

Political Economic Digest Series 31

Dear Political Economic Digest Series Participant,

Welcome to the thirty first issue of Political Economic Digest Series. In the last issue of Political Economic Digest Series we discussed on readings on Social Cost of Monopoly and Regulation by Franklin M. Fisher. This issue will cover readings on religion and economics.

The first article “Is religion and essential driver of economic growth?” by Jerry Bowyer discusses the relationship between prosperity and religious belief.

The second article “Holy relevance-Faith can influence economic behavior—but not always directly” is an article published in the economist.

The third reading “Religion and Economy” is an extract from a research paper done by Center for the Study of Religion and Culture.

We hope you enjoy the reading.

Is Religion An Essential Driver Of Economic Growth?

Jerry Bowyer

Peter Berger is perhaps the world's most prominent living sociologist. He has written two dozen books including seminal texts in the development of the sociology of religion, the sociology of knowledge, and the sociology of modern development. He may be the most qualified person to speak with authority on matters pertaining to the relationship between religious beliefs and economic development, so I decided to ask him to explain this to me. This interview is the result, and it's worth listening to in full. At age 84 Berger is still sharp as a tack and has a long lifetime of study and analysis behind him (and I expect quite a number ahead of him).

When I asked him what he has learned in a lifetime of studying these questions, he told me that there are certain social preconditions to economic development, and that the way a society operates is important in regards to how prosperous that society can become. This is largely a matter of culture, and for most of the world culture basically means religion. Religion drives culture; culture drives social forms; social forms drive development.

Regarding different religions and their level of conduciveness to growth, he said that they are not equally conducive. He pointed out the work of Max Weber, whose seminal work, *The Protestant Ethic and the Spirit of Capitalism*, argued that the lifestyle which arose from Protestantism played a decisive role in the creation of modern prosperity. For Weber, and Berger agrees, the Calvinistic lifestyle of worldly asceticism became a source of growth and capital accumulation. Worldly asceticism (Weber's phrase) upheld the virtue of productive labor in this world, as opposed to an otherworldly orientation often associated with medieval Catholicism. The focus on this life as opposed to the afterlife tends to create large income streams. But worldly asceticism looks askance at lives of excessive spending and conspicuous consumption, which are often associated with wealth. The result is a well-educated, highly skilled diligent work force and large pools of capital. Without this, or something like it, modern capitalism would not have arisen as it did.

Not all religions, at least in the current form, have these same characteristics, therefore not all religions are equally conducive to development. Not surprisingly, Berger says he has been accused of racism or bias because of these views. But he points out that it's not a matter of bias; it's simply a matter of facing the facts.

According to him, this Protestant effect expressed itself in different ways in different times and places: historically in America in her Puritan heritage. Currently in the developing world, it reveals itself in the explosive growth of Evangelicalism which is helping to create modern developed economies. Perhaps Pentecostalism plays a role in the Third World similar to that played by Calvinism in Europe and North America, or at least is an important factor in the emergence of a middle class.

There is an important caveat in all this: Religions change over time and so it's not helpful to do this sort of analysis in terms of the characteristics of a religion in general, but instead in a certain historical context. For example, Christianity in the Middle Ages may well have retarded economic progress through its embrace of usury laws (which I would argue it got from Aristotle rather than from Christ.)

Another caveat urges us to avoid confusing the effects of a religion on institutions with its effects on individuals. According to Berger, Confucianism preaches many of the virtues, such as education, hard work and delayed gratification, which are conducive to prosperity among individuals, but that Confucian disdain for commerce has tended to create societies which are more conducive to entrepreneurial stagnation. Therefore a Confucian China can stagnate for millennia. But when Chinese people migrate to more open societies in Southeast Asia, they become the wealthy 'overseas Chinese,' Jews of the East, prospering and helping to prosper the societies they live in, part of the vanguard of economic development. Groups like the overseas Chinese become easy scapegoats for demagogues.

Regarding Islam, Berger does not discount the possibility that it might be able to coexist with liberty and prosperity, but points out that historically the subservient role of women in Muslim nations is a source of economic drag. To isolate half of the talent of a population from productive activity is bad enough. But to add to that a pattern of leaving women uneducated makes things even worse because of the role that mothers play in the intellectual development of children. He points to Turkey as a beacon of hope. I am less optimistic than Berger about the much vaunted 'Turkish model,' but time will tell.

Islamic economics is a subject unto itself and deserves at least one future column of its own. But in case you're not quite ready for that topic yet, I'd suggest that you listen to my interview with Peter Berger. Because when it comes to talking about religious differences, there is a policeman in your head who twirls his night stick every time you question the current dictates of our pervasive political correctness speech code, and Peter Berger might help you put that policeman into a helpful retirement.

Extracted from: <http://www.forbes.com/sites/jerrybowyer/2013/05/29/is-religion-an-essential-driver-of-economic-growth/>

Holy relevance-Faith can influence economic behavior—but not always directly

AS PROTESTANT Europe, in its own eyes virtuous and thrifty, wrestles with the debt problems of the continent's Catholic and Orthodox countries, the idea that religious affiliation may influence the way people save, work and spend is more appealing than ever. The toppling of Arab tyrants has lent urgency to a similar enquiry: do Islam and Islamism permit the legal and social conditions that make for prosperity?

Clearly many modern religious leaders have strong ideas about economics. In western Europe, organised Christianity often acts as a modest voice in the ranks of the egalitarian left. This month's anti-banker protests in London initially found a friendly base for their tent city at Saint Paul's cathedral. (In recent days, Richard Chartres, the bishop of London, has asked them to leave, while acknowledging that they had raised important issues.) In America religious voices both praise and decry the capitalist order. Also on the borderline between economics and ethics, many religious leaders have taken up the cause of climate change, and urged people to change their behaviour—though this week an Australian cardinal, George Pell, bucked that trend by addressing a group of climate-change sceptics in London.

But all the most interesting theories about religion and behaviour refer to unconscious influences. The best-known was devised by Max Weber, a father of modern sociology, who drew a connection between the Protestant ethic and the spirit of capitalism. Noting that Protestant parts of Germany were doing better (in the 19th century) than Catholic ones, he thought the “inner loneliness” of Protestants—who can never be sure if they are saved in the eyes of God—made them work harder. Unlike many other forms of faith, Protestantism has no mystical rite to absolve sin.

Sascha Becker, a professor at Britain's Warwick University who tests Weber's theories against real life, says the German thinker was both right and wrong. Protestant Germany did prosper, but not because of theology or psychology. Protestants wanted boys and girls to be able to read the Bible; higher literacy led to faster development. But for a given level of education, Protestants and Catholics did equally well. “Whether people are Protestant or Catholic now makes no difference,” Mr Becker says. Besides, the Catholic bits of Germany such as Bavaria are the richest.

Peter Berger, an American sociologist, has found that Weber's theories have a certain plausibility in Latin America, where a Protestant, and especially a Pentecostalist minority, outperforms the Catholic majority. Both there and in Africa an individualist Protestant “prosperity gospel” which links financial success with divine favour seems more popular with the upwardly mobile than the recent Catholic stress on “liberating” the poor as a class. South Koreans (both in their homeland and as migrants to America) often convert from Buddhism to Protestantism as they rise economically. All this may reflect the fact that some kinds of Protestantism (like many strains of Islam) sit easily with a disciplined, reflective way of life. It would be odd if that had no economic effects.

But many attempts to link doctrine and economics have run up against exceptions and better explanations. In the Ottoman empire (and in some post-Ottoman places), Christian and Jewish minorities flourished in business. Yet this did not imply stereotypical “fatalism” or “backwardness” among Muslims; the main point was that desirable posts in public or military service were closed to non-Muslims.

Similarly, contemplating Greece's economic woes, it is easy to dream up some theory that connects Orthodox Christianity (and its comparatively charitable attitude to human weakness) with corruption or cronyism. Orthodoxy has a less pessimistic view of “original sin” than the Christian West—and its prayers for the dead emphasise “no man lives who does not sin”. Does that imply winking at misdeeds? Possibly—but then try explaining why Greek-Americans, who are at least as devout as their motherland kin, do so very well in business, education and public service. The plausible reason lies in America's institutions which make it easier to prosper in an honest way.

Intriguingly, research on Turkey's devoutly Muslim heartland finds a strong positive link between Islamic piety and capitalist success. The term “Islamic Calvinist” has been used to describe the devout businessmen of central Turkey, who use religious networks to accumulate capital and extend their activities. Of course, none of this proves anything about how Muslim beliefs make people behave. Like all great religions, Islam is a complex system of beliefs, and people usually emphasise the features which appeal to them. Turkey's pious producers like the bits in the Koran that favour honest trading. Yet Timur Kuran, a professor at America's Duke University, argues that the inheritance rules in Islamic family law may have slowed development in the past by making it harder to accumulate wealth. If that is true, then modern Turkey may provide a uniquely favourable arena: secular law combined with the diligence and sobriety (in several senses) of Muslim Calvinists. Mr Kuran's latest research looks at India over the last two centuries. He thinks the poor-ish showing of Muslim businessmen reflects Hindu practices that allow the build-up of family wealth, while Islam dissipates it by mandating legacies to distant kin. This gap emerged under the Raj, and seems to persist in modern India where different faiths still use different family law.

One problem, says Mr Kuran, is that religiously-inspired institutions change more slowly than religious dogma. Even text-based creeds, based on one-off divine revelation, can be quite flexible in reacting to new economic circumstances. But the world of Islam, in his view, has been held back by institutions like the waqf, a sort of Islamic charity which people sometimes use to create jobs for their families. In the end, laws and institutions seem to make more difference to people's worldly chances than the arcana of theology.

Extracted from: <http://www.economist.com/node/21534762>

Religion and Economy

Background

Traditional economic models emphasize an individualistic description of *homo economicus* as a rational, self-interested decision-maker who freely selects a best alternative from a feasible set. The actions of individual agents are coordinated and aggregated by the market structure; however, the driving force behind the market is the individual desire for greater personal satisfaction. The result is a remarkably powerful paradigm that provides economics with hypotheses that can be subjected to rigorous empirical testing. Mainstream economists are quite aware of the simplifications inherent in the underlying assumptions, but are often willing to forfeit the reality of assumptions in favor of tractability of the resulting models. There is no general presumption that an exclusive reliance on narrow self-interest is in any sense a preferable mode of behavior. Indeed, there have been many attempts to relax this unrealistic assumption in useful directions, while maintaining tractable economic models. However, economics also has its “true believers” who are more interested in interpreting the paradigm and its associated assumptions as normative statements of what “ought to be” rather than a descriptive statement of what “is.”

In contrast to the typically descriptive nature of economic analysis, much of religious thought is normative in nature: expressing an evaluation of what is good or right, rather than simply describing what is. The central paradigms focus on groups of individuals or communities rather than members in isolation. Individuals are led by faith to support the community and derive meaning through it and through a shared relationship with God. Selfish behavior, excessive freedom of choice, and even worldly rationality are seen as part of an imperfect human condition that can easily conflict with the behavior, choices and motivations that accompany an appropriate relationship with God.

Contrasting approaches

The perspectives of economics and religion are thus far apart in several fundamental ways. This suggests an answer to the question: Why do the respective practitioners of religion and economy so frequently talk at cross-purposes to one another? For example, the recent debate on whether globalism is ultimately a force for good or ill carries with it the respective jargon and implicit assumptions of the two schools of thought. Our first research theme carries this comparison to its logical conclusion – to identify the central differences and similarities of the two perspectives. The analysis will provide the conceptual background for the study group’s subsequent research. It will also have general utility as an educational guide for understanding current policy debates that arise from these distinctions.

Religion as economy

Jewish and Christian religious traditions contain a fundamental concern with economy. The normative approach to religion and economy assumes that religion is constituted by a kind of attenuated political economy as in ancient Israel and classical Christianity. The normative approach to religion and economy assumes that religion is constituted by a kind of attenuated political economy as in ancient Israel and

classical Christianity. “Economy” was at the center of these theological traditions up until the end of the 17th century. The *oikonomia tou theou* as accounted in the Hebrew and Christian scripture (especially in the Torah, the Prophets, and the teachings and actions of the Jesus community) shares many general characteristics of *oikonomia* as practiced in antiquity and summarized by Plato in *The Republic* and Aristotle in *The Politics*. But this is not simply a matter of ethics for traditional Israel and Christianity. It is a theological matter: the knowledge of God is given in the accounting of an economy and relationship with God is constituted by the performances of an economy. The critical retrieval of the traditions of *oikonomia* and its partial practice in religious communities can fund a critical and constructive approach to the market system. The intent is not to overcome the market but to discern its proper place. This research theme explores the theological roots of economy and how this can inform present day debates.

Economics as religion

One could argue that in contemporary society the primary impact of economics does not arise from its descriptive, scientific role, but rather from its normative role in setting policy objectives and framing the subsequent debate. In a sense, economics has become a kind of religion in itself with a constituent belief structure.

It is important to distinguish between the academic discipline of economics and the ideology of economics that has built up around it. The neoclassical paradigm has had a profound effect on our ability to explain and predict economic behavior at both the micro and macro levels. At the same time, in its normative application it has become a dominant ideology, providing an unquestioned moral basis for evaluating policy and individual behavior in an otherwise secular society. At one time communists were the most extreme ideologues in the economic arena; today their proselytizing role has been filled by free market fundamentalists. In this economics-as-religion worldview, “free” and “unfettered” markets are set up as the only “natural” state, with departures requiring substantial justification. Trade and globalization are good and proper, regardless of the magnitude of the uncompensated injury assumed by the poor and other marginalized groups.

This theme examines the ways that economics resembles a religious belief system. One salient issue for this subgroup to engage is how the ideology of economics works in this globalized world and how its ethics have replaced those based on religious beliefs. Such a perspective adds to the broader discussion of poverty by addressing the ideology of the system that produces and sustains poverty around the world. The World Bank, for example, has been sharply criticized in recent years (and by established economists and insiders such as Joseph Stiglitz) for pursuing policies that respond to ideological demands more than real-world circumstances. A critical examination of such ideology can move us toward more sustainable development solutions, and toward a broadly humanistic ethic to inform development policy.

Expanding the economic paradigm

A key operating assumption of economic theory is that *homo economicus* is a rational, self-interested utility-maximizer. Yet real people have a multiplicity of motivations that do not easily fall within this

central paradigm of self-interested utility maximization. An important area of research in economics explores how the key simplifying assumptions of the paradigm may be relaxed while preserving its usefulness – an area broadly known as behavioral economics. Religious beliefs and practices may be a fertile source of information upon which to draw in order to extend the traditional paradigm. Indeed, religion leads to relationships, norms and motivations that can impact economic behavior for entire groups of people in predictable ways. For example, person who desires a strong relationship with God may choose to act in ways that support this objective such as having fewer material goods. Alternatively, strong religious convictions may make a population less susceptible to corruption, lowering transaction costs and increasing the rate at which development can occur. The theme studies the possible ways of including religion in behavioral economic models, and the subsequent implications for economic behavior and performance.

Individuals and communities

A recurring topic in our discussion has been a shift of focus from individual to group as we move from economic models to religious constructs. It would be interesting to explore how affiliation with a religious group impacts the identity, the relationships, and the social network of a person. To what extent is one's human and social capital (or in Sen's terminology, capabilities) augmented by being a part of a community of believers? How might having a personal relationship with God augment a person's capabilities and extended sense of control (Do not worry - God will provide)? How is globalization affecting the notion of community and identity: Who is our neighbor? Can the new information technologies expand our sense of community and alter our willingness to share? This theme explores the implications of including community in economic models.

Income-Generating Strategies of the Poor

How do the poor cope with poverty? What role does religion or religious affiliation play? Are the coping strategies individualistic or community-based? The World Bank's Voices of the Poor reveals the poor to be active agents in addressing their condition, not merely inert subjects waiting for someone to help them. The poor and other socially marginal groups employ income-generating strategies (i.e., purposive courses of action take by individual and collective actors to improve their livelihoods) of various types. This theme examine the differences in income-generating strategies use by different individuals and communities in order to shed light on the role of culture and religion in setting the actions of the poor and to arrive at a better understanding of the links between religion, economy, and poverty.

Extracted from:

http://www.vanderbilt.edu/csdc/PDFs%20and%20Jpgs/Religion_and_Economy_Proposal_Public.pdf