Journal of Markets & Morality
Volume 14, Number 1 (Spring 2011): 159–170

Contemporary Research in Religion, Politics, and Economics

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In June of this year, I spent two weeks at Boston University's Summer Seminar on World Religions. The host of this event was the renowned sociologist of religion, Peter Berger. While there, I had the opportunity to spend an hour alone with Dr. Berger. We focused on one primary question. I asked, "Milton Friedman always argued that economic liberty leads to political liberty. Does religious liberty have anything to do with these others?" He thought that this was a good question and said that, as yet, there had been no empirical study attempting to link these things. He did note, however, if what Friedman said was true, then how do you explain the situation in China? China is having considerable economic growth, yet political liberty appears nowhere on the horizon.[1]

In contrast to Friedman, Daron Acemoglu argues that political liberty, or rather democracy, leads to economic liberty and growth.[2] Like Friedman, Acemoglu does not consider the effect of religious liberty on economics and politics. Such is often the case among those interested in political economy. However, I believe that Acemoglu has an incomplete picture and that these issues must be explored.

Deirdre McCloskey is another example of contrast. She believes that religion is not a factor leading to economic growth or liberty and neither is politics.[3] Instead, a change in economic rhetoric resulted in economic growth. Economic liberty is something quite apart from religious and political liberties.

These thoughts have often occupied my mind as I have explored the relationship between economics and Christian ethics. In this article, we will investigate this issue in three different ways. The first part will explore three new fields in economics. More specifically, part 1 explains the significance of religion and the economics of religion. Further, it will relate the economics of religion to economics as a whole. The next section of part 1 will involve a survey of the new field of the economics of happiness. Finally, the last section of part 1 will review religious, economic, and political liberty from the standpoint of New Institutional Economics. Part 2 of this article will explore the empirical work that has been done to explore these relationships. The last part of this paper will draw some conclusions about how economic, political, and religious liberties are related.

Part 1: The Significance of Religion

According to Peter Berger, secularization theory is the idea that "modernization necessarily leads to a decline of religion."[4] Contrary to secularization theory, the world has not grown less religious with modernity. It has in fact only grown more religious. The growth of both Christianity and Islam are testaments to the fact that religion has a huge influence on politics and economics. Thus, how do these religions affect political economy?

We inherently know that religion has some kind of effect on politics and economics, but we are not sure to what degree. Samuel P. Huntington asserts that "people identify themselves in terms of ancestry, religion, language, history, values, customs, and institutions. They identify with cultural groups: tribes, ethnic groups, religious communities, nations, and, at the broadest level, civilizations. People use politics not just to advance their interests but also to define their identity. We know who we are only when we know who we are not and often only when we know whom we are against."[5]

The Significance of Religion to Economics as a Whole

Christianity and Economic Development

The sociologist Max Weber is famous for his *The Protestant Ethic and the Spirit of Capitalism*[6] in which he studies "the fact that business leaders and owners of capital, as well as the higher grades of skilled labor, and even more the higher technicality and commercially trained personnel of modern enterprises, are overwhelmingly Protestant."[7] He believes that Protestant Christianity is responsible for the economic development of the Western world. It should also be noted that in his *General Economic History*, he equates capitalism with greed.[8] Weber's problems arise from his philosophical presuppositions, and Deidre McCloskey shows that he combined an "idealist focus on spirit with a materialist and Marxist focus on accumulation."[9] McCloskey notes that Weber's famous thesis "has been repeatedly demolished" and that he dropped it himself after 1905.[10]

In some ways, Rodney Stark agrees with Weber. At the same time, he provides an important corrective to Weber's view of sociology of religion. He argues that economic growth happened in the West largely because of Catholic Christianity.[11] Like Weber, he shows that science arose in Europe because of Christianity and not Islam and not in China or India.[12] The rational nature of Christianity also led to moral innovations such as human rights, liberty, and freedom.[13] Eventually, Stark shows that free-market capitalism was a child of Christianity.

Walter Russell Mead is an expert in foreign policy. His work in this field has caused him to draw some conclusions about the way the world works. Mead believes that the relationship among religion, economics, and politics is best exemplified in the Anglo-American world. More specifically, he argues that

> the Anglo American world synthesized its religious beliefs with its historical experience to build an ideology that has shaped what is still the dominant paradigm in the English-speaking world, the deeply rooted vision of the way the world works that lies behind the physics of Sir Isaac Newton, the political economy of Adam Smith, the constitutional theories of Thomas Jefferson and James Madison, and the biological theories of Charles Darwin. While many of these thinkers were not particularly or conventionally religious, their belief that order arises spontaneously, "as if by the workings of an invisible hand" from the free play of natural forces is a way of restating some of the most powerful spiritual convictions of the English speaking world. The idea that the world is built (or guided by God) in such a way that unrestricted free play creates an ordered and higher form of society is found in virtually all fields and at virtually all levels of the Anglo Saxon world.[14]

Mead suggests that "a belief in an emergent order in both the physical and social universe, and that we cooperate with God's (or nature's) work by allowing the process of historical development to proceed, powerfully reinforces the idea that change signifies progress rather than decay."[15]

Mead is not alone in his views about the Anglo-American world. In the nineteenth century, religious believers in Britain and America saw the technological and economic progress in a positive light. According to Benjamin Friedman, "as the years passed, in both Britain and America, it became ever more difficult to distinguish religious thinking about world affairs from the secular view of progress."[16]

When he examined America, Alexis de Tocqueville found that "men have an immense interest in making very fixed ideas for themselves about God, their souls, their general duties toward their Creator and those like them; for doubt about these first points would deliver all their actions to chance and condemn them to a sort of disorder and impotence."[17] Hence, without God, men fall into disorder. Such a state is incompatible with economic growth or political stability. Tocqueville understood that the reason that revolution caused America to prosper while allowing France to flounder was religious belief. He adds: "When religion is destroyed in a people, doubt takes hold of the highest portions of the intellect and half paralyzes all the others."[18]

It is clear that de Tocqueville understands that religion controls corruption in a free-market system when he writes: "The principle business of religions is to purify, regulate and restrain the too ardent and too exclusive taste for well-being that men in times of equality feel; but I believe that they would be wrong to try to subdue it entirely and to destroy it. They still will not succeed in turning men away from love of wealth; but they can still persuade them to enrich themselves only by honest means."[19]

Islam and Economic Development

Timur Kuran acknowledges the fact that the Middle East is economically behind "the West" or Western Christendom, but he would not agree with the reasons typically given for this disparity.[20] He asserts: "The Middle East fell behind the West because it was late in adopting key institutions of the modern economy. These include laws, regulations, and organizational forms that enabled economic activities now taken for granted in all but the most impoverished parts of the globe."[21] According to Kuran, the Middle East was economically on par with the West until about 1000 A.D. After this period, the Middle East fell behind the West.

Islamic law (rather than Islam) played a key role in the failure of the Middle East to keep up in commerce and finance.[22] Kuran cites the corporation as an example of an institution that Islamic law did not allow. Kuran also lists the inheritance system, marriage regulations, opposition to interest, and the lack of merchant organizations as other factors that slowed economic development in the Middle East.[23]

Economics of Religion

This much is clear: Religious liberty leads to religious marketplaces. In a very real sense, the laws of supply and demand work just as easily here as they do in economic marketplaces. The study of the religious marketplace is known as the economics of religion. The history of this subject goes all the way back to Adam Smith's *Wealth of Nations.* Laurence R. Iannaccone is perhaps the most significant figure in this field today. He explains:

> I am increasingly convinced that mainstream economics genuinely needs the economics of religion—and not merely because we now study such non-market topics such as marriage, health, and discrimination. The traditional heartland of economics (including trade, finance, banking, unemployment, and growth) desperately needs better understanding of beliefs, norms, values, self-control, social capital, social networks, institutions, and culture. Where better to start than religion, the context in which these things are most clearly described, nurtured and measured? Indeed, I would strongly discount any model of beliefs, norm, or values that has *not* proved relevant to religion.[24]

In other words, political economy cannot really be understood apart from an understanding of ethics based in religion. Religion provides many of the values and constraints necessary to make an economy grow.

Social welfare theory, a subject within microeconomics, teaches us that the social optimum is reached at equilibrium, the point at which supply equals demand. This is no less true in the religious marketplace. It is only when there is a religious marketplace or religious liberty that one has freedom of conscience. With freedom of conscience, both the individual and society as a whole have the opportunity to flourish. Recent work in the economics of happiness confirms this assertion. Further, evidence exists that religious liberty results in an increase of faith.

The Economics of Happiness

One of the newer areas of study is called the economics of happiness. By using survey information and regression analysis, they are able to draw some conclusions about flourishing. Bruno Frey is a leader in this newly developing field. He cites three reasons why this field is revolutionary: (1) *measurement*: The measurable concept of happiness or life satisfaction allows us to proxy the concept of utility in a satisfactory way; (2) *new insights*: Happiness research teaches us how human beings value goods and services, as well as how they value social conditions; (3) *policy consequences*: Happiness research suggests that many policies deviate significantly from those derived in standard economics. With respect to current economic policy, the research on happiness reveals that the goal of increasing income often implicitly or even explicitly assumed in received economics is not an effective way of increasing utility in a sustainable way.[25]

Historically, some type of consequentialism has been the accepted theory of ethics for economics. In the modern period, since Adam Smith, everyone has assumed that utilitarianism, as well as cost-benefit analysis is the most consistent with standard welfare economics. Contemporary moral philosophers—Simon Blackburn,[26] Daniel Hausman, and Michael McPherson—also believe that this is the case.[27]

It can be argued, I believe successfully, that social-welfare economics is more compatible with virtue ethics. S. T. Lowry asserts that in Aristotle's *Politics* we find that economics is a moral discipline.[28] Aristotle and the other premoderns understood all moral theory to be in accordance with virtue ethics. To be sure, neither Aristotle nor Aquinas developed social welfare theory, but they did understand that economics has a strong moral component, which was their primary concern.[29] They were not interested in understanding all of the aspects of how an economy functions. The medieval concern for economics, as well as law and politics, focused on the common good, which meant social or civic flourishing.[30] In other words, they were interested in achieving the social optimum.

In any case, the economics of happiness has much to offer the study of religion, politics, and economics. Part 2 of this article is a brief exploration of the empirical research done in this field.

New Institutional Economics

New Institutional Economics (NIE) is an approach to understanding how economies grow. It suggests that neo-classical economics by itself cannot explain why some economies work and others do not.

> The essential idea of the NIE is that the success of a market system is dependent upon the institutions that facilitate efficient private transactions. While neoclassical economics assumes that all mutually beneficial transactions will occur, the NIE observes that conducting a transaction requires numerous elements other than the possibility of mutual gain: information about the potential traders, ability to conduct the bargaining, and confidence that the agreement will be carried out once reached. Those conditions are dependent upon information exchange, commercial law, and enforcement mechanisms.[31]

New Institutional Economics realizes that free markets are a necessary but not a sufficient cause for economic growth. In *Good Capitalism/Bad Capitalism*, Baumol, Litan, and Schramm argue that institutions play an important role in economic growth. In fact, institutions play a role in three of the four elements of a successful entrepreneurial economy.[32] More specifically, they write: "Economists who stress the importance of institutions typically point to the enforcement of rights to property (both physical and intellectual), contracts and limited liability for investors in companies as being among the most important of these rules."[33]

New Institutional Economics began with the work of University of Chicago professor Robert Coase, who won the Nobel Prize in economics. He showed that transactional costs and property rights provide the institutional infrastructure that determines how well an economy performs. Coase was followed in this work by two other Nobel Prize winners, Oliver E. Williamson and Douglass C. North. Since their work the field has grown substantially and has many followers. This is not to say that it has no critics: A prime example is Dierdre McCloskey.[34]

New Institutional Economics also provides us with some insights into the relationship among religious, political, and economic liberty. According to Douglass C. North,

> the expansion of commerce led to the growth of a new interest group, commercial interests, alongside the traditional nobility, Crown and clergy. Towns were able to gain liberties often over the opposition of nobles and clergy. This liberty to come and go, to buy and sell as they saw fit was as essential to economic growth as some security of property. The Protestant Reformation evolving in the context of repression introduced a concern for another liberty—liberty of conscience, religious freedom to worship as one chose; and economic liberty, religious freedom, and representative government became intertwined issues.[35]

Part 2: Empirical Studies

In this part of the article, we will use empirical studies to examine how religious liberty, political liberty, and economic liberty are related. There are two types of studies that we will use. The first type of study involves those done by Robert Barro. The second type of study that we will employ involves a new field called the "economics of happiness."

Economics of Religion Studies

Harvard University economics professor Robert Barro has an interest in the relationship among economics, politics, and religion. There are three studies in particular that he did with Rachel McCleary that are of some significance. In each of these papers, they employed econometric methods to analyze religious and economic data.

Paper 1

In 2002, Barro and McCleary investigated the way that economic and political developments affect religiosity and vice versa.[36] In this study, they used data gathered over a twenty-year period for fifty-nine different countries. They found that "state religion promotes monopoly and therefore, poor service and low rates of church attendance."[37] Accompanying state religion is a low degree of religious pluralism. Surprisingly, they also found that "an increase in religious beliefs (at least belief in heaven) or a decrease in church attendance tends to stimulate economic growth."[38] Finally, they found that "although religiosity tends to decline overall with economic development, the pattern of response depends on the specific dimensions of development. For example, the measures of religiosity are positively related to education and negatively to urbanization. Enhanced life expectancy and reduced fertility are inversely related to church attendance but have weak associations with religious beliefs."[39]

Paper 2

In 2003, Barro and McCleary focused their attention on only the relationship between religion and economic growth. In their paper, they used data from eighty-seven countries. They sought to "determine how church attendance and beliefs co-vary with per capita gross domestic production (GDP), education, and urbanization, while holding fixed other measures of economic development and the other independent variables."[40] Once again, they found that "economic growth responds positively to the extent of religious beliefs, notably those in heaven and hell, but negatively to church attendance."[41]They also found a weak correlation with economic growth when church attendance and religious beliefs "move together."[42] The attendance at Roman Catholic and Islamic religious services was higher than the attendance for other religions.[43] The same sort of correlation holds true for belief in heaven and hell. Barro and McCleary surmise that higher religious beliefs stimulate growth because they help to sustain aspects of individual behavior that enhance productivity."[44] Conversely, higher church attendance is accompanied by lower economic growth because of a larger use of resources by the religion sector.[45] In other words, the social capital associated with higher church attendance is expensive.

Paper 3

Finally, in November 2003, Barro and McCleary studied the relationship between economic growth and religiosity. They found that increases in gross domestic product (GDP) result in decreased religiosity.[46] Their analysis showed a causal relationship between GDP and religiosity. In other words, the more the economic growth a country experiences, the less religious the people become. Strangely, the existence of a state religion increases religiosity. They conclude that this is the result of government subsidies to the state religion. At the same time, they found that government regulation of the religious marketplace reduces religiosity. Finally, they also found that "religiosity is positively related to education and the presence of children and negatively related to urbanization."

Economics of Happiness Studies

The economics of happiness has been applied to many areas of public policy analysis. While not as much work has been done in the study of religion, there is enough data to draw some conclusions. Arthur Brooks has captured a lot of this data in his book *Gross National Happiness.* He notes that "religious people of all faiths are much happier than secularists on average. In 2004, 43 percent of religious folks said they were very happy with their lives, versus 23 percent of secularists."[47] He also notes that money, age, education, family status, race, and sex do not affect the happiness of religious or secular people.[48] Religious people tend to have more children than secular people. In fact, Brooks finds a 41 percent fertility gap.[49]

Part 3: Summary

All of these kinds of studies can be employed in the study of New Institutional Economics. Once this is done, we will gain a much clearer understanding of the way that religion affects economic growth and political freedom. The fact that some of this data is confusing means that more work has to be done.

There is clearly a relationship among religious liberty, economic liberty, and political liberty. Whatever this relationship is, it is loaded with implications for public policy. However, it is also loaded with implications for the church of Jesus Christ. Religious liberty allows for the truth of the gospel to stand out. The salt and light that the church provides in the context of religious liberty contributes to economic growth and political freedom. I think that most of us inherently know this, but now we have ways to empirically verify it. When the economics of religion and the economics of happiness are combined with New Institutional Economics, these relationships become clearer and more understandable.

This article provides a project for some who are technically qualified researchers to carry out. Those who can do the work of regression analysis can show correlation if not causation among religious, political, and economic liberty. Hopefully, more people will join in the work that needs to be done in this area of research.

Notes

1. China has experienced an economic growth rate of 8–10 percent for each year of the last twenty years.
2. Daron Acemoglu, *Economic Origins of Dictatorship and Democracy* (New York: Cambridge University Press, 2006), chapter 9.
3. Deirdre McCloskey, *Bourgeois Dignity* (Chicago: University of Chicago Press, 2010), 34.
4. Peter L. Berger, *The Desecularization of the World* (Grand Rapids: Eerdmans, 1999), 2.
5. Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Shuster, 1996), 21.
6. Max Weber, "Die protestantische Ethik und der Geist des Kapitalismus" in *Archiv fur Sozialwissenschaft und Sozialpolitik* (1904–1905); *The Protestant Ethic and the Spirit of Capitalism*, ed. Randal Collins, trans. Talcott Parsons (Los Angeles: Roxbury Press, 1996).
7. Ibid., 35.
8. Max Weber, *Wirtschaftsgeschicte*; *General Economic History*, trans. Frank Knight (Glencoe, Ill.: Free Press, 1927), 17.
9. Deirdre McCloskey, *Bourgeois Dignity*, 143.
10. Ibid., 145.
11. Rodney Stark, *The Victory of Reason* (New York: Random House, 2005).
12. Ibid., 14.
13. Ibid., 23.
14. Walter Russell Mead, *God and Gold* (New York: Alfred A. Knopf, 2008), 15.
15. Ibid., 301.
16. Benjamin M. Friedman, *The Moral Consequences of Economic Growth* (New York: Alfred A. Knopf, 2005), 67.
17. Alexis de Tocqueville, *Democracy in America* (Chicago: University of Chicago Press, 2000), 417.
18. Ibid.
19. Ibid., 422.

20. Kuran, *The Long Divergence* (Princeton: Princeton University Press, 2011), 6. By "Middle East," Kuran means, "The entire Arab world and Iran, but also Turkey, along with the Balkan peninsula." He adds, "The term 'Middle East' excludes India, Central Asia, East Asia, and sub-Saharan Africa."

21. Ibid., 5. After admitting that it is a slippery concept, Kuran explains that an institution is "a system of socially produced regularities that shape, and are in turn shaped by, individual behaviors. This definition encompasses consciously created social regularities, such as state-imposed litigation procedures and tax regulations. It also encompasses patterns that emerge as by-products of other choices, such as procedural expectations based on history, customary contractual practices, and organizational norms." Ibid., 6–7.

22. Ibid., 7.

23. Ibid., 288–92.

24. Laurence R. Iannaccone, "The Economics of Religion: Invest Now, Repent Later?" *Faith and Economics,* no. 55 (Spring 2010): 7.

25. Bruno S. Frey, *Happiness* (Cambridge, Mass.: MIT Press, 2010), ix–xi.

26. Simon Blackburn, *Ruling Passions* (New York: Oxford University Press, 1998), 161–99.

27. Daniel M. Hausman, and Michael S. McPherson, *Economic Analysis, Moral Philosophy, and Public Policy* (New York: Cambridge University Press, 2006), 116.

28. S. T. Lowry, "Ancient and Medieval Economics," in *A Companion to the History of Economic Thought* (Malden, Mass.: Blackwell, 2007), 14–15.

29. Alessandro Roncaglia, *The Wealth of Ideas,* (New York: Cambridge University Press, 2006), 31.

30. Mary Keyes, *Aquinas, Aristotle and the Promise of the Common Good* (New York: Cambridge University Press, 2006), 212.

31. Gerald W. Brock, "New Institutional Economics," *Faith and Economics* no. 39 (Spring 2002): 2.

32. William Baumol, Robert Litan, and Carl Schramm, *Good Capitalism/Bad Capitalism and the Economics of Growth and Prosperity* (New Haven: Yale University Press, 2007), 7.

33. Ibid., 40.

34. McCloskey, *Bourgeois Dignity*, 310–24.

35. Douglass C. North, *Understanding the Process of Economic Change* (Princeton, N.J.: Princeton University Press, 2005), 139.

36. Robert Barro and Rachel M. McCleary, "Religion and Political Economy in an International Panel," Working Paper (May 2002), http://www.economics.harvard.edu/faculty/barro/workpapers_barro.

37. Ibid., 27.

38. Ibid., 39.

39. Ibid., 40.

40. Robert Barro and Rachel McCleary, "Religion and Economic Growth," Working Paper (April 2003): 9, http://www.economics.harvard.edu/faculty/barro/workpapers_barro.

41. Ibid., 1.

42. Ibid., 34.

43. Ibid., 37.

44. Ibid.

45. Ibid., 38.

46. Robert Barro, "International Determinants of Religiosity" (November 2003): 1, http://www.economics.harvard.edu/faculty/barro/workpapers_barro.

47. Arthur Brooks, *Gross National Happiness* (New York: Basic Books, 2008), 44.

48. Ibid.

49. Ibid., 55.