Religion Economic Growth and Development

Nath, Sushmit

Indira Gandhi Institute of Development Resaerch

November 2007

Religion
&
Economic Growth and Development

Draft: Not for citation without permission

Sushmit Nath
MSc 2006
IGIDR, Mumbai
sushmit@igidr.ac.in

Introduction

This paper deals with the issue of Religion and Economic growth of a country/region.

A Religion can be broadly described as a set of common beliefs and practices generally held by a group of people, often codified as prayer, ritual, and religious law. Religion also encompasses ancestral or cultural traditions, writings, history, and mythology, as well as personal faith and mystic experience. Karl Marx described religion as the *'opium of masses'*. Early writings on Economics always considered Religion as an exogenous factor and didn't assume any causal link between it and the growth and development of a country. It was viewed more as a subject of Sociology, and was not studied under the realm of Economics. Max Weber, an eminent sociologist of early 20th century, in his seminal work, *The Protestant Ethic and the Spirit of Capitalism,* introduces the linkage between Religion and Economics. Weber argues that Puritan[1] ethics and ideas influenced the development of capitalism where he defines spirit of capitalism as the ideas and habits that favour the rational pursuit of economic gain.Weber proved a clear limkage between the Protestanism and pursuit of economic gain, and concluded that it was better for the survival of capitalism and it turn the growth and development of a country. Many empirical studies have conformed Weber's hypothesis that there's a clear causal relationship between religion and economics. In this paper I'll look at those studies and some more and on the basis of them will try to explain the causality, one way or both, between Religion and Economic growth and development of a country. I have also mentioned works by different researchers on various aspects of the issue, and have restricted the details to a few studies in this paper.

What Theory Tells Us?

Several theories have been advanced to account for the links between religion and development. First, there are theories that typify the ‘rational choice’ approach to religion and development. This approach considers the resilience of religion as a rational economic response to changes in the political, ecological and economic environments in which religions operate. In addition, a range of other structural theories encompass family socialization, social networks and a belief in other-worldly or supernatural elements. However, regardless though of the tradition from which one approaches the study of religion, examining the interactions between religion and development poses significant challenges: first, to understand the endogenous interactions between religion and economic growth; second, to examine the techniques and methods needed to quantify these interactions; and third, to evaluate the impact of religion on development policy more widely. [2]

Why Religion?

Contemporary economics has started taking religion into account as a in important determinant of economic development of a country. The increasing resilience of religion in both developed and developing countries, influencing globally both political will and popular debate, has been observed by scholars investigating the economics of religion.[3] Recent studies have investigated how religion affects growth [4] with emphasis on particular religious traditions such as Islam, Hinduism or Catholicism[5] . Other studies have focused on the impact of religion on fertility[6]. Still others examine the impact of religion on political outcomes [7] and the role of religious organizations as insurance[8].

Other studies examine how the causality may run the other way, from economic development to religion [9].

Recent academic interest linking religion and development has centred on the economics of religion. Studies in the economics of religion have focused on applying the tools of modern economic analysis to the analysis of religious institutions, faith-based welfare programmes and the economic regulation of the church[10].

Three principal themes emerge from these research. First, identifying what determines religion and religiosity; second, examining how religion and religiosity may be described as social capital; and third, understanding the micro and macro consequences of religiosity.

Adam Smith's View on Religion

Adam Smith in his *"An Inquiry into the Nature and Causes of the Wealth of Nations"* says that one of the most economically significant functions of religious belief was to provide strong incentives to follow moral strictures that helped to support civil society, that is, honesty, benevolence, restraint from violence, and so forth. In the *"Theory of Moral Sentiments",* Smith explains that the concept of a supreme being serves as an enforcement mechanism for moral conduct among believers that, in effect, supplements the enforcement efforts of secular authorities and complements the other incentives that cause individuals to control their own behavior. Religions tend to produce and distribute moral information about individual members. Moral information, i.e, information with respect to an individual's moral history is valuable to the extent that it provides potential transactors with information permitting them to assess the risks associated with a given exchange. To the extent that moral duties are perceived in the market as relevant to assessing the riskiness of potential transactions, an individual's moral reputation has a capital value; in an efficient human capital market the social cost of immoral behavior that is judged economically relevant will be fully reflected in reduced capital value of the individual's reputation. Hence, given an efficient human capital market, economically relevant morality becomes self-enforcing because individuals bear indirect costs of their misbehavior. [11] Adam Smith's famous *Invisible Hand,* concept and his views on individual behavior with respect to religion combined together can explain how religion and economics work together. But Smith never theorized it. Its only an interpretation of his work. But the recent empirical research has confirmed his ideas. At one place Smith sounds like Weber (though Weber came much late) , when he talks about the Roman Catholic Church as a negative influence on economic development. Smith assumed that the doctrines of the Roman church impeded the development of capitalism by promoting anti-commercial attitudes and barriers to trade. The Roman church is described as "*the most formidable combination that ever was formed against the authority and security of civil government, as well as against the liberty, reason, and happiness of mankind, which can flourish only where civil government is able to protect them*".

The Empirics of Religion and Development

Empirical studies of religion and development across countries have investigated religious movements, examining particularly sect behaviour, with an emphasis on contrasting the 'European experience of religious monopoly' with the 'American case of religious cacophony'[12], drawing implications for the issue of whether regulation of religious organizations is necessary. This concern manifests itself in a sea of research projects, especially on religion in the United States[13].

In cross-country studies, economists have also revisited Weber's hypothesis. Barro and McCleary (2003) assess the effect of religious participation and beliefs on a country's rate of economic progress. Using international survey data for 59 countries drawn from the World Values Survey and the International Social Sciences Program conducted between 1981 and 1999, these authors find that greater diversity of religions is associated with higher church attendance and stronger religious beliefs. For a given level of church attendance, increases in some religious beliefs – notably belief in heaven, hell and an afterlife – tends to increase economic growth. Other studies have focused more on particular religions in varied historical time periods. For example, very useful insights have been gained by focusing on Islam and on Judaism. For Islam, there have been detailed investigations into financial systems in the Middle East including *zakat* (alms for charity) and the manner in which Islamic banks have been using a financing method equivalent to the rate of interest to overcome adverse selection and information problems. There has also been more detailed investigation into Islamic law and financial activity historically with implications for poverty reduction in the Middle East[14]. There is research that has examined Jewish occupational selection using historical data from the eighth and ninth centuries onward to explain the selection of Jews into urban, skilled occupations prompted by educational and religious reform in earlier centuries[15]. Data are also being used to elucidate the role of religion in explaining historical differences in education among Hindus and Muslims in India[16].

Robert J. Barro and Rachel M. McCleary (2003)

In the paper titled "Religion and Economic Growth across Countries", Barro and McCleary use international survey data on religiosity for a broad panel of countries(59) to investigate the effects of church attendance and religious beliefs on economic growth. They use the instrumental variable technique with church attendance and religious beliefs as dependent variables. The instruments are variables for the presence of state religion and for regulation of the religion market, the composition of religious adherence, and an indicator of religious pluralism. They conclude (observe from the results) that economic growth responds positively to religious beliefs, notably beliefs in hell and heaven, but negatively to church attendance. This would mean that growth depends on 'extent of believing' relative to 'belonging'. They model religious beliefs with economic performance saying that the beliefs are an 'output of the religion sector' and church attendance is an 'input' to the same. So, for given beliefs higher church attendance would signify more resources being used up by the religion sector.

In the paper, they say that culture is usually thought to be an influence on economic outcomes, by affecting personal traits such as honesty and work ethic. Consider religion as an important dimension of culture, they go on to consider it a determinant of growth, reiterating Weber's idea that religious beliefs and practices have important consequences for economic development. In this light they try to analyse the influence of religious participation and beliefs on a country's rate of economic progress.

Methodology

To isolate the effect of religiosity on economic growth, the authors have dealt with the possibility of reverse effects from development to religion. They base this on the

‘Secularization Hypothesis’ (Weber, 1930), which says that economic development causes individuals to become less religious, as measured by church attendance and religious beliefs. The beliefs may refer to heaven, hell, an afterlife, God and so on. A second theory talks about demand and supply of religions, focusing on competition among religion providers. A greater diversity of religions available in a country or region is thought to promote greater competition, hence a higher quality of religion product and one that is tailored better to Individual preferences. Thus more religious diversity stimulates greater religious participation and beliefs. This was propounded by Adam Smith as early as in 1791, which compared to today was much less diverse. So in today’s context religious diversity is an important factor.

The extent of religious diversity the extent of religious diversity and competition are thought to depend on how the government regulates the market for religion. For example, the existence of an established state church is viewed as one source of a low degree of religious pluralism and, therefore, of low participation in organized religion. Greater state regulation of religion, measured by, among other things, whether the government appoints or approves church leaders is argued to decrease the efficiency of religion providers and, therefore, to generate lower rates of church attendance.

The authors’ approach to the determinants of religiosity assumes that demand and supply forces combine to influence levels of religious participation and beliefs. They try to pin down the direction of causation from religion to economic performance, rather than the opposite. The instrumental variables used are (i) Dummy for the existence of a state religion, and (ii) Dummy for existence of a regulated market structure in which govt. approves or appoints religious leaders. An instrument for religious adherence is also used.

Data Used

The data include national-accounts variables and an array of other economic, political, and social indicators for more than 100 countries observed since 1960. The main data sources are the Penn World Tables of Heston, Summers, and Aten (2002), the World Development Indicators of the World Bank (2002), and international data on education from Barro and Lee (2001). This data set was expanded to include measures of religiosity. This includes, the World Values Survey, or WVS (1981-1984, mostly 198 1; 1990-1993, mostly 1990; and 1995-1997, mostly 1995 and 1996), the two reports on religion by the International Social Survey Programme, or ISSP (1990- 1993, mostly 1991; and 1998-2000, mostly 1998), and the Gallup Millennium Survey (1999).

The analysis was done for 59 countries. The countries covered tend to be richer and more Christian than average. Predominantly Muslim countries are Bangladesh, Malaysia, Pakistan, and Turkey. Countries that have predominantly Eastern religions, including Buddhism, among persons expressing some religious adherence, are China, Hong Kong, Japan, South Korea, Singapore, Taiwan, and Thailand. Malaysia also has substantial representation in these religions.

The paper studies how church attendance and beliefs co-vary with per capita GDP, education, and urbanization, while holding fixed other measures of economic development and the other independent variables. These partial correlations provide useful information but may not have simple causal interpretations.

Main Findings

The authors have used an analysis of the determinants of religiosity to construct a set of instrumental variables to estimate the effects of religion on economic growth. The instruments are dummy variables for the existence of a state religion and for state regulation of religion, the composition of religious adherence among the main religions, and the extent of religious pluralism. Their results show that, for given religious beliefs, increases in church attendance tend to reduce economic growth. In contrast, for given levels of church attendance, increases in some religious beliefs-notably belief in hell, heaven, and an afterlife-tend to increase economic growth. There is some indication that the fear of hell is more potent for economic growth than is the prospect of heaven.

They stress that these patterns of growth effects apply when we control for reverse causation by using the instrumental variables suggested by our analysis of the determinants of religiosity. The results remain intact when we enter the composition of religious adherence into the growth equations. Based on the arguable exogeneity of the instrumental variables, they conclude that the estimates reflect causal influences from religion to economic growth, rather than the reverse.

The authors contend that stronger religious beliefs stimulate growth because they help sustain specific individual behaviors that enhance productivity. They argue that higher levels of church attendance depress economic growth because greater attendance signifies a larger use of resources by the religion sector, and the main output of this sector (the religious beliefs) has already been held constant. The results do not mean that greater church attendance has a net negative influence on economic growth-this net effect depends on the extent to which an increase in attendance leads to stronger beliefs, which in turn encourage growth. Their results also indicate that, for given religious beliefs, the overall effect of greater church attendance is to reduce economic growth. This overall effect combines the resources used up by the religion sector, the social capital aspect of this sector, and the influence of organized religion on laws and regulations.

Robin Grier (1997)

In a paper titled "*The Effect of Religion on Economic Development: A Cross National Study of 63 Former Colonies*", Grier attempts to answer the following questions:

(i) Does religion matter for economic growth? (ii) Does religion matter for real per capita income levels? To answer the questions he analyses data for 63 countries with a history of colonization. He takes the following variables for the exercise : (a) Initial real per-capita GDP(b) Colonizing Country(c) Population Growth(d) Standard deviation of inflation(e) Government Consumption (f) Religion.

Grier estimates a growth model which includes dummy variables for the major colonial powers and a proxy for Protestantism, in order to determine whether Protestantism is correlated with economic growth and if it can help to explain the underdevelopment in Spanish America

Data

Grier uses pooled data for the years 1961 -1990 for all of the major British, French, and Spanish ex-colonies. As in Grier (1995), he converted the 30 years of annual data into six 5 year averaged observations per country. He then uses five year averages because averaging over the entire sample could result in a loss of temporal information, where the results would be driven solely by cross-country variations.

Results

The results for the first question indicate a strong positive correlation between the growth rate of Protestantism and economic growth.[17]. A one standard deviation increase in the growth of Protestantism is associated with a 0.49 percentage point increase in average growth. While former French colonies had significantly lower levels of Protestantism than the British ex colonies, the growth rate of Protestantism is significantly higher in the formerly French dependencies. The results support Grier's hypothesis that the growth rate of Protestantism is significantly correlated with real GDP growth, and that Protestantism is one of many determinants of development. Controlling for Protestantism does not significantly close the gap between the three sets of former colonies, implying that some effect, independent of religion, is driving the difference in growth rates.

The results for the second question indicate that investment is strongly and positively correlated with real per-capita income, while population growth is negatively related to income levels. Ex-French colonies have lower real per capita income levels on average than ex-British colonies. The results indicate that Protestantism is positively and significantly correlated with real per capita income.

Grier concludes that Protestantism is correlated with growth and development. He also finds that controlling for Protestantism does not significantly lessen the gap between British and French and Spanish colonial development. By that we see that Grier conforms to what Weber had theorized about Protestantism and economic development.

Development Economics Aspects of Religion

Religion can both complement as well as motivate development. The avenues by which religion influences development activities in different faiths and regions are haunting in their complexity. Religious people and institutions may be agents of advocacy, funding, innovation, empowerment, social movements, and service delivery. Equally, religious people and institutions can incite violence, model hierarchy, oppose empowerment (women should stay at home); deflect advocacy (we care about the next life); absorb funding (build a new worship hall); and cast aspersions on service delivery.[18]

In a paper titled “Religion and Development”, Sabina Alkire studies these aspects. She examines various perspectives of religion affecting development. She says, religion may contribute directly to a person’s flourishing or contentedness, and comprise a dimension of human well-being. She links Religion to happiness, a subject studied in psychology. She says that if development aims to expand the freedoms people value and have reason to value, and if religion is so valued, then religious freedoms should be part of development.

Alkire contends that religion may become a practical problem when religious leaders or institutions obstruct development or view it as a threat because it promotes western liberal secular culture and human rights, or when religious rhetoric is a veneer for other motives. Classic issues of value conflict surround family planning methods such as contraception and abortion, HIV/AIDS prevention and implicit messages related to sexual morality and women’s empowerment; other issues might relate to secularism, sacred sites, dress, or tolerance of outside groups. In development such values and practices may be addressed under the label of ‘culture’

Religious Extremism

However benevolent and indeed inspiring some religious expressions may be, development is regularly stymied by conflict and violence – some of which is also caused by religious groups (or groups with a religious veneer). Lot of research has been done in this field, especially after 9/11, on religious contributions to conflict and violence.[19] Whether in Sri Lanka or Central Asia and Chechnya, the Middle East or Gujarat, or Bosnia or Southern Africa, armed groups have claimed religious support for their endeavours. Given that conflict both causes and exacerbates poverty, and interrupts development, careful attention needs to be paid to the possible negative consequences of cooperation with religious groups.

A Case Study of Gujarat: Riots and Economic Growth

Gujarat gives us a classic example how growth and development are two very different concepts. While it is beyond doubt to claim that violence and conflict of any sort reduces the overall welfare of a society, growth may not necessarily reflect increasing well-being. Gujarat, a predominantly Hindu state, after the 2002 riots, in which the Muslim minority was targeted by the Hindu majority, allegedly with active state support, has been identified with religious extremism. But when we look at the economics of Gujarat, post Godhra (incident that preceded the riots), we find that Gujarat has done extremely well in terms economic indicators. In the 2000s, Indian economy entered its high growth phase, and Gujarat with its large industrial, financial and infrastructure base, access to sea, and a large skilled workforce was highly suited to benefit from these opportunities. Apart from these, Gujarat has also been known to have a relatively efficient bureaucracy. The combination of base conditions, an efficient bureaucracy, and a CM willing to circumvent standard rules, regulations and procedures paid dividends rather quickly. Within a year or so, Gujarat's GDP growth took off, to higher than national GDP growth. Investments took off, the speed with which approvals were received accelerated, the delays that typically characterize large investments reduced dramatically. And this was sustained for the following years. There are many stories in the informal circuit on how the government aggressively wooed the investors, circumvented procedures, pressured antagonistic pressure groups, to ensure rapid investments. Economic Growth is only one story. After Narendra Modi came to power, post riots, Gujarat has seen growth in Agriculture too, especially in cotton production

By all accounts, elections are not won or lost due to improvements in the social sector. But here as well the Modi government came up with a simple yet powerful innovation. Many women and children in Gujarat (as in other states) are highly under-nourished. The Central government adopted the mid-day meal scheme in primary schools and implemented it at the all-India level. But the mid-day meal typically consists of nutrients rich in carbohydrates and to a lesser extent proteins. A large part of the under-nutrition in children is however due to the lack of micronutrients in their diet, and women and children not in the school-going age do not benefit from the mid-day meal. Consequently wheat flour supplied through the PDS is fortified with iron and folic acid. Moreover vitamins are mixed in edible oils. As a result, reportedly, the number of women and children suffering from anaemia has reduced considerably in less than two years of the scheme's operation, and reduced night blindness and other malnutrition-related diseases.

We see that Narendra Modi not only worked where he could attract votes, but also in other areas of development. One theory is that, post riots, it was a conscious effort on the part of the Govt. to perform its basic functions efficiently so that when the elections come next, Modi gets more points as a reformer than brickbats as a mass-murderer. So Religion again plays a political role here. Whether the riots were staged for electoral goals is still a speculation, but its economic effects are undoubtedly positive.

Conclusion

We see that there is indeed a causal relationship between Religion and economic growth. While Barro and McCleary have established one way causation, more research needs to be done to investigate the other way round. We also find Grier establishing Weber's theory on Protestantism. While the linkage between the two is clear, the mechanism through which one affects other may not yet be clear. Further research in this field can give us more robust results. But at the same time we can say, as shown by Barro and McCleary, that a state's religiosity has important influences on its economic performance.

With time, increasing interest in this field has been observed. Researchers are working to explore the effects of religion on other aspects of development too, like fertility, politics, rule of law, health etc. The effect of various religions and their practices account for an interesting fact as to why certain regions/countries are more developed than others. As Weber pointed out, it was the culture (Hinduism, Islam) prevailing in South Asia that impeded growth and development of the region.(Which was later criticized by Morris)

To conclude, in this paper I have positively answered as to whether Economic growth and Religion are linked. With the help of Barro and McCleary's paper I have shown that there's indeed a causal relationship between the two. And in the Gujarat case study we see a rather contradictory picture in terms of economic growth, but as far as welfare is concerned , the effects of the riots are unambiguous, if we consider the plight of the minority community, which was the target of religious fundamentalism.

Notes

1. A member of a group of English Protestants who in the 16th and 17th centuries advocated strict religious discipline along with simplification of the ceremonies and creeds of the Church of England.

2. Sriya Iyer, Religion and Economic Development, 2007

3. Iannaccone, 1998; Stark and Finke, 2001; Glaeser, 2005

4. Guiso, Sapienza and Zingales, 2003; North and Gwin, 2004; Noland, 2005; Barro and McCleary, 2003; Glahe and Vorhies, 1989

5. Kuran, 2004; Sen, 2004; Fields, 2003)

6. Lehrer, 2004; McQuillan, 2004

7. Glaeser, Ponzetto and Shapiro, 2005

8. Dehejia, DeLeire and Luttmer, 2005

9. Berman, 2000; Botticini and Eckstein, 2005; Goody, 2003

10.Oslington, 2003

11. Mr. Smith and the Preachers: The Economics of Religion in the Wealth of Nations, Gary M Anderson, 1988

12.Warner, 1993, p. 1081

13. Marty, 1986–96; Finke and Stark, 1988; Warner, 1993

14. (Kuran, 2004)

15. (Botticini and Eckstein, 2004)

16. (Borooah and Iyer, 2005)

17. The results imply only a correlation between the growth rate of Protestantism and real GDP growth, not causation. It is possible that GDP growth cau.ses an increase in the nuinber of Protestant adherents, though the specific link in that scenario is far from obvious.

18. Sabina Alkire, *Religion and Deveolopment,* 2004

19. Armstrong 2000, Juergensmeyer 2000, Kakar 1966

References:

Religion and Economic Growth across Countries, Robert J. Barro; Rachel M. McCleary *American Sociological Review*, Vol. 68, No. 5. (Oct., 2003), pp. 760-781.

Religion and Development, Sabina Alkire, 2004

Religion and Economic Development, Sriya Iyer,2007, University of Cambridge

Mr. Smith and the Preachers: The Economics of Religion in the Wealth of Nations Gary M. Anderson ,*The Journal of Political Economy*, Vol. 96, No. 5. (Oct., 1988), pp. 1066-1088.

The Effect of Religion on Economic Development:A Cross National Study of 63 Former Colonies, Robin Grier

Spirit of Capitalism. Religion and Economic Development., Harvard International review, Robert J Barro

Religion and Economic Dvelopment : An idea whose time has gone, Stephen K Sanderson, Joleen Loucks, 2004