

Religious Freedom and Economic Development. A Conceptual and Empirical Review

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Abstract

Economist has uncovered numerous factors that can lead to higher economic growth. These include; natural resources, physical infrastructure, human capital, technology and the role of law among others. In this paper, the idea of religious freedom and its implications for economic growth will be identified and documented. The government restrictions and social hostilities involving religion has been increasing in the last few years across the globe. A report published by Pew Research Center in 2016 indicates that 83 countries have high or very high level of overall restrictions on religion; resulting from both government regulation and societal factors.

The economic consequences of these religious hostilities and restrictions include reduced foreign and local investment, instability and more corruption as nine out of ten most corrupt countries has very high government restrictions on religious freedom. Religious freedom not only result in peace and stability but also create the conditions for socio-economic development.

The paper will have three main sections. First section will look at the history and implications of economic growth. The second section will cover the comprehensive review of conceptual and empirical literature in the area of religious freedom and economic development, and untangle the causal pathways between these variables. Finally, in the third section, keeping in view the relevant literature, policy recommendations will be presented.

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1. Introduction

The study of industrial revolution is important to understand the role of economic growth and development on humanity at large. Industrial revolution; which started in late eighteenth century England and subsequently spread into other parts of Europe and America, is considered the single important economic event since the agricultural revolution 10,000 years ago. The life of an average person has not improved materially in the whole of human history until the industrial revolution. Take the case of life expectancy, demographic research suggests that at the start of nineteenth century no country across the globe has life expectancy of more than forty years. The economic development coupled with improvements in medical research has increased the global average life expectancy to seventy years.

Economist has been grappling with questions of economic growth and development since Adam Smith's seminal work *Wealth of Nation* Published in 1776. The causes of this sudden transformation in economic landscape are highly debated in economic theory and history. Some historians make the case that improvement in technology and constant innovations and process of industrialization in different sectors of the British economy are responsible for this apparently sudden outburst of productivity and growth (Landes 1969 and 1990; Mokyr, 1990 and 2002). The growth theory explanation, started with accumulation of capital (Domar 1948), the role of both exogenous growth models (Solow 1956) and endogenous models (Romer 1990a) and to the role of human capital (Lucas 2004). The role of institution in economic growth and development has first identified by North (1990) latter expended by Acemoglu and Johnson (2005) among others. Democracy and its impact on growth is highly debated area, where the debate is on the direction of causality, where Gundlach and Paldam (2009) argue that increase in income and

middle class in general will lead to democratic transition. Whereas Acemoglu et al (2008) support the critical juncture hypothesis that democracy itself leads to growth.

There is a strand of literature which goes beyond these traditional explanations and argues that these factors can explain how and cannot fully explain the *why* of industrial revolution. Among these the work of McCloskey and Mokyr are worth mentioning. McCloskey argues in her Bourgeois trilogy (2006, 2010 and 2016) that it was not physical and financial capital which resulted in the great enrichment rather it was acceptance of bourgeois values (thrift, practical rationality, prudence and betterment). The growth started, when people began to think that there is no shame in supplying goods to people for money. This change in attitude and general acceptance of commercial interest has resulted in innovation and improved productivity thus sustained long term economic growth.

Mokyr (2016) makes the case of the cultural foundation of economic growth. He studied the period 1500 to 1700, which provides the basis for subsequent sustained economic growth. According to him, the drivers of technological transformation is attitude and aptitude of the general public. Culture defined as “*a set of beliefs, values, and preferences, capable of affecting behavior, that are socially (not genetically) transmitted and that are shared by some subset of society*” affects the economic in two broad ways, directly it changing attitude towards natural world, and indirectly by creating and sustaining institutions which spread the “useful knowledge”.

The role economic freedom is also investigated under the institutional perspective in this regard. (Cole 2003 and Compton et al 2011). Economists are deeply interested in the ideas of freedom

and liberty and their economic consequences. There is strong intellectual tradition in economic history, which highlight the crucial role of economic freedom in unleashing the economic growth in certain part of the world. The famous “hockey stick” graph depicting rapid economic transformation in last two centuries also correspond to increasing freedom. Adam Smith was first to make the case of economic freedom and subsequently others like John Stewart Mill, Fredrich Hayek and Milton Friedman followed him in this regard. The idea of economic liberty exhibited by personal choice, freedom to exchange, and protection of property are crucial in unleashing the human ingenuity for improvements in productivity and ultimately economic growth.

The role of religion and religious freedom in economic development has been studied since Weber (1958 [1905]), literature over the century on this issue is unable to settle it (Gill 2013). The role of particular religion on economic outcomes of its followers in comparative setting is studied by Hillman et al (2016), in case of Islam by Kuran (2004, 2010). In this Paper, we will look at the theoretical and empirical research on the role of religious freedom and economic development. After this introduction, second section will document the role of religious freedom and economic development. Third section will conclude it with policy recommendation.

2. Religious Freedom and Economic development.

Religious freedom is basically freedom to practice religion. According to United Nation Declaration of Human Rights, article 18 “Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or

belief in teaching, practice, worship and observance”. Shah and Gill (2013) defines religious freedom as “the freedom to engage in public life (as well as private life) on the basis of one’s religious convictions and identity”. They even expanded to include any increase in cost of practicing religion as indication of decreasing religious freedom and on the other hand, decrease in the cost of practicing religion reflects religious freedom.

The outlook for religious freedom across the world is well documented in recently published report by Pew Research Center (2019). The main findings of the report are (a) The restrictions imposed by the government on all the four areas: favoritism of particular religious group, harassment of religious group, general law on restricting religious freedom, and limit on religious activity has been increased in last ten years. (b) the societal hostilities involving religion has increased, although communal violence has decreased. (c) The level of religious restriction is highest in Middle East and North Africa region and finally (d) Some of the biggest increase in religious restrictions in certain categories is in Europe and North Africa

Religion has been playing an important role in the human affair for centuries. Despite the relative rise of people who do not identify with any religion, 84 percent of world population still identifies with a religious group. This shows the importance of religion in the global setting and implication of religiosity on social and economic life. Religion can affect the norms and culture of its adherents. It is important to study and document the role of religious practices and implications of any kind of religious restrictions on socio-economic outcomes.

Religious freedom is important part of human right regime but it was overlooked as “orphaned of human rights” (Hertzke 2004, p. 69). Prior to 2000, there is no systematic effort to collect the required data to understand religious freedom and its consequences. Using the data collected by

Association of Religion Data Archive (<http://www.thearda.com>) , Grim and Finke (2006) found that although 91 percent of the countries provide assurance of religious freedom in their constitutions but 86 percent of nations have at least one law restricting religious activities and 38 percent has four or more laws restricting religious freedom. These findings were subsequently confirmed by Fox (2008, 2011) of Religion and State Project at Bar Ilhan University. The relationship between and dominant religion is one of the most important motive for religious restrictions. Gill (2008) explain in his book *Political Origins of Religious Liberty* that state sometime favors particular religion for political stability and ideological compliance. This alliance come at the price by regulation the religious market in such a way to repress other religions. However, sometime without any alliance with religion, government suppress religious activities by promoting atheism as state ideology like in the case of former communist governments. The strong cultural and religious pressure can also lead to restrictions on religious minorities. Religious freedom along with most of other form of freedoms listed in United Nation's Declaration of Human Rights can offend the cultural majority of the country. Thus, State don't have capacities and incentive to protect the freedom of minorities because their low electoral weightage. Democracy reflected with free and fair election is considered as way to increase religious freedom, but we need to considered Tocqueville (1835, 1840 and translated version 2012) critique on tyranny of majority. Independent judiciary, effective government and free election has positive correlation with religious freedom but independent judiciary is most powerful predictor of religious freedom (Finke and Martin 2011).

The basic economy theory indicates the power of division of labour, specialization and trade are drivers of economic growth. Trade requires trust and protection of rights of parties involved. In

case of discrimination based on religious grounds, the exchange of both ideas and goods would be disturbed thus resulting in sub-optimal outcomes for society at large.

Weber (1958[1905]) makes the case of *protestant work ethics* to explain the economic difference of protestant north and catholic south of Europe. This is controversial idea, recently it has been documented that instead of protestant work ethics, it was Luther's idea of reading bible directly, which in turn led to human capital accumulation and economic growth (Becker, S, and L Woessmann 2009).

The case of religious liberty is connected with economic liberty. As once government suppress religious freedom, other civil and political freedoms would be more likely to be suppressed. The role of religion in political and social life quite evident, but economist generally ignore this aspect with few exceptions in their study of economic development. They have now started paying attention to other factors like culture, religiosity and enterprising and spiritual capital. Although the measurement of these factors is not easy, but freedom of religion or consciousness can be taken as antecedent of *spiritual* realm of economy.

Economic freedom is the idea that employees can choose and change their employers, start their ventures and that business can fail. The process is what Schumpeter (1942) called *creative destruction* can lead to innovation, improved productivity and higher economic growth. In the same sense, religious freedom makes the case that people can choose their religious affiliation, change them without any coercion. These freedoms promote the allocative skills; that is identification of good opportunity and following it with action. This skill can help economies in continuously changing business landscape by allocating the scarce human capital into most efficient way.

The above discussion identifies the important interconnection between religious and economic freedom. To elaborate on this, we will look at the theoretical links between these variables then the empirical evidence will be documented.

2.1 Theoretical links.

Gill and Shah (2013) has identified causal pathways, which provide theoretical underpinning between religious freedom and economic flourishing. Some of these pathways are direct and indirect pathways are mediated by other variables, mechanisms and processes.

(a) The idea connection.

Ideas are central to economic growth and development. Unlike physical product, ideas are nonrival and can be used by many people without their depletion. In endogenous growth model for which Romer(1990a) won Nobel prize in 2018, economic growth is result of technological change, which itself is due to efforts of researchers and entrepreneurs responding to economic incentive. Religious freedom encourages the market place of religious ideas to identify those religious idea which are conducive to economic growth and development. The role of religious ideas and other cultural value are missing in economics due to inherited difficulty of converting these ideas into mathematical models. Recently, some economist has starting incorporating these intangible factors into their analysis of economic growth (North 2010). An important recent work in this area is by Deirde McCloskey's trilogy (2006, 2010 and 2016). She makes the case of culture as driver of economic growth; wealth was created on large scale when wealth creation

was no more considered a filthy purpose. The general change in social norm that generating economic profit by providing goods and service is something which should be admired. Commercial activity, in other words was dignified. Although religion was not core of her analysis, nevertheless it shed the light on the importance of intangible factors in explaining economic development. Ideas directly coming from religion like a belief in hell is also statistically significant predictor of growth (Barro 2004 and McCleary 2008). Spiritual capital refers to religiously generated norms and value can also facilitate economic growth (Shah and Shah 2010, 2013). Kuran (2012, 2016) has studied the long-term impact of religious ideas and norm on economic outcomes of Muslim world and compare it with Christian west called *the great divergence*. He argues that religiously induced law and regulations on interest, inheritance law and charitable giving (trust) hampered economic growth and perpetuate authoritarian rule in Muslim world. There are certain religious ideas, which are not conducive for economic development. The religious liberty provides a market place of religious idea, where they are tried and tested and eventually growth enhancing ideas will survive. The competition in market for religious ideas is good as it is in product market.

(b) Skill development

Most of the religions not only focus on ideas but they also require organizing religious and charitable activities at large scale. These managerial skills can be transferred into commercial ventures, thus improving their productivity. The skills development of men by evangelical church has resulted in betterment of financial situations of participants (Elizabeth Brusco 1995). Skill development by religious institutions is dependent on the level of religious freedom in that country.

(c) Charitable activities

Many of the largest charities around the world are inspired by religious ideas and sometime managed by religious institutions. In the presence of religious freedom, non-governmental religious organization can play their role in alleviating poverty by direct cash transfer, skill development program and by discouraging certain behavior like alcohol, gambling and drug abuse. Almost all the religion has commandment to help the needy and poor, which encourage the charitable activities to reduce the problem faced by poor people. These charitable activities are based on donation and volunteer participation, which facilitate the flow of money from rich to poor without any government intervention. The competition for donation also improves the service delivery of these charitable organization.

(d) Migration

People with skills would be more likely to migrate to areas with high religious freedom. In the knowledge based modern economy, human capital is key ingredient of any recipe of growth. Human capital is education, training and overall learning of individual, which facilitate their contribution in economic development (Becker 1964). These knowledge workers are part of global labour market and can move anywhere. Countries with high level of religious freedom like Canada are attracting these skilled workers, which in turn are playing an important role in the economic development of that country. Historically, William Pen recognized the importance of religious freedom, he appealed to King of England to allow religious freedom in this new colony called *Pennsylvania* on economic ground. Jews migration to America due to religious freedom played an important role in development of America.

(e) Bundled Flourishing

The religious freedom can facilitate human flourishing by enhancing capabilities, well-being and overall utility of human being. The religious market economy would be best when different religions are allowed to compete. The increased religious freedom not only led to pluralism but also increased religious participations (Finke 1990; Stark and Iannaccone 1994; Gill 1999).

(f) Bundled Liberties

Religious liberty is not possible in isolation, it is related to other form of religious freedom like political, civil and economic freedom. These freedoms are mutually reinforcing. The importance of political and civil liberties is considered an important factor in addition to other technological and cultural factors for explaining the *rise of west*. Religious freedom is interconnected with other form of liberties, collectively these liberties play an important role in long term sustained economic growth.

(g) Stability

The political stability is primary prerequisite for sustainable long-term economic growth. The countries with religiously induced violence are mostly those who have low level of religious freedom. The restriction on religious practices often led to violence, religious extremism and even civil war. The religious restrictions radicalize minorities, which can lead to further violence. Religious conflicts are intertwined with social conflict. Denying religious freedom lead to increased social conflicts. Grim (2012) documents that in countries with high religious

restrictions, 83 percent of these countries has social hostilities, while in the presence of religious freedom, this number dropped to 19 percent.

2.2 Empirical Evidence:

Religious freedom has implications for investment climate and business opportunities. Alon and Spitzer (2003) analyzed the impact of religious freedom along with other risk on country risk. Their result indicates that business perceived lack of religious freedom as risk. Alon and Chase (2005) analyze how much of cross-country variation in per capita GDP in term of PPP can be explained by religious and other kind of freedom for 123 countries. They used Fraser Institute measure of economic freedom comprising five major components; security of property right, size of government, stable currency, regulatory framework and freedom to trade with foreigner. Religious freedom is measured by using Marshall (2000), where each country was assigned value from 1 to 7 for religious freedom. The coefficient of economic freedom has significant positive relation with GDP per capita. The coefficient of religious freedom in all the models has predicted sign, in three out total four model, coefficient is statistically significant as well.

Corruption is one major challenge faced by many developing countries. It turns out that religious freedom lead to lower corruption. Lipset and Lenz (2000) high regulation and restriction on religious activities lead to higher level of corruption. If we look at the top ten most corrupt countries, eight out of these ten countries also have very high level of religious restriction (Grim et al 2014).

The long-term impact of religious practices on economic growth is recently documented by (Andersen et al 2017) by looking at Catholic order of the Cistercians, which spread across Europe in 11th century. The order propagates austere life and manual labour. The empirically investigation of cross-country spread of Cistercian order shows location of Cistercian monasteries is directly correlated with high economic growth in those areas.

North and Carl (2004) look at the implications of state religion and of constitutional protection for religious freedom for the cross-section of 59 countries. In countries with state religion, religiosity measured through prayer attendance decreased by 15 percent. While, each decade of constitutional protection of religion increased religiosity by 1.2 percent.

3. Conclusion.

The bulk of research in the area of religious freedom documents the positive consequences of religious freedom. The idea of religious freedom through multiple pathways causes economic development. Empirical studies; most of which are conducted in the last two decades, also identify the positive role of religious freedom for religiosity itself and for economic betterment.

Gill and Owen (2017) argue that the benefit of religious freedom can be categorized into four broad ways; *first* is the Promotion of religious diversity, security and prosperity. The idea of religious diversity can increase the market size, resulting in specialization and increased productivity. Historical case study indicates the case of Dutch republic, despite the lack of abundance natural resources, it became the center of trade in late medieval period. The Union of

Utrecht (1579) provide the connotational protection of religious freedom to both Catholics and Protestants in Dutch Republic.

Secondly, religious freedom attracts smart, intelligent and risk-taking individuals from other countries with repressive regime thus resulting in high economic dynamism and growth. These entrepreneurs fuel the engine the economic growth and create positive externalities.

Thirdly, the basis of commercial society is on toleration and mutual respect. Commerce required interactions with people of different ethnicities, cultural and religious background. The presence of religious freedom thus encourages trade and commercial activities leading to economic prosperity.

Finally, religious freedom is intertwined with other kind of freedom like civil liberties, political and economic freedom. The presence of religious freedom provides conducive environment for human flourishing.

In the case of Muslim world, religious freedom situation is not encouraging, as per recent report published by Pew Research Center (2019), Although Muslim majority consist twenty five percent of the sample, they constitute more than seventy five percent of countries “with most restrictive laws and policies towards religion”. Despite the constitutional provision (in 22 out of 49 Muslim majority countries) of protection of religious freedom, these provisions are not protected by the state in most of the Muslim majority countries.

Kuru (2019) tackles the issue of authoritarianism and underdevelopment in Muslim world. He argues that in early Islamic history up till mid of eleventh century, Islamic scholars were funded by trade and charitable institutions thus separated from state. Starting in mid eleventh century, due to certain political challenges, a Sunni orthodoxy emerge with centralized and militarized economy, bring scholars into government payroll by establishing state madrasas. The alliance of state and religious establishment lead to suppression of dissenting voices within the tradition and general lack of religious liberty. Asserting secularism of using state power to undermine the power of traditional scholars like has not worked in Ataturk's Turkey, Shah's Iran and Nasser's Egypt. This top down modernist approach of religious reform and liberty has no backing from the masses. The solution is bottom up approach of creating an environment of tolerance and accepting difference is only way forward.

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