

## Faith and Economics

BY AARON STEELMAN

Why do some economies grow while others remain stagnant? That is perhaps the largest—and most important—question in all of economics. Indeed, Adam Smith, who is generally credited as the founder of classical economics, titled his most famous work *An Inquiry into the Nature and Causes of the Wealth of Nations*.

Modern growth theorists have examined a number of cases from around the globe: the strong growth of the “East Asian Tigers”—Hong Kong, Singapore, South Korea, and Taiwan—from the 1960s through the early 1990s; the struggles of the import-substitution economies of Latin America during the 1970s and 1980s; and the failure of sub-Saharan Africa’s planned economies following independence.

Harvard University economist Robert Barro has been at the forefront of cross-country empirical studies of economic growth. His work has highlighted the importance of institutions—in particular, the crucial role that the rule of law plays in economic growth. Countries that protect property rights, recognize the sanctity of contracts, and resolve disputes impartially tend to enjoy relatively strong economic performance. In contrast, those countries that suffer from political corruption and government expropriation of property tend to struggle.

Closely related to the rule of law is the role of democratic government. To the extent that democracy works as a check on state intervention, it can be a positive influence on economic growth. But countries with already moderate levels of democracy often do not grow quickly. One possible explanation is that further democratization may generate support for social-welfare programs and income redistribution, which can retard growth. “[M]ore democracy raises growth when political freedoms are weak but depresses growth when a moderate amount of freedom is already established. One cannot conclude from this evidence that more or less democracy is a critical element for economic growth,” argues Barro in his 1997 book *Determinants of Economic Growth*.

More critical than democracy itself is the type of public policies that democratic and nondemocratic governments pursue. For instance, widespread schooling at the secondary level and above often boosts human capital and with it economic growth. Stable monetary policy that keeps inflation low is important also. But high levels of government consumption (measured exclusive of education and defense) can be a drag on the economy, as resources are diverted from the private sector.

What’s missing from this equation? Some would argue culture. Sure, institutions and public policies are important but the fundamental beliefs of a society will also influence economic performance. For instance, early in the 20th century the eminent sociologist Max Weber argued that the “Protestant ethic” bolstered economic growth by providing religious sanctions that fostered personal discipline, hard work, and the acquisition of wealth. This process, Weber argued, was particularly true in areas where Calvinism was dominant.

In a recent article, Barro and his Harvard colleague Rachel McCleary have looked at the role religion plays in economic growth. They envision “a chain whereby church attendance affects religious beliefs, which affect individual traits, which affect individual and aggregate economic outcomes.” In other words, their hypothesis is quite Weberian: Religion may encourage such traits as honesty, diligence, thrift, and openness to others, which, in turn, may affect economic performance.

They test this hypothesis on a sample of 59 countries that vary widely in levels of economic development, political freedom, and religious belief. The results largely confirm their hypothesis. Increases in certain “religious beliefs—notably belief in hell, heaven, and an after-life—tend to increase economic growth. There is some indication that the fear of hell is more potent for economic growth than is the

prospect of heaven,” they write.

But this does not necessarily mean that churchgoing is critical to the process. In fact, insofar as those virtuous beliefs can be inculcated in people without organized religion, then higher levels of church attendance actually may depress economic growth. The reason is that “greater attendance signifies a larger use of resources by the religion sector”—resources that otherwise could have been used toward commercial activities. The net effect “depends on the extent to which an increase in attendance leads to stronger beliefs,” conclude Barro and McCleary.

What does all this tell us? That the process of economic growth is complicated and not fully understood. Economists have been right to focus closely on the role that institutions and public policies play. Yet, at the same time, they ought not ignore the seemingly vague and imprecise issue of culture.

Sociologists have been urging economists to give greater consideration to cultural issues for decades. It will be interesting to see how they greet Barro and McCleary’s findings. **RF**

“Religion and Economic Growth Across Countries” by Robert J. Barro and Rachel M. McCleary. *American Sociological Review*, October 2003, vol. 68, no. 5, pp. 760–781.