Geography of Religions and Economic Institutions

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Abstract

Economic analyses of religion so far have predominantly focused on the effects that run from religions to economics: how religious beliefs of individuals affect their economic attitudes. This effect of religion at the individual level toward economic activities has important implications for the development of economic institutions on a larger scale. The classical thesis by Weber (1905), for example, claims that the Protestant Reformation instilled in believers positive attitudes toward worldly pursuit and facilitated the establishment of capitalist institutions. Contemporary attempts to quantify the effects of religion on economic attitudes are also abundant. For example, Guiso et al. (2003) document that Christian faiths foster trust, but more so for Protestants than Catholics, and in turn, Catholicism breeds trust more than any other non-Christian religion. In relation to that, Guiso et al. (2004) find that trust promotes international bilateral trade in goods, financial assets, and direct foreign investment.

If religion is exogenous and if it is as important for economic development as the above hypotheses suggest, then short of changing a nation's major religions (which has been typically violent and painful in history), there is not much scope for policy intervention.

In this paper, we offer an alternative hypothesis to the causal relationship between religions and economic institutions. In essence, in the long run, the nature of economic institutions will transform individuals' preferences for religions and religion denominations. The hypothesis runs as follows: for economic institutions that foster market efficiency and impersonal exchanges,

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the scope of family and social networks that a person is sheltered from market competition becomes smaller; at the same time, the emotional support and buffer to shocks of life that one previously derives from his/her own close social network have to be sought elsewhere. Religions that promote a more personal, direct, communication with God, a father figure, thus will fill the emotional void better. This is more so when individuals have less recourse to state welfare programs. The observation: a more *impersonal* and individualistic society, as a result of the implemented economic institutions, will see the more *personal* religions or religion denominations growing.

Thus, if religion is endogenous as we claim and it depends on the economic institution in place, then a policy maker has potentially a more active role to play. In other words, the choice and implementation of economic institutions are self-reinforcing through the mechanism of religions. A choice of an economic institution will breed complementary religions, and in turn, these religions help preserve the values/preferences favorable to the chosen economic institution and pass them over to the next generations via religious indoctrination.

To substantiate our claims, we will first identify a few natural policy experiments in history, where a nation's economic policy modifies its demographics of religions. For example, the Singapore government's policy in the 1960s to build extensive government housings had the effect of breaking up the various ethnic networks established in separate geographical areas previously designated under the British rule. The close network that individuals attached to shrank to the family unit. The adoption of open-economy and in general pro-competition policies, as well as limited national welfare programs, also left individuals at heightened stress levels. The result: a previously predominantly Chinese-Buddhists society saw a growing Protestant Christian population. Korea is another example, where its Christian population grew substantially along with its development of open economy policies. The contrast between the US and the European countries in terms of their economic institutions and their subscription rates to Protestant Christian faiths is yet another illustration. We hope to generalize these observations by conducting an extensive scale of cross-country investigations, using rigorous estimation frameworks to isolate and capture the effects of economic policies/institutions on religion adoption.

Keywords:

JEL classification:

1 Introduction

2 The Econometric Model

3 Conclusion

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