THE INFLUENCE OF RELIGION TO ECONOMIC DEVELOPMENT. A CRITICAL PERSPECTIVE OF RECENT QUALITATIVE AND QUANITATIVE STUDIES.

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Abstract

Even though nowadays religion is not considered as a decisive factor for economic development, its features of personal beliefs and institutions can be add-ins to economic success and sustain societal development. In the same time, religious beliefs may undermine or delay development. The literature specialized in investigating the relationship between religious beliefs and economic development is diverse. Religious individuals or institutions may be considered as agents of economic development, of financing, or innovation, of improving the quality of human resources and of promoting confidence among the population. Moreover, the religious persons and institutions may contribute to any incitement to violence, may restrict wealth accumulation and profit, and may oppose to society modernization as a matter of women's rights or by absorption of financial resources for a free market. From scientific perspective, economic development implies the existence of some determinants like the financial capital addition, the quality of human capital, an increased stock of social capital or free market guarantees. Thus, evidence from empirical, theoretical and historical research is used for a critical assessment in order to provide some assumptions, according to which religion is considered to be a complementary factor to economic development, but only to the extent where it does not promote the extremes.

Key words: religion, development, economic performance, human capital, social capital

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1. Introduction

One of the main challenges for the current academic area remains the investigation of the influence of cultural issues to the social development. Thus, starting from the premises to which religion can influence the attitude and actions of believers for a more or less productive behavior, it seems impossible to separate it from the economic determinants of development. Furthermore, the behavioral aspects get a growing influence in the current economy viewed as a whole, characterized with high globalization. For example, a peaceful co-existence of various religious groups, within the boundaries of a country with several religious affiliations within the wide global community, remains an essential condition for ensuring growth and economic prosperity in a highly interconnected world.

Economics and religion are two major areas of human experience. According to Kenneth Boulding [1], religion has built the pyramids, the temples and the cathedrals. Since its inception, has affected not only the nature of the goods or the ones related to economic life, but also the institutions and business practices that have determined, in key historical moments, the entire economic course. More important than that, from the economists' point of view, has been its impact on people minds, shaping their attitudes and beliefs. Even from the early phase, religion acted as a revolutionary force which has combined human hearts and thinking beyond their routine, turning them into vectors receptive to change. In such a time, the economic progress was most likely a quick one, because progress can not take place without change and willingness to change, willingness to try new production methods, new techniques, as well as willingness to tolerate the artisans of such changes. In Mises's view [2], religion helped founding the human society.
Thus, in the absence of supernatural revelation, man would not have been learned what destiny wants to make in his own benefit or that of his intimates. “If the Lord had not intervened and had not littered mankind, human society would had not emerged. Left alone, man would have never found the way to salvation, because adjusting the requirements of social cooperation and subordination to moral principles requires heavy constraints. From his wretched intellect point of view, he would have deemed the abandonment of some expected advantage as an evil and a prison […]”.

On the other hand, when religion has stagnated, it became a conservative force and upheld the established routines as well as repeating them, against innovation. Representative for this idea development are the observations of Adam Smith [3], the father of “the invisible hand of the market”. He argued that authoritarian practices of the Roman Catholic Church imposed barriers to international trade, in this case being unfavorable to economic progress. In both cases, the influence of religion has shaped the attitudes towards change and human behavior in relation to different forms of economic behavior.

Following an in depth analysis of the specialized literature, this paper aims to perform an exhaustive review of the most representative qualitative and quantitative studies that regard the relevance of the influence of religion on issues considered crucial to economic development. Thus, the evidences from theoretical, empirical and historical research are considered for a critical assessment in order to provide some assumptions, according to which religion is considered to be a complementary factor to economic development, but only to the extent where it does not promote the extremes.

2. Theoretical framework. Religion’s interaction to vectors of economic development

2.1. Link to physical capital and work productivity

It can already be considered a truism that the historical role the religion has played in the economic development was more significant than today, but its features related to faith, personal beliefs or institutions still can influence it. From the current perspective of economics, the development implies the existence of influential vectors such as financial capital intake, human capital quality, a significant stock of social capital, social stability and free market guaranteeing. In this regard, the article aims to critically evaluate the situations where religion can positively or negatively influence these vectors.

The theory of economic development has been dominated by the fundamental idea of owning physical capital. In this respect, the models of Solow [4] and Swan [5] are relevant, explaining the economic growth rate by increasing population and technological progress. These models basically equate physical capital with the workforce. In developing this idea, Habibullah Khan and Omar KMR Bashar [6], considered that religion can positively contribute, through its norms, that support and even increase fertility and even influence labor productivity because for most religious beliefs raw work is the norm. Under the religious aspect, work can be conceived as a means to glorify God. Thus, the individual must avoid on hold conversations and long and unproductive recreation. If man is unproductive and unprofitable risks being perceived as evil by the religious community in which he lives.

But, the most beautiful expression of such ideas is to be found in Weber [7]. Now more than a century ago, in his work "The Protestant Ethics and Capitalism spirit", he suggested that the emergence of the capitalist economic system was caused by the earlier cultural transformations in the Protestant denomination world. Thus, he developed a theory according to which the Calvinist doctrine of predestination (with emphasis on the labor ethics, diligence, austerity, loyalty and punctuality) founded the modern economy.

By contrast, religions whose values are, to a great extent focused on "life beyond" can be predominantly focused on consumption, at the expense of production. From the economic point of view, Kenneth Boulding (1968) believed that such a religion may be likely to lead to a low social status and can have major negative economic implications on trade, traders or businessmen, whose activities are focused on "this world". At the same time, such a religion can offer a high status to monks, contemplative and inactive people, whose work in the economic order are focused mainly on consumption. It can also imprint to the faithful individuals a sense of self-satisfaction and happiness with the simple things. The intrinsic value of the religion can provide the believer a kind of "relative happiness". In developing this idea, it can be relevant the article written by Sabina Alkire [8], in which were summarized the results of a modified World Bank study conducted in 2004 and expressive entitled "Voices of the poor". People who were the subject of this study were considered by the societies they live in as "poor". The results showed that they still lived closely with transcendental elements, subsequently considered part of personal wealth. Although it may be considered unfavorable to performance and economic progress, this intrinsic value of religious beliefs can positively contribute to social and political systems stability, components needed to develop.

2.2. Social capital extension

The importance of social capital in economic development is also indisputable and has been the subject of study of great economists. A good example in this area is offered by Ludwig von Mises [2] who believes that personal wellbeing is impossible without others’ wellbeing. In supporting this idea, the feeling of belonging to a particular
religious institution can create, in many cases, a rational motivation for effective behavior when it occurs among a culture that promotes sociability and not individualism. In general, religion is identified with the pairings. Collier [9] characterizes social capital as an internal social and cultural coherence of society, covering all norms and values that govern over the people and institutions where it’s present. He argued that the expansion of capital would reduce the transaction and information costs, matters that would by default make the human and physical capital more productive. According to Habibullah Khan and Bashar Omar [6], religion acts as a catalyst to build "social capital" and therefore encourage growth, a rule widely accepted in the field literature. In this sense, religion is regarded as contributing directly to civil capital, building networks within the population. As a personal opinion, we do not fully bolster this view, given that religion may divide various segments of the population through the multitude faith teaching. However, spiritual or religious capital is special in the sense that it can produce externalities. As Adam Smith opined [10], participation in certain religious groups may send to their adherents at least two economic advantages. First, a reputational signal, as belonging to a "good group" may reduce the risk associated with specific individuals and ultimately lead to a better resource allocation. Secondly, religious groups could provide additional legal means to establish trust and punishing those miscreants, between interactions within the group, by reducing uncertainty and improving efficiency, especially in cases of sanctions failing to support weak contracts. Promoting greater confidence encourages repeated interactions between group members which may ultimately lead to a joint-work behavior inside same networks. But, however, the economic environment can be beneficial rituals only to the extent that: (i) the duration of their deployment is not wasting valuable time to the participant; (ii) interactions and business activities within the group have economic relevance.

In another type of argumentation, religion along with other elements of culture such as tradition or historical habit can transfer "social capital stock" from generation to generation. A good illustration of this idea is to be found in Francis Fukuyama [11]. He believed that the extraordinary success of economies like the US, Germany or Japan are due primarily to "the supremacy of trust" and "spontaneous sociability", both working together to increase "social capital stock". Unlike other types of capital, it is created and transmitted through cultural mechanisms (religion, tradition and historic habit) and is a society skill generated by confidence’s supremacy. This point of view is a sustainable argument. Can it be denied that the societies formed on the basis of mutual trust have generated economic performance superior to those that have persisted in a confrontational logic?

2.3. The role of religion in human capital development

Religion, through its institutions, can have a positive impact on human capital development through the improvement of education. According to Sacha Beeker and Ludger O. Wossman [12], in the world of protestant denomination, religion has played a crucial role in the economic development of Germany. Thus, literacy was induced to believers to read the words of God as a result of the translation of the Bible into German. They even developed a theory of human capital according to which Prussia was the most apt in terms of human resources to continue the industrial revolution started in England. Returning to our time, in developing economies and lack of government policies on educational level, the Church encourages young people to be literate to be able to read the scriptures and other religious teachings. Without literacy, it is impossible to understand God's words. In many types of religious beliefs, God is considered knowledge and wisdom. In this sense, believers are called to read, to listen and to think about what symbolizes wisdom.

3. Negative impact of religion for the economic development

Religion can also act as a hostile force for societal development. First, religious practice can become a practical problem when leaders or religious institutions barricade economic development, perceiving it as a threat as it promotes Western cultural values (e.g. increase women's rights in Muslim societies). According to a study of Guizo et. al [13], religious people are less tolerant to women's rights. Also, religious extremism and civil unrest can erupt between groups of believers and non-believers or between different religious groups and can give rise to violent behavior. Such situations lead to lower foreign investment or blockage of existing economic activities. However, Alan Krueger [14] vehemently disputed this view, believing that religious violence is a phenomenon that occurs because of poverty and the gulf between the social classes of a country.

Other negative effects on growth can occur when there are restrictions of religious nature for capital accumulation, profits, credit markets and interest receipts. It was also found that church activities for increasing financial resources (e.g. construction of new cathedrals) create major problems on the necessary financial capital stock of the free market [15].

4. Empirical evidences

The importance of the fact that religion still plays an important role in people's lives, derived primarily from studies under the title "World Values Study". In this regard, according to a study conducted by Ingleheart [16], 83% of
worldwide respondents indicated its faith in God, 75% believed in the existence of Heaven, 26% attend a place of worship at least weekly and 36% once a month. More than 65% of surveyed individuals felt comfortable and closely related to religious beliefs. In contrast, only 7% of individuals were not affiliated with a religious belief or regarded themselves as atheists or agnostics. These figures can be considered impressive.

Given the importance that religion plays in the lives of many people, as well as observations on statistical heterogeneity of religious beliefs and practices in cross-country studies, it was found useful testing econometric modeling of the contribution that religious behavior can have on economic differences between countries in terms of development. The importance of religion, as a factor in economic development, was introduced into mainstream economic literature over a century ago by Max Weber [7]. He underlined the so ambitious role that religion played in social change, developing a theory that the Protestant Reformation was instrumental in the emergence of capitalism due to its impact on traditional belief systems.

Most empirical studies, conducting research in the field of religion and economic development, had as a starting point Weber's hypothesis testing. The first series of studies investigated the cross-country comparison link between economic performance and Protestant or Catholic confession countries. In these studies, measuring economic performance was achieved in relation to gross domestic product (Robin Grier [17]; Robert Barro and Rachel McCleary [18]; Blum and Dudley [19]) or other cultural characteristics considered indispensable to economic development such as for example confidence among the population (stock of social capital), the vision of levying interest, the level of sovereign debt, political preferences or even public perception about government spending and preference for redistribution.

The second series of studies suggest alternative theories to Weber’s, by developing assumptions that the regions’ economic prosperity of Protestant is due to the impact of their parents’ teachings on human capital reform through contributions on education [12]. We also identified in the literature a third set of studies (independent of Weber's theory) that capture the dynamic relationship between religion and other important facts of economic development such as the effects of religion on influencing people's attitudes in relation to cooperation, the government, the legal rules or market economy [13] or the influence of participation in religious rituals on the development of economic activities [20].

In the article entitled "The effect of religion on economic development. A cross-national study on 63 former Colonies" [17], Robin Grier tries to explain the differences in development and prosperity of the Spanish colonies in South America compared with neighboring countries in the North. The starting point of this work was the existing consensus in the literature on the Spanish colonization. In this regard, it was considered universally accepted the idea that Spanish-speaking countries have adopted the characteristics of Spain, some considered as untargeted exclusively to economic growth and development. The main cultural features imported by these countries from Spain or France were Catholic religion and language. The economic literature on the underdeveloped of South America was completed by this Grier’s quantitative study.

In this work he intended to fill this gap by opening horizons of research of the cultural aspects that define the countries concerned. This study was extended on a sample of 63 states with colonization history. In this regard, the former French colonies and the Spanish were treated as members of the Roman Catholic Church and the rest as Protestant, namely English. In an attempt to answer the questions "does religion matter in economic growth?" or "does religion matters in increasing GDP per capita levels?", he used an methodological analysis built on the following variables: a) GDP per capita, for explaining economic performance; b) colonizing country, as a dummy variable; c) population growth; d) standard variation of inflation; e) government consumption; e) type of religion. Thus, the study validated Weber's hypothesis according to which superior economic performance and prosperity are positively correlated with Protestantism. Instead, contrary to Weber's theory, Grier concluded that religion is not the sole determinant in economic growth and development, Protestantism representing only one of the sources that fueled economic progress.

Robert Barro and Rachel McCleary [18] conducted a study using more complex data from international surveys on religiosity of states to investigate the effects of church attendance and religious beliefs on economic growth. Thus, their research used a panel of 59 states that included information on church attendance and religious beliefs and the GDP per capita, as the dependent variable. In this econometric modeling, for religious parameters configuration, they used the data of international surveys such as the Worlds’ Values study or World’s Christian Encyclopedia. With respect to the economic performance they used World Bank’s annual reports. They found that economic performance (growth) depends on the intensity of faith, not on a particular affiliation. Another result has been that religious participation (attendance) is correlated with a weaker growth. Another set of findings have validated the Weber’ hypothesis. First, Protestantism is correlated with higher per capita levels. Secondly, it is about validating the secularization hypothesis, according to which economic growth generates, in time, disengagement towards religious beliefs.

The stock of social capital plays a significant role in economic development, sometimes crucial. In his work [7], Weber suggested an explanation based on cultural differences. Developing these ideas, Blum and Dudley [19] extended the importance of historical capital (specific to Protestant regions) in case of international trade. The starting point of this analysis was the historical reality under which lower wages in Catholic cities, while increasing those in Protestant
regions for the period 1500-1750, contradicts most of the theoretical models of economic growth. The purpose of this work was to evaluate the role of cultural factors in determining economic performance. To do this, the authors started their approach from the existing imperfections in the methodology that was used in most previous empirical studies on economic growth. Therefore, studying a very large historical period (1500-1750) was a challenge, because real income data are incomplete. Consequently, they used an analytical method based on a procedure previously employed by De Long and Shleifer. This is the use of urban population growth as a proxy for representation of changes in income. After an analysis based on population growth rates in 90 cities in northern Europe and 226 in the south of the continent, the authors found low support for explanations of classical theories on economic development.

The first conclusion was that both models, previously argued by neoclassical development and endogenous growth theories, are unable to explain the differences between North and South for this quarter millennium. A second set of conclusions supports Weber's theory regarding development of impersonal trade. The Protestant towns bordering the Atlantic Ocean, at the expense of Catholic, have created an advantage in terms of technological progress in transport ship for a reduced transport costs. Also, printing centers have experienced high rates of growth, during which the Catholic stalled. Furthermore, the development of human capital through widespread literacy has been accompanied by higher propensity toward Protestants to honor trade agreements with unknown partners (impersonal trade) for the benefit of profound changes in network expansion.

The influence of religion on human capital development was tested by Sascha Becker and Ludger Wossmann [12]. They advanced an alternative theory to that drawn by Weber, according to which the Protestant regions known development, not due to "work ethics", but as a result of human capital development through teachings of the Protestant Reformation parents. So, they considered that the teachings of Martin Luther, which promoted Bible reading, have generated a human capital which proved to be crucial in economic prosperity. A very well-known fact is that Martin Luther's resistance to the Roman Catholic Church meant also translating the Bible into German. But what was less known was the fact that the appearance of the Bible into German language favored literacy, otherwise people could not read words of God - the Bible. In the light of human capital theory, literacy would have had a crucial effect on economic revival, by increasing productivity and then ensuring prosperity. The used analysis was conducted on a sample of 452 Protestant Prussian counties. Therefore, it was necessary creating a database that included Protestantism, literacy and economic outcomes. The data were provided by the Prussian Statistics Office, available nationwide for the period 1870-1880. Literacy was measured as the ability to read and write among the population aged up to 10 years or more. Media literacy in these counties was very high and ranked around 87.5 percent. The results reflect that in Prussia, the well-known and much-admired primary education system from the second half of the ninth century can be seen as a key element responsible for the fact that Germany has taken the lead from UK industries.

The effects of religion on people's attitudes toward cooperation, government, legal compliance and the perception in relation to the free market were studied by Guiso et. All [13]. The authors studied not only the impact of religion in general, but also of certain religious affiliations. Regarding the coverage of their study, it was sufficiently comprehensive. This sample was composed of 66 countries whose population represented 80% of the whole world. On average, they found that religion acts positively on developing good institutions. However, the results suggested that religious people tend to be less tolerant of other races or nationalities. Also, more interesting than that, was the impact of different religious affiliations. Thus, Catholics and Protestants, who attend church regularly, seem to be most reliable. Although the relationship between religion and intolerance seems to be present in all religions, it is particularly strong among Muslims and Jews. However, the results are not sufficient to trenchant conclude that some religions are more adverse to economic growth than others.

Another study that tested through econometric modeling, the influence of religion on cooperation and trust (social capital) was carried out by Ruffle and Sosis [20]. The authors studied the role of religious rituals in promoting trust and cooperation within the group. Thus, they hypothesized that religious ritual promotes economic cooperation among participants. The results also showed that those who regularly participate in collective religious rites have higher productivity. The study also concludes that religion plays an important role in everyday life among people in small towns, whose survival depends on solving collective problems. Research and their results on the link between religious and economic performance also brought up a range of critics. In this sense, Samuelsson [21] and Cohen [22] found that there is no logical reason that religion can cause economic performance or that there is insufficient empirical evidence in establishing such ties. Also, Immanuel Wallerstein [23] expresses skepticism about Weber's hypothesis according to which religion would guide the appearance of capitalist economic system. Additional to this idea, he claimed that any possible link between religion and economics would be produced just as economy as cause and religion as effect.

5. Methodology

Given the difficulty and sensitivity of establishing a relationship between economic development and religious beliefs, the subject of this article imposed a quasi-exhaustive analysis of the literature. The methodology of this paper is a critical overview of the most important studies of the matter, in an attempt to provide original assumptions that, in certain circumstances, religion can be a complementary factor of economic development. Literature is varied and includes both qualitative research and quantitative (performed by econometric modeling). Articles used in this study
A growing research interest in this field may be noted. At its inception, the literature in this area was focused on validation or invalidation of Weber's hypothesis by measuring the economic performance between Catholics and Protestants. Currently, researchers have developed the research area and are more concerned about the impact it can have on some other religion and societal determinants of development (e.g. religious extremism, tolerance towards foreigners, perception on institutions and the free market.). From the perspective of societal development, religion and economy seem to be inseparable, the behavioral issues experiencing a growing importance. Conceptual religions can provide its adherents the necessary supplements for involvement in productive activities during life.

Thus, religion can influence performance and complete necessary economic vectors as long as orients people by honesty, discipline, hard work, education or retention for unproductive activities. It can also negatively affect economic development as long as the practices and religious norms interfere in the free market. A good example of this is related to the negative influence of finance capital expenditures through increased religious activities (construction of new cathedrals). Other negative aspects towards economic activities may be recorded when there are religious restrictions regarding the accumulation of wealth, making profit, credit market (getting income from interest) or the development of religious extremism. From theorizing these issues, it can be concluded that religion can negatively or positively influence economic activity only at contextual level. Thus, religion can enrich the vectors required for the economic performance (human capital, social capital) to the extent that it promotes "moderation" and less "extremes", intense religious participation being correlated with lower per capita income. Moreover, promotion of "moderate" values may lead to society stability, to a peaceful coexistence between different religious groups, which is a prerequisite for growth and prosperity in today's interconnected world.

6. References