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The Theory of Spiritual Capital as Social Capital

Thank you very much for being here. I appreciate the presence of our distinguished speakers. What I dreamed off all my life is to be able to speak sitting down. I usually don't. So it's a dream come true. I am going to be brief today, which is very much unlike me. I want to talk about spiritual capital as the core of constructing and accumulation of social capital. Does that belong in economics?

I will start economics with Adam Smith. I go back to Smith's book *Theory of Moral Sentiments*, and that book has not been contradicted and has not been left aside by Adam Smith. His *Wealth of Nations* has the appearance of being strictly individualist, in its attitude. However, if you read carefully, you would find that the invisible hand [of economics] works only in the presence of civil society. So the presence of civil society is a precondition for the market to work, and for people pursuing their self-interest to make that beneficial to society. So if you read his *Theory of Moral Sentiments* Smith talks about altruism, the foundation of social capital. That would be my interpretation of moral sentiments in the sense that the social capital has to be built, and it is people who are not looking for immediate individual gain who will provide the social capital.

What is the concept of social capital, and what is the role of spiritual capital in constructing, accumulating that? I start from physical capital. We have firm-specific capital where the productivity occurs to the firm that owns the capital, and then we have infrastructural capital which is generalized productivity in the sense that the level of social capital will result in increasing the productivity of all the people around if it's good infrastructural physical capital. And a good model of that is Ragner Frisch's Cairo-Oslo Channel model in Economics where you have the construction of, for example, a dam that benefits agriculture, tourism, and transportation--so it would be generalized productivity.

One more thing that I need to mention in reviewing social capital. You really have to split the analysis between physics and societal matters. Again in term of human capital, there is individual human capital that produces the services of individual labor, and then there is the social capital which is the infrastructure of the human capital.

Components of that social capital are trust, networking, taking care of the commons. That would be part of the functions of social capital. I am outlining here a long program of study.

The other aspect of social capital is comes from Veblen. He pointed out that institutions are changing, and institutions in society sort of outline the boundaries of the social capital. What Veblen did not get into is the process of how precisely institutions change. He just said they are changing. What I would like to bring into the picture is that in modern society the institutional change is endogenous to the system in the sense that players in the game are changing the rules. Players are capable and they do change the rules, which is the essence of political economy.

In early days of Islamic empires, Islamic economies were prosperous. Then there is stagnation, and nowadays some economies are prosperous, some economies are rent seeking (they appear to be prosperous but they are not,) and some economies are not going anywhere. So I would like to reflect over why some Islamic countries have developed. I would say: look at the initial conditions, and in particular look at the quality of social capital that exists in these societies.

My last remark is on the role of the individual. If you have a totally individualist society in the sense of detaching the individual from society, what are the consequences. No one has ever advocated that, but some people act as if they are advocating that, versus what if you take into consideration that the individual is embedded in this word that I call social capital with spiritual [capital] as its major component. My conjecture is that if you pull the individual from the – web??-- you don't get the benefits of market mechanism.

If I was doing that study, I would go historical, and see what happens in empires in general. In the end it hangs on the surplus of time over and above basic necessities. Of course basic necessities are evolving but there is always that excess time. I am studiously avoiding the word surplus. And how you use it conditions your progress as an economy, even as a bunch of economies put together. Those are some ideas I wanted to share with you.