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ABSTRACT

Given that religion drives people's behavior and actions in a more productive direction, it is not possible to separate religion from development. After a meticulous review of theory and empirical literature, the paper concludes that the relationship between religion and development is likely to be complementary as long as religious beliefs and practices promote 'moderation' rather than 'extremes'. A peaceful co-existence of various religious groups (or sects) within a country and nations with multiple religious affiliations within the global community at large remains the essential prerequisite for growth and prosperity in today's highly interconnected world, argued in the paper.

Keywords: Religion, Islam, growth, development

1. Introduction

Religion is a system of social coherence commonly understood as a group of beliefs or attitudes concerning an object, person, unseen or imaginary being, or system of thought considered to be supernatural, sacred, divine or highest truth, and the moral codes, practices, values, institutions, and rituals associated with such belief or system of thought.³ It is widely believed that religion played an important role in the process of economic development in the very early years of world history. Adam Smith (1776) while explaining the role of established clergies in his *'An Enquiry into the Nature and Causes of the Wealth of Nations'* wrote that one of religion's most important contributions to the economic development process was its value as a moral enforcement mechanism. He argued that, in societies where there was a widespread belief in God, the values of honesty and integrity were more prevalent, and fewer resources would be devoted to determining the veracity of an individual's or firm's business ethics — what economists call the credit or default risk associated with lending to an unknown individual. In other words, the participation in religious sects

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³ Source: Wikipedia, the Free Encyclopedia

could convey a useful “reputational signal” to potential employers, lenders and customers implying a reduction in risk of doing business with any individual. Extending the same argument to the community or group level, the implication of this hypothesis is that membership in “good” sects could provide additional means of establishing trust and sanctioning miscreants in business transactions leading to reduction in uncertainty and improvement of efficiency. Smith also applied his well-known *laissez faire* philosophy to religion. Without showing any preference for any particular religion, he advocated an ‘open market’ and ‘freedom of speech’ for all religious groups so that rational discussion about different religious beliefs and practices can create an environment of “good temper and moderation”, essential for sustained growth and development.

Extending the argument in a somewhat similar vein, Max Weber (1904) argued that the work ethic that was inspired by the Protestant Reformation helped to explain the rise of capitalism in Western Europe and America while it did not happen in some other parts of the world. He believed that “this-worldly asceticism” associated with Calvinists doctrine of predestination stressed on diligence, austerity, thrift, punctuality, fulfillment of promises and fidelity to group interests, which laid the foundations of modern capitalism. Such a transformation potential of religion leading to radical changes in values and behavior implying a favorable outcome, as implicit in Weber’s argument, raised a heated debate in literature and several attempts were made to provide empirical foundations to this argument. This paper seeks to review some of these empirical works.

This paper contains four sections. After introductory remarks in section 1, the contribution of religion to economic growth has been discussed in section 2. Section 3 discusses empirical evidence. Finally, section 4 concludes the paper.

2. Role of Religion in Economic Growth

Religion acts as a catalyst for accumulation of ‘social capital’ and thereby growth, which is a widely accepted norm in development literature. The theory of economic development dates back to 1950s; it has been dominated by the term “capital fundamentalism” which argues that differences in long-term economic growth are mainly due to differences in capital stocks. The article of Lewis (1954) is particularly important in this respect. The neoclassical models of Solow (1956) and Swan (1956) attempt to explain economic growth by the growth rate of population (or labor force) and the rate of technological progress. Romer (1986) and Mankiw, Romer and Weil (1992) augmented the Solow model by including accumulation of human capital in the model.

Following the successive emphasis on physical capital, human capital and knowledge capital, researchers find adding ‘social capital’ in growth model as an explanatory variable important. Collier (1998) characterizes social capital as the internal social and cultural coherence of society, the norms and values that govern interactions among people, and the institutions in which they are embedded. Social capital has an economic payoff when it is a social interaction that yields positive externalities and facilitates collective action for mutual benefit outside the market. Social capital is comprised of ‘civil’ social capital and ‘government’ social capital. The

former refers to trust, reciprocity, interpersonal networks, cooperation and coordination that govern the interactions among economic agents, while the latter incorporates the benefits of law, order, property rights, education, health and good government. Collier suggests that to the extent that social capital reduces transaction costs and information costs and makes physical capital and human capital more productive, it should be counted as a source of 'total factor productivity (TFP)'. Religion is categorized as civil social capital, which contributes to the building of networks among population. However, spiritual capital or religious capital is special in the sense that it may produce externalities and spillover effects on government social capital as well.

Religion also affects productivity through certain personal traits, such as work ethics, thrift, honesty, and openness to people. These traits, in turn, may make people more or less economically productive. For most religions, hard work is a norm. Work is a duty to God and one should put diligent effort in his work. To the believers, work not only helps them to stay away from a sensual, immoral life but also is the best means for glorifying God. Thus, from religious point of view, one must avoid idle conversation, unproductive recreation, or oversleep in order to have maximum time for work. Being idle and unprofitable is often stressed as "evils". To the extent that people internalize this view, it is likely to increase productivity.

Religion can enhance economic growth and development by promoting a positive attitude toward honesty. Since the concept of 'truthful living' is a major emphasis in religious practice, it induces people to bring a sincere attitude in all interactions and dealings. Religion may increase levels of trust and reduce levels of corruption and criminal activity. It may also encourage thrift, which would stimulate saving, investments and therefore economic growth. Besides, religion may lead to better health level by discouraging sinful activities as drugs, overeating, gambling, alcohol, etc. For instance, alcohol and gambling are strictly forbidden in Islam. The principles of Islamic banking and finance are based on the premise that any kind of financial arrangements leading to investments in such activities are unproductive and socially undesirable and thereby strictly prohibits them.

Religious rituals also play a significant role in economic activities. They promote in-group trust and cooperation that help overcome collective-action problems. Greater trust fostered by religion encourages repeated interactions which can lead to more cooperative behavior within a single network. Besides, better cooperation by one institution in a single network creates positive externalities that spill over to other institutions and networks. This helps an economy to be more open in terms of trade, investments and skilled migration.

Religion exerts positive impact on human capital by enhancing education level. Individuals are encouraged to be literate so as to be able to read scriptures and religious teachings. Under many faith systems, one definition of God is knowledge and wisdom. Believers are expected to read, listen and reflect on the word that epitomizes knowledge and wisdom. Education and knowledge play an important role in securing employment. In many developing countries, education is seen as a social norm that is required for social networking which can again promote economic growth through collective bargaining.

Religion may act as a negative force too. Possible negative effects of religion on economic growth include religious restrictions on capital accumulation, profit-making, credit markets and interest. Religion may also increase resource allocation towards church activities, such as cathedral building, and thereby removing resources from free market activities. McCleary (2008) in a recent paper argues that the negative effect of religion reflects the time and resources used by the religion sector as well as adverse effects from organized religion on economic regulation. The paper contends that the positive growth effect of religion comes from increase in 'believing' relative to 'attending' (practicing). Relatively high belief (i.e., belief levels are high compared to low levels of attendance at religious services) appear in Scandinavian countries, Britain and Japan whereas countries with low levels of belief relative to religious participation include Latin American countries and India, claimed by the author. While this is an interesting observation, it needs to be verified by undertaking extensive survey and research in various countries characterized by different religions and sects.

Violent behavior or civil unrest may erupt because of clash among believers and non-believers and different religious faith groups. Beed and Beed (1999) argued that several fundamental Christian beliefs contradict the values and morals of modern capitalism and secular economics. Religious people are found to be more intolerant and less sympathetic to women's rights (Guiso *et al.*, 2003). Alan Krueger (2007) challenged the commonly held view that religious violence occurs because of poverty and high income inequality in a country. He argues that suicide bombers (e.g., Islamic terrorists) are well-educated and not from the poorer levels of the society. Krueger reasons that higher levels of education may strengthen a terrorist's commitment to the cause as well as his ability to prepare for and carry out the suicide assignment. Religious terrorists (as opposed to secular terrorists) feel a sense of alienation from the larger society and Krueger defines this in political terms. Drawing examples from dramatic rise in unemployment among college graduates in West Bank and Gaza in 1980s, he concludes that terrorist activity on the part of educated men is a response to political conditions and long-standing feeling of frustrations that are fueled by religious beliefs and less to do with economics. The policy implication of Krueger's path-breaking research is to find permanent solution to the political crisis in the region along with strengthening private sector initiatives, creating jobs, and attracting foreign investment.

3. Empirical Evidence

There have been some studies attempting to establish a link between religion and economic growth. Barro and McCleary (2003), using data of 59 countries in the 1980s and 1990s, employed a cross-country growth regression framework to analyze the influences of religious participation and beliefs on a country's rate of economic progress. They found that economic growth responds positively to religious beliefs that induce efficiency enhancing behavior. Yet, growth depends on the intensity of believing rather than belonging, which implies that religion works via belief, not practice. It is, however, important to point out that Barro and McCleary (2003) had rather a limited coverage. There is more information available about rich countries than poor ones as well as more about countries that are primarily Christian-majority.

Guiso *et al.* (2003) studied the effects of religion on people's attitudes toward cooperation, government, legal rules, and the market economy. The authors not only analyzed the impact of religion in general but also that of different religious affiliations. The coverage of their study was sufficiently wide, with 66 countries accounting for 80 percent of the world population. On average, they found, religion is good for the development of better institutions. However, the findings suggest that religious people tend to be less tolerant to other races or nationalities. More interesting, however, is the impact of different religious denominations. The most trusting people seem to be the Catholic and Protestant who attend the service regularly. Though the relation between religion and intolerance seems to be present in all religion denominations, it is particularly strong among Muslims and Jews. Still, these are not sufficient to conclude that some religion denominations are more inimical to growth than others.

Noland (2005) rigorously explored the connection between religious beliefs and economic growth, with a particular emphasis on the impact of Islam. Three sorts of evidence are produced in the paper: cross- country data analysis for a large sample of countries over a period of decades, a similar analysis for a small group of countries for nearly a century and analyses of sub-national data for three multi-religious and multi-ethnic countries. Both cross-country and within-country statistical analyses suggest that religious affiliation does matter in economic performance, though no significant correlation was found with respect to particular religions. He also pointed out that there is no empirical support (based on econometric analysis either at the cross-national or within-country level) for the allegation that Islam is a drag on growth. Islam, like all religions, changes over time and space. He stressed, contemporary Islam in sampled countries on the basis of three types of evidence produced in the paper, does not appear to hinder growth.

Daniels and Ruhr (2005) used individual survey data of U.S. residents to test the impact of religious affiliation on attitudes toward trade and immigration policies. The results show that in general religious affiliation is a significant determinant of individual international policy preferences. Specifically, members of the three largest U.S. denominations- Catholics, Baptists, and Methodists are more likely to favor policies that restrict imports into the United States. It was also found that views on these issues differ among pre-Vatican II Catholics and post-Vatican II Catholics, and among Baptist and non-Baptist African Americans. The authors, hence, suggest that religion is an important form of identity and may represent an important source of resistance to a greater economic integration.

Ruffle and Sosis (2003) studied the role of religious rituals in promoting in-group trust and cooperation that help to overcome collective-action problems. They hypothesized that collective religious ritual promotes economic cooperation among the practitioners of the ritual. The authors took advantage of the natural distinction between religious and secular Kibbutzim to compare the cooperative behavior of their members.⁴ The results show that those who most regularly engage in collective religious rituals are the most cooperative resulting in higher productivity. The study also suggests that religion plays a significant role in dealing with day-to-day economic problems, particularly for communes whose survival depends on solving collective-

⁴ Secular Kibbutz members are antagonistic toward religion, while religious rituals play a central and defining role in the lives of religious Kibbutz members.

action problems with the same set of people daily and for individuals in developing countries who lack the economic and legal institutions.

Grier (1997) used data of 63 British, French and Spanish ex-colonies for the period 1961-90 to test whether Protestantism is positively related to economic growth and development and whether religion can help explain why Spanish ex-colonies perform markedly worse than their British counterparts. The study found overwhelmingly that Protestantism is correlated with growth and development. It was also reported that controlling for Protestantism does not significantly lessen the gap between British and French and Spanish colonial development.

The apparent linkage between religion and development attracts criticism too. According to Samuelsson (1957) and Cohen (2002), there is either no logical reason to link religion to economic development or insufficient empirical evidence of any actual linkage. Wallerstein (1974) expressed high skepticism of seeing capitalist development as guided by religion. He argued that any complex system of ideas can be manipulated to serve any particular social or political objective. Any connection between religion and economics is likely the one in which the latter is cause and the former effect.

4. Conclusion

Religion and development are seemingly inseparable. Conceptually religions provide believers a guideline about life and the life-after and thus provide much-needed incentives for indulging in productive activities during lifetime. Religions can be seen as a promoter of growth as they direct people towards honesty, discipline, hard work, education, thriftiness (leading to savings essential for investment and thereby growth) and absenteeism from harmful activities. Most of the empirical studies point to a positive relationship between religion and economic growth and development. Yet, there is no consensus on the precise causal relationship (one-way or both ways) between the two. More research with extensive data sets covering a wide range of countries should be undertaken before drawing a firm conclusion on this issue. Nevertheless, we can probably conclude that the relationship between religion and development is likely to be complementary as long as religious beliefs and practices promote 'moderation' rather than 'extremes'. Also, there should be no prejudice against any religion as the studies conducted so far have failed to prove the superiority of any single religion over others in terms of their economic performance and behavioral changes on the society at large. At the same time, it is germane to mention that if any policy (or a system) based exclusively on certain religious principles can be found to have potential to serve the entire global community should be seen positively. The recent surge of interest in Islamic finance in various non-Islamic countries (USA, UK, and Singapore) can be cited as manifestation of such a phenomenon. A peaceful co-existence of various religious groups (or sects) in a country and various nations with different religious affiliations within the global community is a prerequisite for growth and prosperity in today's highly interconnected world.

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