Religions and Development

Research Programme

Religion and Economics: A Literature Review

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Working Paper 3 - 2007

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Research Programme

The Religions and Development Research Programme Consortium is an international research partnership that is exploring the relationships between several major world religions, development in low-income countries and poverty reduction. The programme is comprised of a series of comparative research projects that are addressing the following questions:

- How do religious values and beliefs drive the actions and interactions of individuals and faith-based organisations?
- How do religious values and beliefs and religious organisations influence the relationships between states and societies?
- In what ways do faith communities interact with development actors and what are the outcomes with respect to the achievement of development goals?

The research aims to provide knowledge and tools to enable dialogue between development partners and contribute to the achievement of development goals. We believe that our role as researchers is not to make judgements about the truth or desirability of particular values or beliefs, nor is it to urge a greater or lesser role for religion in achieving development objectives. Instead, our aim is to produce systematic and reliable knowledge and better understanding of the social world.

The research focuses on four countries (India, Pakistan, Nigeria and Tanzania), enabling the research team to study most of the major world religions: Christianity, Islam, Hinduism, Sikhism, Buddhism and African traditional belief systems. The research projects will compare two or more of the focus countries, regions within the countries, different religious traditions and selected development activities and policies.

The consortium consists of six research partner organisations, each of which is working with other researchers in the four focus countries:

- University of Birmingham, UK: International Development Department, Department of Theology and Religion, Centre for West African Studies, Centre for the Study of Global Ethics.
- University of Bath, UK: Centre for Development Studies.
- Indian Institute of Dalit Studies, New Delhi.
- Nigerian Institute of Social and Economic Research, Ibadan.
- University of Dar es Salaam, Tanzania.
- Lahore University of Management Sciences, Pakistan.

In addition to the research partners, links have been forged with non-academic and non-government bodies, including Islamic Relief.

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Contents

1 Introduction[1]

The study of religion in the field of economics has a long history, albeit one with a two-century gap between an initial period of scholarly interest in the late eighteenth century and a more recent spate of publications since the 1970s. The current ‘resurgence’ of religion in many parts of the globe has given rise to a growth in interest in the relationships between religion and economics first explored by Adam Smith (1776, 1965) and later by Azzi and Ehrenberg (1975), although the economics of religion did not receive recognition as a sub-topic within economics until recently, when it received a *Journal of Economic Literature* code (Z12). Recent writing has produced a wide variety of material dealing with the economic dimensions of subjects as diverse as denominational growth, sects, cults, religious extremism, religion and the labour market, religious risk, church market structure, religion and theory and religion and charity.

Historically, religion has been one of the areas ‘assumed away’ by most economists. As Tomes observes (1985, p.245), “economics is fundamentally atheistic. Religious beliefs, practices, and behaviour play no role in the life of homo economicus.” The literature reflects a lack of acknowledgement of religion as anything but an obstacle to economic growth, usually placed in the same negative basket as ‘culture’ (Anderson, 1988). At the same time, religion as a social phenomenon has been growing in many parts of the world. The resurgence of evangelical Christianity in the United States, the development of Protestantism in Latin America, the wide range of evangelical independent churches in Africa and the spread of Islam globally have all contributed to a renewed interest in religion and economics. For instance, the development of Islamic economics has led to new approaches to the development of banking, whilst the resurgence of evangelical Christianity in the US has contributed to a rapid development of ‘literature’ on religion, its place in society and its influence over lifestyle, in the place where religious data on, for example, church attendance, are most readily available for analysis.

One of the central issues that permeates all of the literature is what exactly is meant by ‘religion’. No simple answer to this conundrum is presented; in fact, sources provide an extremely complicated mosaic of definitions that mirror the eclectic nature of the literature itself. The broad definition, based on Stark and Bainbridge (1985), usually states that a religion consists of a set of coherent and shared beliefs, activities and institutions premised upon faith in supernatural forces. However, this is problematically broad in that it does not include some variants of Buddhism, for example, which are systems of metaphysical thought and also individualistic ‘spirituality’, yet do not make reference to the supernatural. At the same time, it reflects a western approach derived from a Judeo-Christian view of institutionalised religion that may not necessarily be applicable to some aspects of Islam, for example. This dominance of a definition of religion that resembles Stark and Bainbridge's is a consequence of the western (in particular, North American) bias within much economic analysis (Iannacone, 1998).

At the same time, there is an increasing tendency to treat religion, not as a set of beliefs, but as a form of social practice involving community coherence, shared identity, beliefs and values (Thomas, 2005). This western approach to religion as being essentially private rests on an assumption of secularism in state matters that does not necessarily hold outside the western world (Asad, 1993).

One of the practical reasons for this bias in the literature, which is directly relevant to the religions and development research programme, is the dearth of empirical studies concerned with the role of religion in economics. The vast majority of the literature that draws upon empirical evidence is from the US, where some data on religious practice does exist. Elsewhere – and even in the US – religious data are limited and unreliable (Iannacone, 1998). Governments have sponsored very little research on the relationships between religion and economics, and many religious organisations keep very unreliable records of, for example, their members and finances. Given that economics is a social science that relies predominantly on the manipulation and analysis of data, particularly financial data, there was very little to go on both for earlier researchers and for those carrying out this review. Many churches in Africa, for example, have not kept detailed records of attendance or membership, let alone personal data on attendees, which would allow the calculation of, for example, whether or not churchgoers are wealthier than non-churchgoers, which is a common analysis in the US literature. The resurgence of interest in religion amongst economists has coincided with the development of datasets largely derived from surveys, particularly in the US, on denominations and religious beliefs[2]. However, beyond North America data can be somewhat sketchy.

This literature review outlines the main themes within the literature and attempts to map the sub-themes. It is divided into several sections, including a survey of the literature (Section 2), and a summary of the main thrusts of available research (Section 3), going on to identify any gaps that require further exploration.

2 A survey of the literature

There are very few surveys of literature looking at religion and economics, but those that do exist usually divide the material into separate themes (see, for example, Iannaccone, 1998). Firstly, there is a line of inquiry that emphasises the analysis of religious behaviour from an economic perspective. This set of ideas encompasses the application of economic methods and techniques to explain patterns of behaviour amongst groups, cultures and individuals (Iannaccone, 1998) and derives from Gary Becker's economic approach to the family (Becker et al, 1977). This group essentially looks at the development of economic theory, focussing on issues that include rational choice, risk, game theory and individual utility preferences (Bruce, 1993; Montgomery, 1996; McBride, 2005).

The second theme within the literature on economics and religion is the study of the economic consequences of religion. This group encompasses a number of studies relating to religion and economic history (Barro and McLeary, 2004; Ekelund et al 1996; Waterman, 1987) and has a specific focus on the arguments proposed by Max Weber (see, for example, Guiso et al, 2002). It also includes a small number of studies looking at the economics of churches themselves (Hull and Bold, 1989).

The third line of inquiry concerns 'religious economics', that is, the study of economics from a religious perspective. This is a very broad group that incorporates a large body of work looking at Islamic approaches to credit, banking, income redistribution and finance derived from the Qur'an (Kuran, 1993, 1995). A second group within this strain is Christian approaches to economics, encompassing views from the church on aspects of capitalism, including usury, and frequently containing wide-ranging critiques of capitalism, the market, socialism, income distribution, banks, interest and taxation (Beed and Beed, 1996; Gill, 1994, 1998, 2004; Hay and Kreider, 2001). There are also approaches from a variety of other religious perspectives, including Hinduism, Judaism, Sikhism and Buddhism (Paxson, 2004; Pryor, 1991; Ray and Das, 2004).

These three thematic groupings will be used below to provide an initial guide to the economics and religion literature, however, it should be noted that the borders are permeable and that some categories could, theoretically, belong to more than one grouping.

2.1 Economic theory and religion

Whilst there has clearly been an increase in interest regarding the relationship between religion and economics, and the extension of formal economic models to new areas outside conventional economics, this expansion of economic approaches is not new, even if it remains problematic. In the late eighteenth century, Adam Smith, in his *Wealth of Nations*, extended economic reasoning to a variety of non-market exchange problems, including religious behaviour (Anderson, 1988). Smith explained the behaviour of clergy and religious participants as an extension of human capital, bringing them into the sphere of formal economic analysis (Anderson, 1988; Iannacone, 1998). More recently, in an important article, Iannacone (1998) seeks to summarise and evaluate the principal themes and empirical findings that have appeared in 200 papers on the economics of religion. Most of this work concerns the application of standard economic modelling and techniques to the study of religious activity, including the economic consequences of religious belief and individual religiosity, through to the different characteristics of religious groups and the idea of seeing different religions as competing in a marketplace.

Viewing religious behaviour as an instance of rational choice, rather than an exception to it, the work of several current thinkers in the field parallels other attempts to expand the domain of economics (see, for example, Brennan and Waterman, 1994). The research is quite unlike ‘Islamic economics’, ‘Christian economics’, or any other faith-based approach to economic theory and policy (outlined below). This type of analysis has had its greatest effect on sociologists, who view economic analysis as an extension of their own work on the sociology of religion, and have adopted rational choice approaches as an additional weapon in their armoury (Iannacone, 1994; Lamb, 1992; Robertson, 1992; Warner 1993). This new paradigm explains and integrates a wealth of existing data, generates predictions that suggest new avenues for empirical research, and yields policy implications about the welfare effects of government intervention in the religious marketplace.

Barro and McCleary (2001) take the analysis further by looking at the array of statistics that have become available with regard to church attendance in the US. Broadly their thesis states that economic and political developments affect religiosity, and this religiosity affects economic and political outcomes. They studied these two directions of causation using panel data measuring church attendance over a number of different religious traditions over twenty years. They conclude that, whilst religiosity declines over time as economic development improves, the effects of religiosity vary. In particular, and directly contradicting theories of religion being 'unscientific', church attendance is positively correlated with education but negatively with urbanisation. At the same time, religious beliefs rather than church attendance are linked with economic development. As Barro and McCleary (2001) put it, growth depends on believing rather than belonging.

2.1.1 Religion and markets

In two papers, Iannaccone outlines a series of approaches to the analysis of churches and the 'markets' within which they operate (Iannaccone, 1991; Iannaccone et al, 1997; Iannaccone and Stark,1997). In *The Wealth of Nations*, Adam Smith began to theorise an economic approach to religious institutions (Anderson, 1988). Smith emphasised the importance of market structure, which he used to understand the differences between state-sponsored religious monopolies, such as the Church of England, and competitive religious markets. Iannaccone's 1991 paper builds on Smith's discussion by formalising the concept of a religious market and using his model to predict religious market structures. Furthermore, in Protestant countries, rates of church attendance are considerably higher in competitive religious markets than in markets with state-sponsored monopolies such as in the UK. In his 1997 paper, Iannaccone takes this further by applying the theory of the firm to the behaviour of churches in a marketplace. Conventional research into religion usually ignores the fact that markets can have an impact on religious observance through supplying incentives for particular forms of behaviour, but also by satisfying consumer demand for different tastes and needs (Iannaccone, 1997).

This view has been supported and refined by a number of additional analysts, including Poutvara and Wagner (2004) on eventualities in religious markets; Barros and Garoupa (2002) and Allen (1995), writing about church strictness; Smith and Sawkins (2003), writing about religious regional variations in organised religious behaviour; and Bainbridge (1990), looking at membership rates. At the same time, there are a number of papers looking specifically at the issue of whether church attendance is 'good for you' in terms of wealth, education, increasing employment chances and other factors (Heath et al, 1995).

Gruber (2005), for example, notes that a major determinant of religious participation is 'religious market density', or the share of the population in an area that is of an individual's religion. Using the US

General Social Survey (GSS) to model the impact of market density on church attendance, and data from the 1990 Census to model the impact on economic outcomes, he finds that a higher market density leads to a significantly increased level of religious participation. Moreover, this higher level of religious participation leads to significantly improved economic outcomes according to a bundle of relevant indicators, including higher incomes, higher educational achievement, lower levels of social deprivation, more marriages and fewer divorces (Gruber, 2005). At the same time, Lipford et al (1993) found that religious participation can actually reduce incomes through its effects on economic preferences (for example, taking a socially responsible job rather than a higher earning one) and by substituting religious activity for market earning possibilities – an opportunity cost. This conclusion is supported by Heineck (2004), who analyses German data showing that there is a 6-9% wage 'penalty' for being a Christian. This is, of course, significantly different to both Gruber's (2005) findings and also earlier analyses by Heath et al. (1995) that suggested that religion significantly influences per capita income positively through the development of capitalism, 'Christian' public institutions and trust.

2.1.2 Religion and economic behaviour/ economics and religious behaviour

A second cluster of literature within this theme ('economic theory and religion') concerns religion and economic behaviour. A useful starting point is Mangeloja's (2004) paper that looks at the secularisation thesis, i.e. that the importance of beliefs and religious activities should weaken as education, scientific knowledge and economic welfare increases. While this hypothesis has been challenged, it continues to influence the ways in which many think about religion in modern society. Mangeloja's study analyses the economic consequences of religion, the two-way interrelationship between religious and economic activities, and factors behind economic behaviour and growth. By including religious activity as an important factor in economic development, Mangeloja argues that changes in belief systems can significantly influence individual behaviour in the same way as conventional economic motivations, such as maximisation of individual profit and utility. This is similar to the view that religion may add a form of 'cosmic utilitarianism' to economic debate, and is also related to Dehejia and DeLeire's (2005) work on insuring consumption and 'happiness' through membership of religious organisations.

At the same time, there has been some debate over the applicability of rational choice models to behavioural systems based on belief. In particular, one aspect that has been highlighted is the problem of taking into account the level of risk and uncertainty inherent in religious choice (Montgomery, 1996).

This has resulted in the application of a wide variety of economic models, including the use of 'club goods', to model situations where efficient religions with rational members may benefit from self-sacrifice, stigma and behavioural restrictions (Iannaccone, 1992). Such behaviour may also produce positive externalities in the form of lower crime rates amongst church attendees (Hull and Bold, 1995) and may be an effective way of managing individual risk (Osoba, 2004).

In terms of behavioural modelling, there is also a cluster of papers providing an insight into 'individual utility optimisation'. These studies use game theory and a variety of models looking at consumer behaviour, where an individual is effectively given two choices governing their actions, usually between maximising consumption or maximising spirituality, and a series of additional variables that may affect those choices, such as the payment of a religious 'tax'. Overall, membership in religious organisations may be instrumental for individuals in gaining overall life satisfaction rather than just maximising utility.

2.1.3 Rational choice and religion

Closely related to the approaches outlined above is the application of rational choice theory to the study of the relationship between religion and economics. This is an area that remains contentious, largely because it attempts to treat religious belief as a 'rational choice' of individuals (Iannaccone, 1995a, 1995b; Iannaccone and Stark, 1998 and, for a critique, see Bruce, 1993).

In a particularly interesting (1998) paper, Kwilecki and Wilson apply this rational choice approach to Mother Theresa of Calcutta, attempting to apply rational choice theory to a specific individual religious 'consumer'. The approach in itself is interesting, since rational choice theory has traditionally been quantitative, using statistical correlations rather than close analysis of individual religious choices. The question put by Kwilecki and Wilson (1998) is how far can rational choice theory explain the religious career of a single person? They present Mother Theresa as a consumer of religious commodities and as an investor in human capital, but also as an owner of a successful religious firm. Throughout the analysis she is presented as a rational utility maximiser and in the case of her ownership of a firm as a profit maximiser. Conducting cost-benefit analysis for each of her choices, Kwilecki and Wilson's (1998) conclusion is that rational choice theory provides a useful insight into both Mother Theresa's personal saintliness and also her mission to the poor.

Stark et al (1996) apply this view more broadly by looking at new models of rational choice and religion that challenge the view that religious beliefs and behaviour are grounded in primitive, pre-scientific, and non-rational thinking. The paper claims that a review of traditional claims and contemporary data leads to the conclusion that standard social scientific theories of religious behaviour have accorded unwarranted status to the assumption of non-rationality (Stark et al., 1996). The view of religion as non-rational, not to mention irrational, emerged from a 19th-century scholarly tradition largely devoid of empirical support, but fully in support of a ‘primitive mind’ thesis that supported contemporary political structures, including imperialism, and the continuation of a tradition of the middle and upper classes taking enlightenment to ‘irrational’ and ‘primitive’ peoples. Stark et al’s (1996) conclusion is that the view of religion as a throwback to pre-scientific times – which still has contemporary resonance through analysts such as Richard Dawkins – is largely unfounded. The choice to be religious, in Stark’s view, is rational and can be modelled as such.

2.1.4 Religious extremism and economics

A difficult sub-group of the literature, not fitting easily into the categories we have identified, is that of religious extremism. This literature tends to fall into two main groups: analysis of radical religious militias and terrorist groups; and analysis of fundamentalism within Christianity and to a lesser extent Judaism and Islam, typically exploring the economic advantages of strict religious organisations, such as churches, in enforcing particular patterns of behaviour.

Berman (2003), for example, analyses radical groups based on evidence from Jewish underground organisations of the 1940s, Hamas and the Taliban. He seeks to address the issue of whether rational choice modelling can explain destructive behaviour among radical religious militias. The paper proposes a ‘club good’ framework which emphasises the function of voluntary religious organizations as efficient providers of local public goods in the absence of government provision (Berman, 2003). Following Iannaccone’s (1992, 1997, 2003) papers, Berman views the sacrifices demanded as being economically efficient. Seemingly gratuitous acts of violence by group members destroy their outside options, increasing the incentive compatibility of loyalty through mimicking a gang culture. Of course, this explains why current members of extreme groups carry out violent acts, but not necessarily why they join in the first place, so explaining the formation of radical religious groups remains an issue.

Building on this approach, Iannaccone (2003) develops a model of self-sacrifice that helps to explain the rationale of suicide bombing, and that is taken up further by Berman and Laitin's (2004) paper on the rationality of suicide attacks. Despite its presence within all religious traditions, extreme self-sacrifice is by no means easy to explain. Studies refute the seemingly obvious conclusion that *religious* self-sacrifice is rooted in irrationality or behaviour associated with extreme social exclusion (see, for example, Chen's (2003) paper about religious intensity and economic distress in Indonesia). At the same time, economic theory has largely failed to adequately explain self-sacrifice aimed at injuring others, although work by Iannaconne, amongst others, points to some interesting observations, notably that 'markets for martyrs' usually fail to flourish due to lack of demand by populations rather than lack of supply of people willing to die for the cause in suicide attacks (Berman and Iannaccone, 2005). In terms of policy, therefore, the economic literature points to the importance of limiting the demand for attacks rather than the supply of martyrs – since limiting the supply will lead to substitution towards new sources of martyrdom. In addition, limiting demand may involve reducing the effectiveness of, for example, suicide bombers, by limiting their impact on the general population and driving an ideological wedge between the population and the bombers, thus negating their impact.

Berman and Iannaccone (2005) take the controversial analysis further by challenging conventional views of violent religious extremism through a detailed analysis of sectarian group types. Sects are conceptualised as essentially extremely efficient clubs producing spiritual and material 'club goods'. Where governments perform poorly, sects frequently become the major provider of goods to local populations, including access to justice and basic services, as well as providing an ability to enforce contracts through the use of arms. The success of sectarian groups is, therefore, more often a result of their organisational structure and their ability to provide welfare services in the absence of government than it is of their religion. This would imply that the best policy to counteract violent sectarian groups is to limit the demand for their services by improving service provision and governance, and encouraging consumers to switch providers, as well as through raising the direct costs of violence and encouraging religious competition (Berman and Iannacone, 2005).

This leads directly on to the role of fundamentalists in developing the economy and thereby increasing the costs of violence. In particular, this sub-grouping of analyses looks at the relationships between the state and religious groups. Introvigne (2004) applies the theory of religious niches to intra-Islamic religious markets. In normal conditions, these ultra-strict niches conform to the general principles of religious economy and are smaller than the core moderate and conservative niches. Distortions in this religious market occur when there are conflicts in what Introvigne calls 'religious war economies' and 'economies of war against religion'. In the former case, there is a war that is perceived as religious (Palestine, Iraq), whereas in the latter, there is a war perpetrated by a government intervening against all religious groups (Algeria, Turkey before 2002). In the case of religious war economies, there is a shift in demand for religion caused by war and a hardening of religious views that leads to increases in stricter groups as opposed to moderate ones. In the second case, the government crack-down on religious groups leads to an inability of moderate or conservative groups to recruit and the demand for religion leads to consumers moving towards the more extreme groups, which are accustomed to operating illegally and resisting state pressure. Introvigne (2005) further shows, using the example of Turkey, that when moderate groups are allowed to operate, ultra-conservative groups return to their usual niche state.

In terms of Christian fundamentalism, there is a large field of literature dealing with the role of fundamentalism within US politics, but this is yet to be mapped directly onto the field of economics. A typical example of this type of analysis is provided by Marty and Appleby (1993) in a volume addressing the question of whether fundamentalisms tend toward political activism and how successful they have been in remaking political structures. This volume looks at the anti-abortion movement, Operation Rescue in the United States, the Islamic war of resistance in Afghanistan and Shi'ite jurisprudence in Iran, amongst others. It also considers the effects that anti-secular religious movements have had over the past twenty-five years on national economies, political parties, constitutional issues, and international relations on five continents and within the traditions of Islam, Christianity, Judaism, Buddhism, Hinduism, and Sikhism.

In one chapter, Iannaccone considers the perception and reality of US Christian fundamentalist movements. He posits that if the average American were to choose a single word summarising the economic views of Christian fundamentalists, the word would probably be 'conservative', followed by a bundle of typical elements including market capitalism, denouncing every form of socialism, rejecting paternalistic government spending programmes, and advocating free enterprise as the solution to virtually every economic problem (Iannaccone, 1993). However, this image is hugely over-simplified. For example, theologically conservative Protestant leaders hold a wide variety of different economic positions, and most rank-and-file evangelical fundamentalists are not economic conservatives.

Despite well-publicised and extensive lobbying on social and moral issues, even such avowedly conservative groups as the Moral Majority have never seriously attempted to implement an economic agenda (Iannaccone, 1993).

2.2 Economic consequences of religion

Literature that deals with the economic consequences of religion can be divided into a series of small sub-groups, with most studies in this area revealing a concern with long-term historical developments.

2.2.1 Religion and Weber

There is a considerable literature on the work of the nineteenth/twentieth century sociologist Max Weber (2001) [1958] and the role of religion in shaping people's economic attitudes. The World Values Surveys are an important attempt to collect internationally comparative data on political, social and religious attitudes and beliefs and to relate them to economic development[3]. For example, Inglehart (1997) found, from an analysis of the 43 societies included in the 1990-1 survey, that the worldviews of the populations of rich (industrial) societies differ systematically from those of people in poor (pre-industrial) societies across a wide range of political, social and religious norms and beliefs, and that religion is much more important to people in the latter than in the former. Extending this analysis for the 65 countries included in the 1995-8 surveys, Inglehart and Baker's data show that in countries where high importance given to religion, this is closely associated with sets of values characterised as 'traditional' and that these in turn are associated with the 'survival' values that people living in poor and insecure circumstances might be expected to hold. However, the cross-national analysis shows that the commonly posited decline in the importance of religion is over-simplified – although institutionalised religion is less important in industrialised countries, individualised religion is very important in post-industrial rich countries. When countries are plotted on vertical and horizontal axes that reflect the two value dimensions (traditional/secular-rational and survival/self-expression), the groups closely mirror religio-cultural and wealth (per capita GNP) zones. Inglehart and Baker (2000, p. 49) conclude that

> "Economic development is associated with pervasive, and to some extent predictable, cultural changes. Industrialisation promotes a shift from traditional to secular-rational values, while the rise of postindustrial society brings a shift towards more trust, tolerance, well-being, and postmaterialist values. Economic collapse tends to propel societies in the opposite direction. If economic development continues, we expect a

> continued decline of institutionalized religion. The influence of traditional value systems is unlikely to disappear, however, as belief systems exhibit remarkable durability and resilience. …. Modernization theorists are partly right…..Economic development seems to push societies in a common direction, but rather than converging, they seem to move on parallel trajectories shaped by their cultural heritages”, particularly their religious cultural heritages.

Guiso et al. use the World Values Surveys to analyse the relationship between intensity of religious beliefs and economic attitudes. They study economic attitudes toward cooperation, the government, working women, legal rules, thriftiness and the market economy and distinguish between religious denominations, differentiating according to whether a religion is dominant in a country. They found that, on average, religious beliefs are associated with ‘good’ economic attitudes, where ‘good’ is defined as conducive to higher per capita income and growth (Guiso et al. 2002). Yet religious people also tend to be far less likely to support women’s economic participation. All of the effects identified differ considerably across and within religions, but in general Guiso et al. (2002) found that Christianity is more positively associated with economic attitudes favourable to economic growth than other religions.These findings support Weber’s original analysis that the increased intensity of religious networking was a significant element in urban economic growth in Europe. Further work by Rashid (2004) confirmed the highly positive role of the established Church in Britain in contributing to economic growth between the eighteenth and nineteenth centuries.

Whilst the majority of analysts take a traditional approach to looking at economic growth and the influence of Christianity – and look almost exclusively at Europe and the US – there has been very little effort (since Weber) to carry out an analysis of the relationships between other major religions and economic development. One notable exception is Huff and Schluchter’s edited book that contains a number of different perspectives on Weber’s thesis and Islam, rather than Christianity (Huff and Schluchter, 1999).

2.2.2 Religion and economic growth

Linked with the papers that deal with Weber, religion and the Protestant work ethic, is a cluster of writing around economic growth. Much of this literature follows Barro and McCleary‘s (2003) paper that uses international survey data on religiosity to investigate the effects of church attendance and religious beliefs on economic growth. Barro and McCleary’s (2001) paper also provided an analysis of statistics taken from church attendance in the United States. Broadly, their thesis stated that religiosity and politico-economic structures exist in a symbiotic relationship with each affecting the other. In their later paper, they found that economic growth 'responds positively' to religious beliefs, notably those concerning hell and heaven, but negatively to church attendance (Barro and McCleary, 2003). More specifically, they found that growth depends on the extent of believing rather than belonging, with the former having a stronger relationship to positive economic growth than the latter. This finding leads them to the conclusion that religious beliefs directly influence individual behaviour, which, in turn, affects economic growth through individual choice. 'Belief', in economic terms, is the main output of the religious sector as a whole, and church attendance, therefore, becomes a proxy for economic 'inputs'. This thinking has been further developed by other analysts, including Mangeloja (2003) and Durlauf et al. (2005).

A further extension of the analysis is presented by Grier (1997) in an interesting paper that looks at the effect of religion on economic development in former colonies. This discusses the relationship between Protestantism and economic growth and development in former colonies in Latin America. It includes comparative studies on major British, French and Spanish ex-colonies, empirical applications of economic variables in colony development, correlations between real-per-capita income and investment and correlations between colonies' income and religious orientations.

2.2.3 Religion and economic history

Perhaps unsurprisingly, there is a considerable literature dealing with economic history and religion, much of which deals with similar aspects of economics to the cluster looking at economic growth. For example, Ekelund et al. (1996) set out to explain the initial successes and failures of Protestantism on economic grounds, juxtaposing this success with the decline in the monopoly of the Roman Catholic Church. This is reversed by Ergener's (2004) study of the development of the Catholic Church within the Ottoman Empire. Ergener's research suggests that non-Muslim religious institutions were far more successful economically than Muslim organisations and that, ultimately, the absence of a surplus-generating religious establishment was one of the significant factors that contributed to the downfall of the Ottoman Empire. Barro and McCleary (2003) set out to further their earlier ideas of national religions and national economic characteristics by examining international cross-national panel data and state religions.

There are also a number of papers that address the role of religion during specific periods of history, including Christianity and the Roman Empire (Ferrero, 2004), medieval economic development and the Church (Davidson, 1995; Richardson, 2004), and the industrial revolution and nineteenth century economic development (Finke et al., 1996; Kuran, 1995).

2.2.4 Religion and freedom

Studies that are concerned with the interaction between religion and freedom are relevant to this literature review, since they suggest ways in which religion can contribute towards, or cushion people from, the effects of revolution or rapid economic transition. Lelkes (2002) writes about economic transition in Hungary and posits that while, on average, this lowered happiness it did not affect all people equally. Using Hungarian survey data to study the impact of religion and economic transition on happiness, Lelkes found that amongst religious individuals, to whom money is a less important source of happiness, involvement in religion contributes positively to individuals' self-reported well-being. The impact of economic transition has varied greatly across different groups, with the main winners from increasing economic freedom being entrepreneurs. The religious, on the other hand, were little affected by the changes, implying that greater ideological freedom, measured by a greater social role for the churches, may not influence happiness *per se*. Hungary is also the focus of a (2001) paper by Froese, which suggests that the collapse of Soviet Communism has brought about widespread revivals of religion in most of Eastern Europe and the Soviet successor states. Change in religious activity appears ideal for further testing of the supply-side theory of religious change and in this paper Froese investigates whether the dramatic religious revival in Hungary can be explained using a supply-side framework.

A related approach to analysis is that adopted by MacCulloch and Pezzini in a 2002 paper where the authors address the issue of the role that money and religion play in influencing the support for revolt in nations. Using micro-data from 61 countries between 1981 and 1997, they find that the higher the growth rate, the less likely a revolt, and, on an individual level, if individuals are members of a religious community then the likelihood of that individual revolting is further reduced, especially if that individual is a Christian[4] (MacCulloch and Pezzini, 2002).

2.2.5 Religion and public goods/charity

Within studies on religion and public goods/charity, we find a more theoretical approach than other research that is concerned with the economic consequences of religion.. The influence of religious behaviour with respect to giving, duty and altruism can be readily incorporated in economic modelling (for example, see Milyo et al., 2005). In addition, Gruber (2004) has argued that religion has a positive influence on the well-being of Americans as a result of religiously inspired charitable subsidies and giving. Furthermore, Gruber and Hungerman (2005) take the analysis further by analysing that provision of services to the poor during the New Deal crowded out the church sector. This argument is taken up by Gill (2004), who questions whether government welfare spending depresses the level of religious participation. He argues that there is a ‘crowding out’ effect at work when governments increase social welfare spending, effectively providing an incentive for people to switch away from welfare goods provided by religious groups. Furthermore, religious consumers with a high elasticity of demand for core religious outputs (i.e. beliefs) will reduce their participation (attendance) and switch to alternatives (the government) for welfare goods, since participation incurs higher transactions costs in terms of the time taken to attend religious services. These findings are supported by further work by Hungerman (2005).

In terms of theory, there is also a group of papers arguing that religious giving is fundamentally different from non-religious giving because of core differences in its aims. Hrung (2004), amongst others, confirms the view that religious giving is, at least partly, motivated by a belief that it can influence afterlife consumption, i.e. giving to a religious charity has an earthly benefit of direct altruism, but an additional externality of ensuring life after death, whereas giving to a non-religious charity has the same direct effect without the added bonus of heaven. Hrung (2004) also noted that, whilst contributions to both religious and non-religious groups increase with income, contributions to religious organisations also increase with age – a relationship that does not exist with non-religious groups.

2.3 Religious economics

In contrast to the above, there is a distinct body of work that explores the implications of religious values and beliefs for the organisation of economic activity. Arising from within the various faith traditions, this is often highly normative writing. Thinking in Islam, Christianity and other religions will be explored briefly in this section.

2.3.1 Islam and economics

Since the mid-twentieth century there has been a rapid growth of literature that has come to be known as 'Islamic economics' and this section provides only a brief introduction to some of the main issues[5]. The growth of writing on Islamic economics has been accompanied by an exponential growth in Islamic financial institutions, particularly banks, which adopt Islamic methods of loan and deposit management. In many areas of the world, this growth of financial institutions has been accompanied by a growth in Islamic businesses more generally. In addition, in Pakistan, Malaysia and Saudi Arabia, amongst others, systems of redistribution based on ancient rules and disbursement endorsed by religious councils have been introduced (Kuran, 1995).

The idea of Islamic economics was popularised by Maududi (1975), a Pakistani ideologist who regarded his role partly as defending Islamic culture against the influence of the West. This set the tone for later developments, as Islamic economics came to be seen as a means of establishing Islamic authority in an area where Western, particularly UK and US influences, were dominant (Kuran, 1995). The central question for this literature review is: what distinguishes Islamic economics from secular economic traditions?

Probably the best-known feature of Islamic economics is a complete ban on interest. Some argue, however, that this is based on a very particular interpretation of the Qu'ran that broadens out the banning of *riba*, the pre-Islamic practice of doubling the debt of a borrower unable to repay on time (Kuran, 1995). The net result of such a practice, of course, was social friction, as borrowers were effectively pushed into slavery. From relatively early days, therefore, Islamic scholars treated the ban on *riba* as being a ban on socially damaging financial practices and an approach to making creditors deal charitably with defaulting debtors (Kuran, 1995; Rahman, 1964; Rodinson, 1973). However, it has been interpreted more recently by Islamic economists as implying a complete ban on interest.

The discussion is, of course, a sophisticated one. The main interpretation is that it is unjust to earn money without assuming risk (Chapra, 1992). This raises a number of issues and some opportunities for Islamic financial institutions. For example, most of the literature on Islamic interest fails to define clearly how risks should be apportioned between lender and borrower, although this frequently involves some form of regular payment in lieu of interest that reduces the risk to the lender. Of course, this is partially based on a misunderstanding of modern banking, since, as several authors point out, most banks are not engaged in risk-free activities. It is also true that an interest-earning depositor bears the risk that their bank will default or go out of business[6].

The second major difference between Islamic and mainstream economics relates to redistribution, specifically the concept of *zakat*. This system levies a tax on wealthy individuals to fund a set of programmes around poor relief, emancipation of slaves and assistance to those undertaking religious activity, amongst other activities. However, the nature and rates of collection are controversial, not least because the original rates and scope specified relate to a seventh-century pre-industrial desert economy, whereas modern economies offer significantly increased scope for collection. Nevertheless, despite these controversies, some analysts consider that there is scope for *zakat* to be a powerful force in poverty alleviation within a developing economy and assert that it may be more effective than the redistribution and welfare systems typically used in modern states (for example Kuran, 1995).

The third main area of difference is in the behaviour of the ideal *homo Islamicus*. The Qu'ran commands good and forbids evil. *Homo Islamicus* avoids waste and ostentation, promotes generosity, discourages harmful externalities, works hard and also exchanges using fair prices. Overall, the avaricious, selfish *homo economicus* is transformed into a paragon of moral behaviour (Chapra, 1992). In addition, *homo Islamicus* is allowed to acquire property but is banned from speculating, gambling, hoarding and destructive competition. Included in this last group are activities such as participating in insurance or capital markets (gambling) or property dealing (speculation).

Underlying all of Islamic economics is the belief that an Islamic society can keep vested interests from blocking socially desirable changes (Kuran, 1995).

2.3.2 Christianity and economics

Much of the literature previously reviewed is in some way related to theorising about Christian attitudes to economic theory. The approach taken by Iannaccone, for example, is informed by a Christianity-influenced model of what religious organisations and individuals actually do. For example, we find an emphasis on 'altruism', a quality that has a particular importance within the Christian tradition. In addition, there are a number of academic articles that deal with Christianity and economics directly. Much of this literature is based on the development of a Christian view of how people should behave and what the implications would be for their economic behaviour. In addition, in keeping with Islamic economics and other analyses (see below), there is a basic approach of trying to model an economic system given a set of assumptions provided by the Bible. In academic terms, much of the literature addresses the question of whether the market promotes its own intrinsic and selfish values or merely reflects the values of society (see, for example, Hay, 2001).

This type of approach is reinforced by analysts, including Beed and Beed (1996), who explore aspects of Christian philosophy and methodology from an economic perspective and conclude that a Christian approach is incommensurable with secular thinking about the subject. In their (1996) paper, Beed and Beed put forward three propositions to demonstrate this contention. First is the inseparable interconnection in Christian thinking between the spiritual and material dimensions of human life; second is the normative intention God has for human existence; and third is the tendency for humankind to develop modes of interpreting human behaviour outside the bonds of a Christian framework. These three issues are contrasted with secular economic thinking, leading Beed and Beed to conclude that the two approaches are incompatible.

There has, for a number of reasons, been an increase in analyses of the influence of several specific Christian denominations in economics. There are a number of writings on Roman Catholicism, for example, that attempt to construct a model of a 'Catholic economy', asserting that market solutions tend to ignore the ethical implications of economic decisions. This approach draws upon orthodox Roman Catholic moral theology, illustrating how Catholicism has been broadly supportive of enterprise and markets, whilst raising awareness of the ethical dimensions of market outcomes (for example Pryor, 1993). Pryor reviews the economic doctrines propounded in a number of papal encyclical letters on the economy and in other church documents, including Pope John Paul II's encyclical letter `Centesimus Annus' and early, mediaeval and modern Church approaches toward the economic system and then goes on to develop desiderata for evaluating economic systems from a Catholic moral point of view (Pryor, 1993).

Several articles examine the different influences that Catholicism and Protestantism exert on economically relevant values (see, for example, Beed and Beed, 1996). It is typically argued that Catholic theology and practice facilitate personal transactions, while Protestantism favours values and types of moral and legal enforcement better adapted for impersonal trade. Protestantism may, thus, be more conducive to economic growth through anonymous exchange, while Catholicism may provide better support for personal contracting. An analysis of evangelical Christianity is provided by Gay (1991), who argues that evangelical Protestantism provides a specific and positive drive behind capitalist development.

2.3.3 Specific religious approaches to economics

Whilst Christian and, more particularly, Islamic economics provides a rich literature on approaches to economic systems, several other major religions have attempted to construct economic systems rooted specifically within their own religious teaching.

These include a pair of papers (1990 and 1991) by Pryor that attempt to construct a Buddhist system of economics, outlining an economic system diametrically opposed to Adam Smith's market based on self-interest. Buddhist scholars argue that individual actions based on altruism lead to an overall increase in economic welfare since everyone benefits.

Paxson (2004) employs rational choice and institutional economic theorising to the understanding of sectarian groups, in particular the Sikh religion. Sikhs, they argue, have several strong characteristics with regard to religious institutions, collective approaches to welfare, entrepreneurship and the collective development of human capital. The strong communal nature and identity of Sikhs provides benefits to individuals, which in turn increases trust within the group, reducing transactions costs and encouraging specific sorts of economic behaviour that affect both internal economic mechanisms within the Sikh community and also their economic relationships outside the community (Paxson, 2004).

Whilst there does not appear to be any work that deliberately sets out to construct an economic system based on Hinduism, recent work by Ray and Das (2004) looks at the behaviour of Hindus in West Bengal, the economic characteristics of Hindu institutions and the levels of individual expenditure on religious activities.

Another main sub-grouping within religious writing on economics is Judaism. This divides into three sub-areas: time and ritual, group dynamics and the Jewish diaspora. There are a number of articles that look explicitly at the 'non-rational' activity of religious observance. Sosis and Ruffle (2003, quoted in Sosis et al, 2004), for example, asking the question 'Does it pay to pray?' examine the effects of religious behaviour on the development of communal societies for which mutual cooperation is an integral management mechanism. This work is backed up by a (1986) paper by Neuman. Analysis of group dynamics is also undertaken by Richman in a 2004 article looking at Jewish diamond traders in New York and their competitive advantages in enforcing contracts and constructing trading networks based on trust. Lastly, the Jewish diaspora is examined by Brenner and Kiefer (1981), who argue that, since Jews are discriminated against as a race, they have historically emphasised investment in human capital because of its portability.

3 Main focuses of the research

Clearly, from the above review, we can conclude that the literature on religion and economics is extremely diverse. There is no single thrust to most of the research and the three main groups of literature – economic theory, economic consequences of religion and religious economics – all contain sub-groupings.

At the same time, there are clear research directions within each of the groups. These can be summarised as follows:

- **Economic theory**: in this work there is a focus on building religion into economic modelling, particularly at a micro level, including developing rational choice theory and looking at individual utility maximisation, with religion as one of the indicators of well-being.

- **Economic consequences**: The main focus of this group is on long-term statistical analyses, particularly of cross-country longitudinal data that links economic growth and development with particular religious systems. The archetypal example of this is Weber's thesis on Protestantism and economic development in Europe. There is surprisingly little work on contemporary economic development and religious groupings, partly because of a lack of adequate quantitative data on religious denominations and economic gain, although this is partly being addressed by work based on the World Values Surveys.

- **Religious economics**: This area is probably the best known of all economic and religion writing. It is primarily concerned with constructing economic systems based on faith traditions. The two biggest areas here are Christian economic systems and Islamic economics, both of which try to develop models that build upon their own religious teachings.

All of these foci suffer from a basic lack of adequate data. Whilst there is a large amount of data available from religious organisations, it is concentrated amongst established churches that are overwhelmingly in developed countries, particularly Europe and the US, and because of this the studies are also Judeo-Christian in emphasis. There are some international comparisons available, including detailed survey data across religious affiliations within the US and Canada and a number of studies of religious statistics have been compiled (see, for example, Barrett, 1982; Ekelund et al., 1996; Finke and Stark, 1992).

Clearly the lack of detailed data affects the ability of economists to employ traditional economic analysis, including game theory and other mathematical techniques. This has clearly been one of the main obstacles to developing an overall coherent approach to the economics of religion.

4 Main gaps in the available research

Given the focus of the Religions and Development research programme, there are obvious gaps in the literature. In particular, there is very little contemporary work on Africa or South Asia, where religion is a considerable social force. Development economics remains largely silent on the role of religion, largely maintaining a traditional approach of assuming religion away as part of ‘society’ or ‘culture’. Historically, therefore, religion has been left to sociologists and anthropologists rather than incorporated into economic modelling.

Specifically, gaps in the literature that need addressing are:

i. Analysis of the growth of religious groups in Africa. In particular, there is little or no economic analysis comparing Islamic and Christian approaches to economic development in societies where the two key religious movements on the continent often stand in opposition. Some of the literature on religious markets could be applied to this context, modelling, for example, competition between Islam and Christianity. At the same time, there is a gap in terms of exploring the role of religious affiliation in mitigating against risk, something that has clear possibilities in terms of looking at the behaviour of vulnerable groups. The third African gap is in using the tools of economic analysis to look at the rapid growth of evangelical Protestant groups at the expense of institutional religion across Africa.

ii. Similarly, there is very little analysis on the effects of religious affiliation on economic patterns in South Asia, for example, looking at the different religious groups in India, Islam in Pakistan and Bangladesh, or smaller religious groups, including Christians, on the sub-continent. At the same time, there is also very little written on religion and economics in South East or East Asia.

iii. There is a lack of detailed, empirical studies looking at religious behaviour at a micro level. Many of the statistical analyses are based on nationally collected data or on questionnaires, with a lack of empirical case-study material.

iv. In terms of theory, whilst rational choice offers a way forward in terms of modelling economic systems, there are clearly gaps in terms of micro-economic analyses and derivation of utility curves for individuals. In terms of empirically provable hypotheses about religious choices and economic behaviour, many studies fall back on proxy evidence, such as the level of donations to churches, as a measure of devotion in the absence of detailed studies.

v. There is also a gap in terms of relating religious approaches to secular approaches and mapping out the differences between them. Questions that address issues such as: 'in what ways do Roman Catholics or Muslims behave that is different from non-religious actors?'; 'do religious people behave that way because they are religious?'; or 'are non-religious people capable of behaving in a way that economics has characterised as religious, i.e. altruism or self-sacrifice?', are strangely lacking.

vi. More specifically, and an expansion of this last point, there is very little specifically on religious approaches to poverty reduction, as opposed to broader coping mechanisms used by the poor. There is usually an assumption that religion is a coping mechanism for crisis and social security, but more work needs to be done to expand the existing literature on welfare provision and its effects on public services as they affect the poor. This research avenue would be able to investigate whether or not public service provision by religious organisations declines as the state is better able to improve provision, as happened in the European case. The other side of the coin here is to investigate the perceptions of the poor as regards religious organisations. By this, we mean that work is required to separate secular needs from religious zeal.

vii. Finally, there is a need for research to address the bigger question of the relationship of religion to capitalism and the idea that religion is one way of defining an alternative economic community. Scott Thomas uses the term 'authenticity' to describe the link between the resurgence of religion and a rejection of western style global capitalism (Thomas, 2005). Islam, in particular, has been a radical critic of capitalist models of development, as the rapid increase in Islamic economics shows, whereas Christianity has been far more ambiguous. Within the Christian tradition, there are, however, powerful advocates for a rejection of capitalist values, including within the Catholic Church through liberation theology and the long tradition of Catholic social thinking deriving from the 'Populorum Progressio' of Pope Paul VI in 1967 and CAFOD (the Catholic Fund for Overseas Development). At the same time, the 'Make Poverty History' campaign was driven partly by the strong social tradition within the Protestant tradition, notably by Christian Aid. If a religion is seen as a community of believers, it may be regarded as an alternative society, with a distinctive set of values. It, therefore, follows that one lens through which to view religious conflict is as a struggle between competing communities of values, whether violent or not. This has wide-reaching implications for the development of policy. In particular, how 'development' that respects people's values might be promoted, especially if those values differ.

5 Conclusions

The literature is very broad and there are specific areas where there are clear gaps. In terms of its own methodology, the economics of religion needs to develop the definitions, techniques and methods it employs further, to elaborate a complex and highly variable subject.

In particular, research in the area has tended to sidestep difficult issues, including the substance of religion itself, taking the demand for religion as a given and defining the characteristics of religious communities very loosely (Iannaccone, 1998). There are advantages to this approach, but it tends to put religious groups in the same bracket as, for example, social clubs, even thought they are clearly different. The economics literature defines religious groups as having a series of defining characteristics, including the promise of an afterlife (Azzi and Ehrenberg, 1975), access to a series of 'supernatural commodities' (Bainbridge, 1989), giving meaning to life (Schlict, 1995), providing a rational means of managing risk and the non-monetary aspects of life (Iannaccone, 1996) and providing an organised way of supporting collective public goods such as morality and property rights (Anderson and Tollison, 1992). The issue, as identified by Iannaccone (1998), is exactly how these broader ideas can be captured by economic approaches.

At the same time, the issue of risk remains problematic. It is clear that religious activities themselves incorporate a considerable risk in that adherents believe, but do not know, that there are gains in the afterlife. The risk is that the beliefs turn out not to be true and the sacrifices made in advance lead to no eventual benefit. In this way, religious belief is, in economic terms, a 'credence good'. Iannaccone (1996), amongst others, points out that many religious institutions exist to mitigate risk by sharing the sacrificial burden amongst congregations and by enforcing rules. Whilst economics has attempted to overcome this problem by using conventional economic techniques, including deriving utility models, as Montgomery (1996) points out, objective religious information may not actually exist, thus removing any means of assigning 'rational' values to probabilities.

Finally, although beliefs lie at the very core of all religious groups, economics has very little to say about the formation of those beliefs or how religious groups attempt to influence other people's behaviour (Iannaccone, 1998). Observation of the real world reveals that religious groups have enormous influence over education, social conventions, morality, group pressure and sanctions against non-believers, all of which influence behaviour. Moreover, religions are usually clear about the values they support, perhaps making them amenable to research in terms of how these values directly affect the behaviour of those who profess them. Despite this, economics has largely ignored religion as an influence over behaviour, leaving sociology and psychology as the main disciplines researching this area. The rich data produced by sociological studies of religious behaviour could provide economics with a way to develop richer theories (Iannaccone, 1998; Montgomery, 1996).

Economics needs to untie *homo religious* and *homo economicus* in order to recognise the real world situation in which a significant proportion of people internationally live in societies in which economic development sits alongside religious affiliation.

Notes

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2 For example, Gallup prepares an annual survey on religious beliefs and preferences, and there are now several national surveys of religious membership and beliefs. In Canada, the General Social Survey includes information on religion, while the World Values Survey and International Social Survey Program attempt to provide statistics for several countries. The US Government also now conducts a Census of Religious Bodies.

3 The World Values Surveys are sample surveys of attitudes, values and beliefs in a number of countries around the world, carried out in 1981-2, 1990-1 and 1995-8 (and more recently and frequently in some countries). By the mid-1990s round, 65 countries on six continents and containing three quarters of the world population were included, although Africa is under-represented. The average national sample size is 1,400. The surveys claim to use concepts and questions that are internationally valid. **http://wvs.isr.umich.edu**

4 The effect was particularly marked in Christian communities.

5 A more detailed survey of the literature on Islamic economics has been prepared as part of the RaD programme (Zaman, 2007).

6 This could be mitigated by deposit insurance that is also forbidden by Islamic economists as being un-Islamic, thus, exposing individuals to more risk – precisely the opposite of what *riba* was designed to do.

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