such as Deidre McCloskey, and Gertrude Himmelfarb<sup>1</sup>, the question of *how such influence works* remains open to clarification. This is the terrain walked over in this book. In doing so, the walk is taken in the company of scholars who have dedicated years of enquiry into specific countries and religions, and each of them is well recognized in his or her specialism. They have in addition been encouraged to explain not just their theories, but the facts on the ground as they exist in China, India, Russia, Indonesia, South Africa, and Eastern Europe. They do so on the basis of current studies in the environments they observe. An overall guide to world trends is provided at the outset, as is also a statement of the setting of the core question: how does religion sponsor or otherwise a society’s progress towards prosperity?

The religions considered here include Confucianism and Taoism as practised in China and Taiwan, charismatic Christianity in the form of Pentecostalism as practised in South Africa and also India seen more historically, Eastern Orthodox Christianity in Russia, Islam in Indonesia, and the swirling complex of spirits of capitalism in the cross-currents of Eastern Europe. These are described against their own societal contexts. This allows us to take into account issues of economics, politics, sociology, and psychology, as well as religion itself, and the work is consequently both inter-disciplinary and comparative. Above all it is designed to be alive with the realities of religion’s current contribution to the complex flows of forces that make up any society.

We work with the notion of ‘spiritual capital’, seeing it as a set of resources stemming from religion and available for use in economic and political development. The word ‘use’ is of course to be interpreted loosely, as there are rarely instances where a conscious policy is adopted to apply such influences in a deliberate shaping of behaviour. Instead the influence process is extremely varied, and would encompass features such as the following:

- (a) the adoption within a society of specific institutions stemming from religion, and initially developed within a religious context, examples of which would be shari’a law, at an earlier period double-entry book-keeping, or the concept of the corporation as legal person;
- (b) the adoption of attitudes and values capable of shaping behaviour in the context of the economy, such as the ‘Protestant ethic’;
- (c) the fostering of communal ideals that lead to behaviour within ideologically controlled limits such that the behaviour of others can be more easily predicted, this in turn leading to higher trust;
- (d) the encouragement of the idea of the self as autonomous and self-reliant (with its opposite in the encouragement of fatalistic acceptance of one’s lot in life);
- (e) the stabilizing of a society’s power structure by making it legitimate through an elite’s borrowing of religious support, in turn permitting greater control and coordination of economic action, as with ‘God bless America’.

Spiritual capital is a subset of social capital. The latter amounts to a society’s ability to make the processes of social and economic exchange run smoothly and fully, by drawing upon norms about cooperation and about the public good. Its spiritual subset is that part in which religious beliefs exert influence. For example, the powerful and efficient business networks of the regional ethnic Chinese in Southeast Asia are at least partly explained by the ‘glue’ formed among people with shared Confucian ideals about reciprocal obligations. It is important also to see the workings of spiritual capital as possibly negative as well as positive. For instance the relative failure of many Islamic economies is influenced by inheritance traditions that prevent the passing on of business empires intact from one generation to another. For economic growth there is ‘bad’ spiritual capital as well as ‘good’.

In looking for the connections between worlds of ideas and of action we are faced with both the complexity and the dynamism of societal systems. Stable economic systems that work efficiently are miracles of balance. The fact that they are capable of being unbalanced and thrown into temporary states of disorder such as recessions, downturns, overheatings, currency crises, strikes and

mass protests, is a reminder that their components normally work together in an achieved equilibrium, perhaps one that can re-establish itself. This is not to say that the equilibria are fixed and unchangeable as they may transit to a newer state of balance containing different features, but in essence when they work well they remain internally cohesive and consistent, and their parts fit together well enough to keep the total running. These long-term equilibria are achieved only if they contain three subtly invisible elements that keep them capable of maintaining their balance: they have to be efficient in how they treat the resources at their disposal; they have to be able to sponsor innovation; and they have to be capable of adapting without losing the equilibrium. The more the world's systems of equilibria interact and compete, the more crucial do such conditions become. Religion can play a significant role in a society's meeting of these three requirements, but it will share influence with a long list of other features.

The other features in the list might be thought of as the other forms of capital available for use, in simple terms *financial*, *human*, and the wider form of *social* capital. For each of these it is possible to identify subsidiary components, and in doing so to list a whole series of institutions – those stable patternings of rules of behaviour that bring order to the potential chaos of social interaction. Whether the end result is a rock-solid building or a swaying edifice that nevertheless holds itself together, without those institutions nothing orderly can be achieved and nothing will serve to act as a platform on which progress might continue.

*Financial capital* is like water in agriculture. Without it nothing happens, and with it what happens depends on how much is available, in what ways is it accessed. What makes societies different in their use of capital is primarily the amount of it available, but it is not just that. Its availability is usually conditional. If you go to the stock-market for it there will be pressures for the return of dividends – the expected percentages varying between societies. If you go to the bank, there might well be assumptions about capital growth, but perhaps more patience about returns. If you go to your family there will be expectations about control, about moral obligations, about the distribution of profits. If you use retained earnings you may have more say in determining what is expected. If you bring in private equity or venture capital you will perhaps have a lot less say than you had before. Capital is not a single unit of input, and it is not used in isolation from other features of the context. It may appear to be a purely 'economic' factor, given the rational calculations that normally surround it, but it is in reality a very 'social' component.

*Human capital* is what executives are talking about when they say – as they do regularly – 'this business is all about its people'. This is at one level a truism; you cannot have economic exchange without people to do it. But the regular

acknowledgement of the significance of such a form of capital goes beyond that. It implies that what matters are peoples' talents, attitudes, willingness to cooperate, creativity, and commitment to work. Two large features of a society play important parts here: the education system in stimulating and channelling the talent; and the way the labour market is organized, for its ability to foster (or otherwise) the matching of talents with their use.

*Social capital*, when available in high quantity, delivers trust into the workings of the system, like oil to the workings of a machine. It is common to see two kinds of such lubrication. Trust can be institutional or interpersonal, and societies work differently according to the proportions of each available. Institutional trust is most visible in law, accounting, the use of professional standards, the richness and reliability of information. Personal trust is visible where business is conducted over networks of reciprocal, often informal, obligations. Both can be at work and can feed off each other. Some societies have more of one than the other, and there is a clear difference in how long it takes to establish them, with personal trust being highly fluid and reactive to opportunity, as in the cases of China or Russia today. Institutional trust can take centuries to accrete, as it depends so much on the historical construction of reputation and the slow seeping into society of procedures that become traditions. The essential dilemma always faced by developing societies, and solved by the developed, is the constructing of a system of exchange in which people can trust strangers.

The place occupied by religion within the category of social capital comes from its value in stabilizing and clarifying the purposes around which people can build their willingness to cooperate. To understand this we need to go beyond institutions to examine the realm of 'meaning' that underpins both social action and institutions. For a society to function, its design needs first to be agreed upon in a way that its members can understand and accept. In this a primary agreement is needed about three questions. As symbolized in Gauguin's great painting on the theme, they are: 'Where do we come from? Why are we here? Where are we going?'. The role of religion is to answer these questions, and in doing so to provide the 'sacred canopy' under which people can shelter from the chaos of the unknown. It is the second of these questions – why are we here? – that comes into play when analysing how religion plays a part in shaping the workings of an economy. When people go to work they implicitly accept that what they do has 'meaning'. It is part of the workings of society. Whether it is simply that they need the money and this is a way of getting it, or they like the sense of companionship, or they feel their work is 'worthwhile' in a wider sense, they do not normally work in a vacuum of meaning. Their purposes may not be consciously analysed, but they exist.

No organization can exist without a purpose. It would be too confusing for people as they would not know what behaviour took priority. So organizations

are purposive by design. They have strategies, plans, targets. They also have leaders, or groups in charge, and they in turn have purposes, more or less overlapping with the publicly visible ones that guide action. The power of an individual business leader – at least in a free society – is based on whether subordinates ‘go along with’ what they perceive as that leader’s deeper intentions. If an organization adopts purposes that go against the ideals of the society it is in, then it will be seen as an illegitimate organization, and may be attacked by the society. Obvious examples are visible in the punishing of corporations for fraud, or pollution, labour abuse, or fattening the innocent population. Less obvious processes of influence are visible when companies change policy and adopt new purposes, as when those most guilty of polluting spend money to appear the most green, or when they are taken over and changed forcibly to become more appealing to their customers.

Studies of the institutional fabrics of various societies reveal two laws at work. First, the institutions of a society tend to reflect the fundamental structures of meaning established within the culture. If, for instance, individualism and competitiveness are ideals within the culture, then firms will be forced to compete and people will be judged individually. The institutions will reflect the culture, and will historically emerge from it in a never-ending reciprocal process.

Second, when an institutional fabric in turn sponsors a particular form of economic behaviour, as for instance visible in particular forms of enterprise, then the success or failure of that response compared to responses in other societies, will depend on the extent to which that societal system can display the three key features described earlier: efficiency, innovation, and adaptiveness.

The contributors to this book have all looked at specific societies with such issues in mind, and have described how religious influences penetrate the economic arena. We begin with an overview by Lawrence Harrison of the world’s successes and relative failures (so far) in achieving economic progress. This setting of the scene is a necessary prelude to what follows, as it places the facts before us, and challenges us to find reasons behind them.

### ***The Global Context***

Harrison presents findings from a study of 117 countries, each with at least a million people and each containing populations where a majority identify with one of eight broadly defined ‘religions’. These are the clearly defined Buddhism, Hinduism, Islam, Judaism; Christianity seen in three forms – Protestant, Catholic, and Eastern Orthodox; and the secular ethical code of Confucianism. He rates the countries by religious category against ten



indicators widely accepted as measuring progress towards a modern condition of prosperity. His conclusions are summarized as follows:

1. Protestantism has been far more conducive to modernization than Catholicism, above all in the Western Hemisphere.
2. The Nordic countries are the champions of progress.
3. Confucianism (a surrogate for Chinese culture, which includes several other currents including Taoism and ancestor worship) has been far more conducive to modernization than Islam, Buddhism, or Hinduism.
4. The most advanced Orthodox country, Greece, was the poorest of the European Union members prior to the 2004 accessions. There are some parallels between the Orthodox Christian and Catholic countries. But there are also some apparent residues in Orthodox countries from the Communist experience.
5. Islam has fallen far behind the Western religions and Confucianism in virtually all respects. There are some significant differences between Arab and non-Arab Islamic countries.
6. Hindu India's democratic institutions have held up well, and it has experienced rapid economic growth during the past two decades. But it has been very slow to educate its people, particularly its women, and it does poorly in the Corruption Perceptions Index.
7. It is difficult to generalize about Buddhism, but the data suggest that it is not a powerful force for modernization.
8. Traditional African religions are an obstacle to progress.
9. Close parallels among the values propagated by Protestantism, Judaism, and Confucianism suggest the existence of a universal culture of progress. All three promote the values of control of destiny, achievement, education, diligence/work ethic, merit, saving, and social responsibility, albeit in different degrees. And those values tend to persist even in the face of secularization, as the Nordic countries demonstrate.

Peter Boettke presents a complementary analysis to that of Lawrence Harrison. The 'what has happened?' is thus followed by the 'why?' and 'how?'. His paper is an overview of the shifts in analysis by political economists over time. He shows how development economists have turned in the post-Communist period from an initial focus on the straight application of economic logic – *getting the prices right* – to a more contextualized second phase of *getting the institutions right*, and more recently to the deeply contextualized problem of *getting the culture right*.

In this latter field, religion plays a central part as the focal point for the coordination of a society's mental models. Working through both formal doctrines and informal beliefs and spirituality, religion shapes and legitimates