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religion and economic development

The role of religion in economic development warrants a nuanced perspective that integrates economic theory with an understanding of socio-political structures, appreciating the econometric issues that arise in quantifying religious processes. Existing research focuses on religious structures and organizations, state religions, faith-based welfare programmes, the regulation of religion, and the impact of religion on measures of well-being such as income and education. Viewing religion as spiritual capital, with the attendant role played by religious network externalities in fostering economic development, is vital for development policy. Contemporary research in religion and economic development is flourishing, encompassing all these diverse concerns.

> The number of micro-level social anthropological studies is continually growing. Many of these concentrate on what to the economist may appear odd aspects of society such as ritual and religion … and to which he pays little or no attention. For instance, an understanding of the complex of Hindu religious beliefs as they operate at village level … is directly relevant to the problem of developing India's economy. This is but one of numerous examples which can be quoted to support the claim that development economists work in the dark unless they acquaint themselves with the relevant socio-political literature. (Epstein, 1973, p. 6)

How times have changed since Scarlett Epstein first lamented economists' general neglect of the role of religion in the study of economic development. She need not have been quite so fearful: contemporary economics has seen the light, as it were, increasingly demanding a perspective on religion in order better to understand how it interacts with economic decision making. 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 (Iannaccone, 1998; Stark and Finke, 2001; Glaeser, 2005). Recent studies have investigated how religion affects growth (Guiso, Sapienza and Zingales, 2003; North and Gwin, 2004; Noland, 2005; Barro and McCleary, 2003; Glahe and Vorhies, 1989) with emphasis on particular religious traditions such as Islam, Hinduism or Catholicism (Kuran, 2004; Sen, 2004; Fields, 2003). Other studies have focused on the impact of religion on fertility (Lehrer, 2004; McQuillan, 2004). Still others examine the impact of religion on political outcomes (Glaeser, Ponzetto and Shapiro, 2005) and the role of religious organizations as insurance (Dehejia, DeLeire and Luttmer, 2005). Other studies examine how the causality may run the other way, from economic development to religion (Berman, 2000; Botticini and Eckstein, 2005; Goody, 2003).

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 scholastic 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.

Early writings

The economic concern with religion and development is not new, nor is it restricted to scholars of the 21st century. The writings of Thomas Aquinas, notably the *De Regno (De Regimine Principum) ad Regem Cypri*, written in 1267, dealt extensively with religion and public finance. Indeed, some scholars have considered the ideas in this work, as in Aquinas's *Summa Theologica* (1265–72), strikingly relevant for poverty reduction today; their themes of the 'universal common good' and 'global civil society' have implications for current debates about globalization and human development (Linden, 2003). The links between religion and development also feature in Joseph Schumpeter's *History of Economic Analysis* (1954). Jacques Le Goff authored *La Naissance du Purgatoire* (1981), which argued that purgatory was a necessary religious innovation for medieval capitalist development. However, it was in 1904 that Max Weber put forward his famous theory of the Protestant ethic and the spirit of capitalism, arguing that economic development in northern Europe could be explained by developments that were associated with Protestantism – the concern with savings, entrepreneurial activity, the frugality which Puritanism demanded, and the literacy needed to read the scriptures. The essence of Weber's thesis was that nascent capitalism emerged in the 16th century in Europe on account of the Protestant ethic which arose from the Reformation. Ascetic Protestantism encouraged diligence, discipline, self-denial and thrift. Both Lutheran and Calvinist doctrines urged adherents robustly to undertake their 'calling'. Spiritual grace from religion was attained by demonstrating temporal success in one's calling. The Protestant ethic thus involved the diligent undertaking of one's calling as a religious obligation, which promoted a work ethic that increased savings, capital accumulation, entrepreneurial activity, and investment, all of which in turn fostered economic development. Many scholars have criticized Weber's thesis, typified in the writings of Tawney (1926) and Gorski (2005). Tawney was concerned with reverse causality: how religion affected development, and in turn how economic and social changes themselves acted on religious beliefs. In his words, '"The capitalist spirit" is as old as history, and was not, as has sometimes been said, the offspring of Puritanism' (1926, p. 225). Tawney argued that Puritanism both helped mould the social order and in turn was moulded by it. Gorski (2005) focuses more on whether Weber's thesis stands up to closer historical scrutiny, highlighting other aspects of the Reformation that contributed to economic development such as Protestant migration, reforms to landholding, fewer religious holidays, and insurgencies, all of which influenced labour supply and the actions of government in Protestant countries.

The economic view of religion

Against this backdrop, 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 (Oslington, 2003). Three principal themes emerge: 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 (1776) made reference to the church in the *Wealth of Nations*; and recent work by economists such as Becker and Iannaccone have been very important for the development of this field. The broadly socio-economic view of religion, which expounds the rational choice approach, is set out in the work of Azzi and Ehrenberg (1975), Iannaccone (1998), Stark, Iannaccone and Finke (1996), and Stark and Finke (2000). The focus here has been both on the supply side (the structures of religious organizations) and on the demand side (the preferences of consumers in religious economies). The micro view explains religious activity as the outcome of rational choice, with utility derived both in the individual's lifetime and in the afterlife. For example, if we think of religion as a club good, then many practices are used by religions to screen potential free riders and to ensure better monitoring of the existing faithful (Iannaccone, 1992). Religion also influences individual welfare through the externalities occasioned by social behaviour (Becker and Murphy, 2000). Religious forces are important as they change the environment in which individuals operate, directly affecting individuals' choices and behaviour by changing the utilities of goods. Moreover, greater trust fostered by the religious environment can encourage repeated interactions, leading to more cooperative behaviour within networks.

It is in this way that the second theme – religion as social capital – becomes important. Three aspects are emphasized here: social networks, social norms, and sanctions to penalize deviations from norms. Corresponding to this emphasis, economists of religion have been examining 'spiritual capital' – or religious capital – which embodies the norms, networks and sanctions exercised by groups that are organized on the basis of religion and religious networks.

Finally, the macro and micro consequences of religiosity have been examined. For example, there are a number of channels through which religious capital might affect economic growth. Religious capital affects output by changing the manner in which technology and human capital are used. Religious capital exerts a positive impact on human capital by increasing education. For example, particularly in many less developed countries, religious networks are important not only for the religious services they provide but also for their non-religious services, specifically with respect to health and education. Moreover, as religious institutions provide this insurance function, these networks determine the extent to which education is taken up (Borooah and Iyer, 2005). In developed countries, too, this would have implications for religious market structure and the growth of residential neighbourhoods that may be based upon faith-based activities (Gruber, 2005). So understanding the economic consequences of religion is of central concern.

The empirics of religion and development

Most empirical economic studies of religion and development attempt to solve classic decompositions of the form $Y_i - Y_j = \sum \beta(X_i - X_j)$ where the idea is to examine the various factors (X) that affect measures of religious attendance or behaviour (Y) across individuals (i,j), or more widely across countries, or alternatively in varied historical time periods, thence to arrive at conclusions based on the effects suggested by the parameters (β) estimated.

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' (Warner, 1993, p. 1081), drawing implications for the issue of whether regulation of religious organizations is necessary. This concern manifests itself in a plethora of research projects, especially on religion in the United States (Marty, 1986–96; Finke and Stark, 1988; Warner, 1993). 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 (Kuran, 2004). 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 (Botticini and Eckstein, 2004). Data are also being used to elucidate the role of religion in explaining historical differences in education among Hindus and Muslims in India (Borooah and Iyer, 2005).

A primary focus of current studies of religion and development is on explaining differences across individuals. For example, using data from the General Social Survey and the US Census, Gruber (2005) investigates religious market structure by estimating the effects of religious participation on economic measures of well-being, and concluded that residing in an area with more co-religionists improves well-being through the impact of increased religious participation. This particular study is also valuable from the methodological point of view, as it addresses a common problem in empirical studies of religion and development – the persistent endogeneity of religion to economic measures of well-being – and consequently the common econometric problem of how best to identify religion effects. While this particular study successfully uses ethnic heritage to provide an exogenous source of variation, and is thereby able to draw out cleanly the effects of religious participation on the variables of interest, econometrically the potential endogeneity of most religion variables is possibly the single most significant limitation of incorporating religion into empirical work in economics. This is mirrored in the many efforts to identify the effects of religion which generally have not been able to deal with self-selection issues easily.

To this end, fields such as economic demography have much to offer the study of religion and development. For example, recent research in economics has made a start towards examining the religious and economic reasons behind fertility differences between religious groups, especially in developing countries (Iyer, 2002). The economics of religion has also elucidated the study of politics, both local and international: Glaeser (2005) presents an economic model of religious group behaviour and the so-called 'political economy of hatred'. The economic approach to religion has been evaluating whether religion and politics are mutually exclusive. Glaeser, Ponzetto and Shapiro (2005) link religion with strategic extremism – the issues and platforms espoused by political parties, and the manner in which private information matters for this. Other studies have focused on terrorism and display a more general preoccupation with understanding views and attitudes in the Muslim world (Gentzkow and Shapiro, 2004).

Drawing a perspective from all these classes of studies, it strikes one that emerging economies are experiencing appreciable modern economic growth, yet this is coterminous with the increasing resilience of religious institutions. And it is this dichotomy between the sacred and the secular which epitomises the puzzle of the relationship between religion and economic development. It seems reasonable to address this puzzle by combining quantitative analysis of sample data with nuanced qualitative evaluations of the textual theology of religion, linking these to the manner in which individuals and institutions interpret religion at a local level. As well, an appreciation of the approach of the interdisciplinary economist would permit a more informed understanding of all these concerns. Economists will enthusiastically study religion and economic development in the future, and they will do so with ascetic assiduity – researching data with all the intensity of religious fervour in order to provide thoughtful prophecy for development policy.

Sriya Iyer

See also

<xref=I000257> Islamic economic institutions;
<xref=xyyyyyy> religion, economics of;
<xref=S000451> social capital;
<xref=xyyyyyy> social interaction (empirics);
<xref=xyyyyyy> Weber, Max.

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Index terms

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economic demography
education
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