What is Economic Self-Reliance?

By Paul C. Godfrey

Editor's Note: This issue begins our third year under the banner ESR Review. ESR *stands for economic self-reliance, and we have published a number of themed issues addressing particular issues of development and self-reliance. When I first became involved in this project, my task was to define what we mean by economic self-reliance and to create a theory-based model of how individuals and families can become more self-reliant. The next four issues will center on the different elements of the model. This issue focuses on the role of human capital in economic development and self-reliance.*

Current thinking about economic development has not bettered global livelihoods. Speaking at the 2007 annual meeting of the American Economics Association, Professor Simon Johnson of MIT invoked a powerful metaphor to highlight the failure of existing models; he noted that sustained progress in health and sanitation came only after "public health had the germ theory of disease. Economics has made great progress, but it's still waiting for its 'germ theory of disease.'" [1] Without a solid model, economic development models produce hit-and-miss successes.

Creating economic development represents more than the mere academically elegant exercise of theory building. Pragmatically, ineffective development models mean that *real* money is being granted, loaned, or invested without any *real*, *sustainable* return. Economically, the lives of billions are lived out in misery and despair while many tools of better living are readily available. At a very basic level all of us suffer because social justice is not being achieved and the spiritual talents and gifts of far too many lie fallow and undeveloped.

WHAT IS ECONOMIC SELF-RELIANCE?

Economic self-reliance (ESR) represents a different way of thinking about the processes and outcomes of economic development. ESR is an individual's ability to *garner* and *hold* economic resources in excess of their basic needs.

The concept of ESR recognizes that there are individuals who are unable (due to physical or mental disability) to garner any surplus resources, individuals with surpluses large and secure enough to meet any conceivable need, and individuals at every point in between. ESR affects the entire spectrum.

ESR is also context specific; what constitutes "basic needs" for someone in a *developed* country will differ drastically from someone in a *developing* country. But the core principles of economic development are the same throughout the world.

WHY IS ESR IMPORTANT?

Individuals who are economically self-reliant have greater resilience in the face of negative economic shocks. Those with greater resilience will suffer lower intensity (less severe) or shorter duration (quicker recovery). ESR represents a type of insurance against the disruptions caused by adverse economic events.

More important than its insurance value, ESR provides a solid platform from which people can develop and reach their full human potential. Once people possess a sustainable surplus, they can turn their attention to the pursuit that psychologist Abraham Maslow termed *self-actualization*: developing and expressing talents, skills, emotions, and values to the fullest extent.[2] It's hard to reach our full potential when we are worried about our next meal.

WHAT DETERMINES AN INDIVIDUAL'S LEVEL OF ESR?

Economic self-reliance arises from two sources: (1) our own efforts, talents, and skills and (2) our relationships with family, friends, government, and macrosocial systems. This dimension of ESR is the **individual-social** locus continuum.

Another dimension considers the types of resources that individuals and social units use. On one hand, resources may be very tangible, such as the amount of money in a savings account. On the other hand, resources may be very intangible and hard to measure, such as the quality of family relationships; but they are very real. These elements can be captured on the **tangible-intangible** resource continuum.

Taking these two dimensions together, we can categorize the determinants of economic self-reliance, as shown in Figure 1. The dimensions create four separate quadrants, each with its own element that contributes to economic self-reliance. We choose to describe these elements as forms of *capital*—accumulated wealth that can be productively employed to create more wealth.[3] Table 1 reviews the definition, elements, and drivers of each type of capital.

Institutional capital represents tangible, societal-based resources and is the sum total of the macrosocial resources available to an individual. It captures the strength or weakness of the system a person lives in. Institutional capital comes in two broad types: physical and systemic resources.

Physical resources include the physical geography of a country (e.g., mountain or coastal), the physical infrastructure (e.g., roads and bridges),

Figure 1

THE CAPITAL ACCOUNTS OF ESR

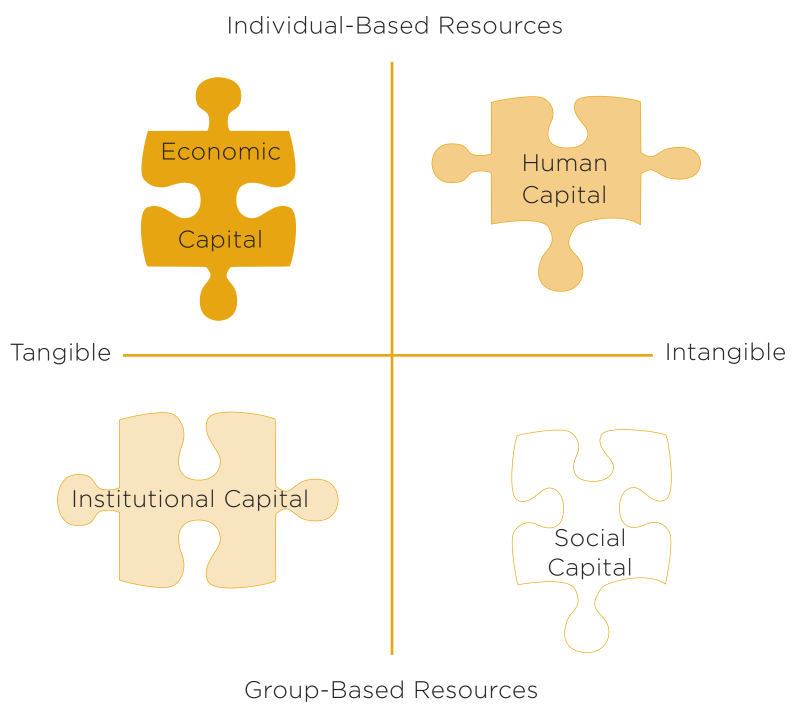

TABLE 1: **Four Types of Capital That Drive ESR**				
	INSTITUTIONAL CAPITAL	**SOCIAL CAPITAL**	**ECONOMIC CAPITAL**	**HUMAN CAPITAL**
Locus of activity	Social Group	Social Group	Individual	Individual
Type of resource	Tangible	Intangible	Tangible	Intangible
Definition	The system you live in	The relationships you have	The stuff in your wallet	The stuff in your head, heart, and hands
Elements	Physical (e.g., roads, telephones, laws)	Network (e.g., family, friends, professional acquaintances)	Liquid (e.g., cash, invest-ments, insurance)	Knowledge (e.g., education, training, degrees)
	Systemic (e.g., government, education, religious beliefs)	Membership (e.g., ethnic, religious group)	Physical (e.g., housing, food, autos, fuel)	Attitudes (e.g., perseverance, responsibility)
Enhancers	Political stability, market orientation	Nurturing fami-lies, civil society organizations	Wages in excess of survival, access to financial services	Health systems, non-subsistence culture and values
Inhibitors	Corruption, incentive-destroying safety nets	Parasitic families, physical distance, tribal animosity	Debt, unemploy-ment, low wages, instability	Discrimination, lack of resource husbandry, low motivation

and the technological infrastructure (e.g., wired or wireless connectivity).

Systemic resources include features of the governmental system, such as political stability and the level and extent of regulation. Systemic resources also include less tangible, but readily observable, societal-level features, such as the basic economic orientation of the system (e.g., market or Marxist), the religious culture and history of the society, as well as any other important cultural traditions that dictate or affect economic activity.

Social capital lies in the social-intangible quadrant and is the sum total of resources available to an individual by virtue of the strength of relationships between an individual and other social units.[4] Social capital can be broken down into two types: network and membership resources. Network resources come from the relationships that a person develops and maintains. Important network relationships include family ties (both nuclear and extended), personal friendships, and education or employment colleagues.

Membership resources arise by virtue of an individual's affiliation with some recognized social group, including ethnic or religious groups, civil or community groups, and educational affiliations.

Economic capital stands in the tangible-individual quadrant and is the sum total of the financial and physical resources possessed by an individual. It refers to not only the contents of a person's wallet, but also the contents of his/her safety deposit box and his/her cupboards and shelves. Economic capital comes in two forms: liquid and physical assets.

The most liquid asset is cash, but other types of assets can be turned into cash fairly easily. These include savings account balances, stocks or bonds, home equity or other personal property, and insurance policies.

Physical assets include tangible property, such as a home or an apartment lease, an automobile, clothing, and stockpiles of items that may be useful during an economic disruption like food, water, and hygiene supplies.

Human capital lies in the individual-intangible quadrant and represents the final form of capital that helps individuals develop economic self-reliance. Human capital is the sum total of attitudes, cognitive abilities, and deployable skills possessed by an individual. Human capital can be described as what is in an individual's head (knowledge), hands (skills), and heart (attitudes). Human capital is represented by knowledge and skill and attitude.

Precisely measuring knowledge and skill can be difficult; however, an individual's innate intelligence is one measure. The level and extent of formal education—including any degrees or certificates, apprenticeships, and on-the-job training—helps in assessing what skills an individual possesses.

The attitude component of self-reliance includes things pertaining to an individual's levels of self-efficacy, responsibility, perseverance, hopefulness and optimism, and fear and anxiety. It also considers views about current consumption versus saving for the future.

HOW WOULD WE MEASURE THE FOUR TYPES OF CAPITAL AND SELF-RELIANCE?

The best way to measure the four types of capital is by using what economists refer to as a stock and flow model. This is the same way that analysts look at the performance of a business firm; they look at the balance sheet, which represents the different capital stocks at any given time, and the income statement, which captures the resource inflows and outflows and the residual that can be added to the existing capital stock.

The balance sheet metaphor raises another important characteristic of the four types of capital: a balance sheet contains both assets (positive capital) and liabilities (negative capital). The overall stock for any type of capital will be the total of the assets less the liabilities. It is possible to have either positive or negative values in the various capital accounts.

The advantage of the capital accounts model is twofold. First, by identifying comparative assets and liabilities in the capital account, policy makers, business leaders, and NGO directors can plan more effective interventions. Second, just like a business's balance sheet, the ability to track each element over time helps provide a picture of the economic development process within that capital account.

WHY IS ESR BETTER THAN CURRENT THINKING ABOUT ECONOMIC DEVELOPMENT?

The four types of capital build a holistic picture of development—one that is multi-level (from individuals to institutions), multi-type (considering both tangible and intangible resources), and multi-disciplinary (combining the best of economic, psychological, sociological, legal, political, and theological thinking). Poverty and its related evils are a complex problem; the four types of capital present a complex model from which to view these problems.

Traditional thinking about development believes that if resources flow in (garnered), then capital stocks will rise (held). The negative entries (liabilities) in each capital account point out why garnering resources does not equal holding them. With more liabilities than assets—a case that describes a number of individuals, families, and countries—the net effect is that resource inflows may lead to worsening, rather than improving, the capital account. ESR differs from traditional development economics because it deals explicitly with the need for individuals (and families, social groups, and nations) to *hold* resources, not just garner them. ESR

Endnotes

1 Simon Johnson, "Why Economists Are Still Grasping To Cure Global Poverty," *The Wall Street Journal*, 11 January 2007, Section A7.

2 David J. Cherrington, *Organizational Behavior*, 2nd edition (Boston: Allyn and Bacon, 1994), 134–135.

3 Capital. Oxford English Dictionary. http://www.oed.com.

4 Alejandro Portes, "Social Capital," *Annual Review of Sociology* (1998): 1–24.

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