

# Religion, Culture, and Development

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## Abstract

This chapter tries to synthesize the progress that economists have made towards understanding various aspects of the role of religion in human societies from a development economics perspective. We start by reviewing the contributions that consider religious beliefs as exogenously given and try to understand their effects on individual economic behavior, both directly and through the effect of religion on institutions. Next, we summarize the literature that considers adherence to and interpretation of religious dogmas by individuals as a strategic choice (i.e. using religious beliefs as instruments/means towards individuals' (economic) ends). We proceed to review contributions that endogenize the content and the quantity of religious denominations, using the industrial

organization approach. The final part considers the role of the state, which intentionally chooses to influence the contents of religion and the intensity of its dogmas. More precisely, we consider situations in which rulers may adopt a particular religion for the purpose of nation-building and external positioning or may instrumentalize the religion with a view to weakening internal political opposition and consolidating an authoritarian regime. We suggest that, in order to fully comprehend the role of religion, a political economy approach is required and it is necessary to consider the possibility that religion can be manipulated by political authorities for various reasons that depend upon the historical context.

## Keywords

Religion, Beliefs, Norms, Competition, State

## JEL Classification Codes

N3, Z12, A13, F5, D43

## 21.1. INTRODUCTION

There are at least two fundamental reasons why an economist might be interested in understanding the functioning of religious institutions and their relationship with economic development. The first comes from the role that religion plays in influencing cultural norms and beliefs in a society. Such norms and beliefs have been shown to be highly persistent over time and to play a key role in driving long-run economic performance (Guiso et al., 2006; Tabellini, 2008; and contributions in Platteau and Peccoud, 2010); however, much less progress has been made towards explaining the origins of cultural norms. Understanding religion would allow us to advance in this direction, and to ‘dig deeper’ into uncovering this relationship between culture and economic performance. Secondly, religion is a principal source of social identification in a pre-industrial society. If identity matters for certain key aspects of economic behavior, such as cooperation and provision of public goods – and it does (as has been argued, for instance, by Akerlof and Kranton, 2000, 2010) – then, to understand these fundamental economic issues in the context of developing countries, we need to understand the effects of religious identification and of its intensity on the behavior of individuals, as well as what forces shape the religious identification and its intensity.

The early attempts to understand the effect of religion on economic development were in the form of cross-country regressions, trying to find the patterns of correlations between religion and the level of economic prosperity (see, e.g. La Porta et al., 1997; Barro and McCleary, 2003). While this early work posed fascinating questions and provided some interesting insights, it suffers from three serious shortcomings: (i) Identifying empirically causal effects of religion on development is extremely challenging, in particular because the adoption of a certain religion or the

aggregate level of religiosity in a country is not exogenous to most of the factors that at the same time drive economic development; (ii) Most often religious affiliation is defined empirically in a relatively crude manner that does not allow distinguishing between various denominations (between Shi'ism and Sunnism or between different schools of Sunni Islam) or between superficial and deep adherence to a faith; (iii) Even more importantly, these earlier studies do not improve greatly our understanding of the channels through which religion affects economic development; they are not particularly helpful in discerning among alternative causal mechanisms. This is crucial, given that in addition to supply-side factors, on which the conventional, Beckerian economic approach to religion is essentially focused (see, in particular, Iannaccone, 1990, 1995, 1997; Stark et al., 1996), demand factors may be at work. How demand for religious tenets or services is determined or shaped in some specific contexts will receive significant attention in this chapter (as evident from the outline given below).

This chapter is a synthesis of the progress that economists and other social scientists have made toward better understanding various aspects of the role of religion in human societies, particularly when a development perspective is adopted. It proceeds in a gradual manner that examines this role from various standpoints, paying attention not only to high-income countries (much of the economic literature deals only with the case of the United States) but also to the specific context of developing countries. [Section 21.2](#) looks at the literature that considers religious beliefs as exogenously given and tries to understand their effects on individual economic behavior, both directly and through the effect of religion on institutions. [Section 21.3](#) summarizes the literature that considers adherence to and interpretation of religious dogmas by individuals as a strategic choice (i.e. using religious beliefs as instruments/means towards individuals' (economic) ends). In [Section 21.4](#), we start to review contributions that try to endogenize the content (as well as the quantity) of religious denominations, using the industrial organization approach. [Section 21.5](#) considers the role of the state, which intentionally chooses to influence the contents of religion and the intensity of its dogmas. More precisely, we consider situations in which rulers may adopt a particular religion for the purpose of nation-building and external positioning or may instrumentalize the religion with a view to weakening internal political opposition and consolidating an authoritarian regime. The work in this section suggests that, in order to fully comprehend the role of religion, a political economy approach is required and we need to consider the possibility that religion can be manipulated by political authorities for various reasons that depend upon the historical context. In other words, the relationship between religion and politics must be brought to the fore, implying that it is unavoidable to raise the intricate question of whether religion dominates politics or politics dominates religion. [Section 21.6](#) concludes and stresses the importance of cross-fertilization between

different social disciplines for further progress on the relationship between religion and development.

## 21.2. THE EFFECT OF RELIGION ON INDIVIDUAL BEHAVIOR

In this section, we systematize recent research in economics that considers religious institutions and beliefs as exogenous, and studies their effects on individual- and community-level behavior and well-being. This literature in general does not consider religious beliefs as means towards an end, but takes them as wired into individual references.

One important point should be kept in mind. Until very recently, most of the literature was based on data from high-income countries (mostly the United States and, to a lesser extent, Western Europe). While this allowed for important advancement and started off some key public policy debates, a big question that an economist interested in development has to face is to what extent these findings are applicable to the developing world (i.e. whether the underlying economic mechanisms are similar between developed and developing countries). Such analysis inevitably involves some subjectivity and thus should be complemented with findings from developing countries. In particular, one reason why findings from developed countries might extrapolate poorly to the context of a developing country is that the types of religious market imperfections and institutions (e.g. informational asymmetries, the role of the state) that exist in developing countries are very different from those found in developed countries.

### 21.2.1 Evidence from the United States and Western Europe

One major set of papers analyzes to what extent religious affiliation allows individuals to smooth their consumption and insure against idiosyncratic income shocks. [Dehejia et al. \(2007\)](#) find, using the data from the US Consumer Expenditure Survey, that religious households (i.e. those whose members declare having contributed time or money to a religious organization) are able to insure their consumption against income shocks better than non-religious households, holding other factors constant. Interestingly, the authors also find a similar effect on subjective well-being (using the National Survey of Families and Households). In other words, the subjective well-being of individuals who attend religious services fluctuates less when facing an income shock of a given size. This effect is particularly pronounced for African-Americans (and less for whites). These findings confirm the common wisdom that religious organizations play an important insurance role, both through pecuniary and non-pecuniary channels.

These latter non-pecuniary positive effects of religiosity are not limited to religious individuals, but also generate spillovers to their non-religious counterparts, as shown by [Clark and Lelkes \(2009\)](#). The authors use pooled survey data on 90 000 individuals from 26 European countries. They complement the findings of [Dehejia et al. \(2007\)](#)

in that an individual's religiosity positively correlates with his or her subjective well-being. They also establish that average religiosity in a given region has a positive impact: non-religious individuals that live in regions with a higher average religiosity, *ceteris paribus*, declare a higher subjective well-being than non-religious people that live in regions with lower average religiosity. Similarly, a larger proportion of atheists in the region imposes negative spillover effects for the subjective well-being of the religious individuals. Although the study does not establish a clear causal effect, the authors show that the 'usual suspects' such as the level of social capital or crime cannot explain these spillover effects.

The above studies are potentially subject to critique concerning their ability to identify causal links between religiosity and individual behavior and well-being. In the absence of a convincing identification strategy, a doubt remains that the observed correlation between religiosity and behavior could be purely epiphenomenal. To address this critique, several studies employ some of the common identification strategies currently used in applied economics. Here, we list four such studies (all of these concentrate on the United States).

Given that providing social insurance is one of the key functions of the state, the above findings raise an important issue of the possible crowding-out of the government provision of services by religious organizations. Let us suppose that religious individuals prefer that a particular public good (education, social insurance, health care) is provided by the religious organization, which they perceive as being closer aligned to their ideal view of the world. Then, intuitively, if more citizens become religious (for some exogenous reason), and the government's policy reflects an aggregation of individual policy preferences, we should observe a reduction in the size of the government's provision of these services. Similarly, if the size of the public sector falls exogenously, the gap in the provision of these services should be filled by religious organizations. [Hungerman \(2005\)](#) tests this latter hypothesis, using a panel dataset of the American Presbyterian Church congregations. His econometric model posits church-member donations and a church's community spending as a function of a set of characteristics and government welfare expenditures. The 1996 reform of the welfare system decreased the availability and use of welfare services by non-US citizens. The author exploits this reform to identify the causal effect of variation in government spending on church activity. He finds that church activities serve as a substitute for government programs. Quantitatively, the average 'crowd-out' is 20–38 cents on the dollar. In other words, the crowding-out is far from being complete: the net effect of a reduction of government services is still quite large. Thus, religious organizations respond to variations in government provision of public goods, but do not substitute its functions fully.

A subsequent study ([Hungerman, 2009](#)) analyzes how the crowding-out effect of religious public-good provision (by government intervention) depends on one key characteristic of the community: its racial diversity. The identification strategy is to exploit

the Supreme Court-mandated 1991 expansion of the Supplemental Security Income (SSI) program spending. This is a national, means-tested program for blind, elderly, and disabled individuals. Using a dataset of United Methodist churches from 1984 to 2000, the author finds that the expansion of SSI crowded out charitable spending by churches on average, but the effect comes almost entirely from the relatively homogeneous communities; there is basically no crowding-out in racially diverse communities.

Two further studies exploit a variation in policies that affect the opportunity cost of religious participation, and compare the outcomes and are thus able to construct more convincing 'control' groups. Gruber and Hungerman (2008) study the effect of religiosity on crime and risky behavior. They use a policy-driven change in the opportunity cost of religious participation based on US state laws that ban retail activity on Sunday (the so-called 'blue laws'). Several states have repealed these laws recently. Such a repeal constitutes, from the authors' point of view, an exogenous increase in the opportunity cost of religious participation. Indeed, they find that when a state repeals its 'blue laws', this causes a decrease in religious attendance, church donations, and church spending. The implication of this exogenous fall in religiosity (using the data from the US National Longitudinal Survey of Youth) is an increase in drinking and drug use. This effect comes only from the initially religious individuals who were affected by the 'blue laws'. The size of the effect is quite large: the gap in heavy drinking between religious and non-religious citizens reduces by half after the 'blue laws' are repealed.

Using a similar identification strategy, Gerber et al. (2010) study the causal effect of religiosity on political participation (turnout). It is well known that citizens with regular attendance at religious services are more likely to vote; however, it is more difficult to establish a causal link, given the possible existence of some unobservable individual-level factors that simultaneously affect political participation decision and religiosity. The authors use the repeal of the 'blue laws' to measure the effects of an exogenous variation in religious attendance on political participation. They find that the repeal of 'blue laws' causes a 5% decrease in church attendance, which then causes a drop in voter turnout by about 1 percentage point, which is, quantitatively speaking, a considerable effect.

A theoretical analysis by Scheve and Stasavage (2006) indicates, however, that the empirical studies of the crowding-out between state and religion have to face an additional difficulty. This is because of the feedback effects that exist between religiosity and policy, as noted above. If religion and welfare state spending are substitute mechanisms that insure individuals against adverse life events, then individuals who are religious prefer lower levels of social insurance as compared to their secular counterparts. To the extent that policy outcomes reflect individual preferences, countries with higher levels of religiosity should have lower levels of welfare state spending. If, however, benefits from religion generate a network externality (one gets a greater pleasure from religion when others are also religious), multiple equilibria and path dependence emerge: communities that are similar in terms of underlying

initial conditions can exhibit very different patterns and trajectories with respect to religion and social insurance. The authors then empirically test their predictions using individual-level data on religiosity, individual-level data on social insurance preferences, and cross-country data on social spending outcomes, and find support for their theoretical bifurcation hypothesis.

### 21.2.2 International Evidence

During recent decades, there has been a flurry of papers attempting to measure the effect of religious beliefs and participation in religious activities on attitudes towards various aspects of economic and social life (saving, work, honesty, free-riding, time preference) using individual-level cross-country data. This surge of research is in part explained by availability of data contained in the World Values Surveys (WVSs), carried out in five waves in more than 70 countries, and providing a wealth of information on a broad range of topics such as work, family, gender, politics, religion, democracy, and the environment. To offer an exhaustive review of the studies based on the data is clearly beyond the scope of this chapter. Moreover, because most of the data are vulnerable to the criticism that potential endogeneity problems are not adequately addressed, we do not know to what extent the results are reliable. We have therefore chosen to focus on a small set of research works that are more carefully designed and meet the current methodological standards required by the economics profession.

Perhaps the most well-known study that uses this data is by [Guiso et al. \(2003\)](#), in which the authors address two major questions. (i) Are the effects of religiosity on behavior consistent across different religions? (ii) To what extent do these effects change with the intensity of religious beliefs that individuals hold? The authors use three waves of the WVS that contain representative population samples in 66 countries (developing and developed) in the period from 1981 to 1997. Given that this survey only investigated values and beliefs that interviewees held, the study concentrates on the effect of religion and religiosity on attitudes, and not on behavioral choices.

The authors analyze the effect of the religiosity of an individual (whether one declares belonging to some religious denomination or not), the intensity of one's religious beliefs (as measured by religious upbringing and by the intensity of attendance of religious services), and to which denomination one belongs, on six broad categories of attitudes related to economic behavior, growth, and development. These categories include attitudes towards cooperation, government, women, legal rules, the market economy and its performance, and thriftiness. The authors account for the possible existence of country-specific unobservable factors that correlate with both religion/religiosity and attitudes by adding as controls country-fixed effects, and for the individual-level characteristics that can affect simultaneously the religiosity and attitudes – by adding a set of individual observable characteristics (health status, age, gender, education, incomes, and perceived social status).

The study finds a rich set of interesting associations. First, on average, religious beliefs are associated with economic attitudes conducive to higher *per capita* income and growth. In particular, religious individuals (as compared to atheists) declare to have more trust in others, in their governments and in the legal system, to be less willing to break the law, and to hold stronger beliefs about the fairness of market outcomes. However, religious people tend to be less tolerant overall and less favorable towards an active economic role of women. Second, the intensity of religiosity and religious upbringing matters for attitudes, but in an asymmetric way. In particular, trust in others correlates with the intensity of religious participation, but not with religious upbringing. On the contrary, intolerance towards immigrants and aversion towards the active economic role of women is associated only with religious upbringing (and not with the intensity of religious participation). Both the intensity of religious participation and religious upbringing are correlated with trust in government.

Third, the effects found differ substantially across religious denominations. Participation in religious activities correlates positively with trust only among Christians (the effect is stronger for Protestants than for Catholics). Religiosity and intolerance are correlated for all the denominations, but the strength of the relationship differs. Hindus and Muslims are the least tolerant towards immigrants and other races, followed by Christians (point estimates for Catholics and Protestants are almost identical), whereas for Buddhists religiosity implies more tolerance (as compared to non-religious people). Religions differ strongly also with respect to the attitude towards private ownership. Catholics support private ownership much stronger than Protestants. Muslims and Hindus are strongly opposed to competition. Most religious people (except Buddhists) tend to believe that poverty is caused more by laziness than by bad luck.

This study also finds that Protestants are the only religious group that favors high-powered economic incentives. This goes in line with the 'work ethic' argument of Max Weber. Interestingly, however, [Arrunada \(2010\)](#) qualifies this result by developing two hypotheses about economically relevant values of Christian believers, according to which Protestants should work more and more effectively, as in the Weberian 'work ethic' argument, or display a stronger 'social ethic' that would lead them to monitor each other's conduct, support political and legal institutions, and hold more homogeneous values. Using data from the 1998 religion module of the International Social Survey Programme, the author then conducts a horse-race test between these competing hypotheses. He finds substantial support for the 'social ethic' hypothesis, but no support for the 'work ethic' hypothesis. Protestantism therefore seems conducive to capitalist economic development, although not by the direct psychological route of the Weberian work ethic, but rather by promoting an alternative social ethic that facilitates impersonal trade.

Other attempts have been made to measure the impact of religion on performances that matter for growth and development. On the whole, these cross-country regressions

lead to the conclusion that religion does, indeed, affect growth or growth-related performances. For example, [La Porta et al. \(1997\)](#) found that countries with more dominant hierarchical religions (Catholicism, Orthodox Christianity, and Islam) ‘have less efficient judiciaries, greater corruption, lower-quality bureaucracies, higher rates of tax evasion, lower rates of participation in civic activities and professional associations, a lower level of importance of large firms in the economy, inferior infrastructures, and higher inflation’ (pp. 336–337). [Barro and McCleary \(2003\)](#) find that Hinduism, Islam, Orthodox Christianity, and Protestantism appear to be negatively associated with *per capita* income growth, relative to Catholicism, while [Sala-i-Martin et al. \(2004\)](#), who use a larger sample, find the opposite result that Islam is a positive (rather than a negative) correlate of growth. [Noland \(2008\)](#) also confirms this finding: for him, the proposition that Islam is inimical to growth is not supported by data. If anything, the effect is positive rather than negative (at least when the sample consists only of developing countries). As for [Pryor \(2006\)](#), he reaches the conclusion that no special Islamic economic system can be isolated on the basis of a cluster analysis and data on 44 economic institutions used to define economic systems. Moreover, the share of Muslims in the population is unrelated to the presence or absence of most particular economic institutions and, when the sample is limited to developing countries from which Muslim countries that are too small or too rich (based on oil resources) are excluded, this share does not explain variations in economic growth performance. In short, the null hypothesis that religious affiliation is uncorrelated with such performances can frequently be rejected (i.e. religion matters), yet the regressions do not yield any robust pattern of coefficients with respect to particular religions and sample sizes.

### 21.2.3 Evidence from Developing Countries and History

The above studies have one important limitation: they do not take sufficiently into account the context around the religion and economic behavior. This is important, because it is likely that religion and religiosity interact in a complex way with the economic and political environment surrounding it. Thus, the above findings should be qualified by more in-depth within-country studies. This subsection turns to the studies focusing on specific historical and developing-country contexts. Their number is still small (but growing); however, we feel that this is where most progress in the future is likely to come from.

[Chen \(2010\)](#) studies a question similar to that of [Dehejia et al. \(2007\)](#) in the previous subsection, but in the setting of Indonesia at the aftermath of the financial crisis of 1997–1998. He uses the sharp variation in relative prices induced by the financial crisis to identify a causal link between economic distress and religious activity of individuals (measured by the study of the Quran and Islamic school attendance). He finds that religious institutions smooth consumption shocks, both across and within households. The effect is most pronounced for those individuals who were less religious before the crisis.

[Clingingsmith et al. \(2009\)](#) study the causal effect of participating in an important religious mass activity (pilgrimage to Mecca) on individual attitudes. The fundamental issue in such studies is how to overcome the problem of omitted variables: an unobservable individual characteristic that can simultaneously influence the likelihood of participating in the religious activity and the declared attitude. The study solves this problem by comparing successful and unsuccessful applicants in a lottery used by Pakistan to allocate Hajj visas. The authors find that participation in the Hajj induces the participants to become more 'globalized' in their practices: participants increasingly observe global Muslim practices (prayer and fasting), and decrease their participation in localized practices and beliefs (e.g. use of amulets and dowry). Regarding the causal effect on social attitudes, the study finds that participation in pilgrimage increases belief in equality and harmony among ethnic groups, and also implies a more favorable attitude toward women (e.g. a greater acceptance of female education and female participation in the labor market). Crucially, increased identification with the Islamic world as a whole does not seem to be accompanied by hostility toward non-Muslims. On the contrary, participation increases belief in peace among adherents of different religions. The authors suggest that these changes are likely due to exposure to and interaction with Hajjis from around the world, rather than to a changed social role of pilgrims upon return.

Two studies from economic history address the effect of religiosity (in Judaism) on accumulation of human capital. [Botticini and Eckstein \(2005\)](#) argue that while before the eighth and ninth centuries AD, most Jews were farmers (like the rest of the population), with the establishment of the Muslim Empire, Jews massively entered urban occupations. This was voluntary, as there were no restrictions that prohibited Jews from remaining in agriculture. This, however, led to persistence in occupational selection. The authors argue that this transition away from agriculture into crafts and trade was the outcome of their widespread literacy prompted by a religious and educational reform in Judaism in the first and second centuries AD, which gave them a comparative advantage in urban, high-skill occupations. In a subsequent paper, [Botticini and Eckstein \(2007\)](#) present large convincing evidence supporting a theory that it was the Jewish religious norm requiring fathers to educate their sons that had a major influence on this persistence dynamics.

[Cantoni \(2010\)](#) provides another contribution from economic history, aiming at using micro-econometric evidence to test the Weberian hypothesis that Protestantism favored economic development. To do so, the author constructs a novel dataset on German cities (272 cities in the period 1300–1900), exploiting the fact that German cities had substantial religious heterogeneity, but also remained quite stable in terms of denominational affiliations until the nineteenth century. Using population figures, the paper finds no effect of Protestantism on economic growth. This finding is robust to the inclusion of several controls and does not appear to depend on data selection or small sample size. In addition, Protestantism has no effect when interacted with other likely determinants of economic development.

### 21.2.4 The Effect of Religion-Driven Institutions and Laws on Economic and Political Performances

We have so far looked at works aimed at empirically estimating the influence of religious affiliation on individual behavior and choices. As seen above, the type or direction of religious influence is often traced back to some norms or principles espoused by a particular religion and possibly embedded in sacred texts, or to some characteristics of its institutional setting, such as the more or less hierarchical structure of the religious establishment. In this subsection, we turn our attention to scholarly works interested in a deeper understanding of the way in which religion affects behavior through the channel of rules and institutions. Instead of assembling data and using them for empirical testing, these scholars concentrate their efforts on highlighting broad historical processes on the basis of some hypothesized effect of institutions driven by religion on economic and political performances. Two such attempts are presented below.

The first one, expounded in numerous books and articles, is the institutional explanation offered by Timur Kuran (an economist) of the long-run divergence between the West and the Middle East during modern times. As it is rooted in some specific injunctions of Islam and their institutional consequences, the work of [Kuran](#) deserves special mention. The second attempt, pioneered by Jack Goody (an anthropologist), specifies several reasons why Christianity can be considered as a crucial factor behind the modern economic and political development of Western Europe. A flurry of books has recently appeared in the United States that push this line of investigation very far, picturing the Catholic church as the vanguard of modernity. This is epitomized by the titles of some of the books written by Rodney Stark, one of the most well-known American sociologists of religion, considered by Laurence Iannaccone to have revolutionized contemporary thought about religion and economics: *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success* ([Stark, 2005](#)) or *For the Glory of God: How Monotheism Led to Reformations, Science, Witch-Hunts, and the End of Slavery* ([Stark, 2003](#)); or by the title of Thomas Woods' book: *How the Catholic Church Built Western Civilization* ([Woods, 2005](#)). We now consider the two approaches successively.

#### 21.2.4.1 Kuran's Thesis – the Institutional Trap Inherited by the Middle East from the Islamic Law

According to [Kuran \(2011\)](#), 'every religion affects economic performance by helping to shape the legal framework for economic exchange' (p. 95). In the particular case of Islam, a direct consequence of the historical context in which it was born is that the Quran contains rules prescribing the rightful behavior to follow in a number of civil matters. In these matters that it addresses explicitly, the Quran carries an especially strong authority – a feature that is absent from Christianity, whose sacred texts are framed in general and allegorical terms. Kuran focuses attention on a number of central institutions born out of the classical Islamic system (whether based on the Quran or

not)<sup>1</sup> that had the effect of blocking critical institutional changes, including in modern Turkey: the Islamic law of commercial partnerships, which limited enterprise continuity and inter-generational persistence; the Islamic inheritance system, which encouraged wealth fragmentation and restrained capital accumulation by creating incentives for keeping partnerships small; the waqf system, which inhibited resource pooling; and Islam's traditional aversion to the concept of legal personhood, which hampered the emergence of private corporate organizations (Kuran, 1997, 1998, 2001, 2003, 2004a,b,d, 2005, 2006, 2011). Critical among these institutions is the inheritance system (based on the Quran), which prevented Islamic contract law evolving as it has done in Western Europe where people found it relatively easy to modify inheritance practices in response to changing needs (since the Bible did not prescribe rules for transferring wealth across generations).

As a result, a whole series of organizational changes that proved essential for the development of a modern economy did not arise in the Muslim lands. The fact that, from the late eighteenth century onward, indigenous Christians and Jews came increasingly to dominate the most lucrative sectors of the Middle Eastern economy bears witness to the adverse role of Islamic institutions since, unlike Muslims, members of these minorities were free to choose their legal system (Kuran, 2004c; Goffman, 2002, p. 73). At the start of the twentieth century, as a result, almost all large commercial enterprises in the Middle East were owned by either foreigners or local religious minorities (Kuran, 2004b,c). The example of Turkey is particularly interesting because Islamic law was abrogated there when the Young Turks seized power from the Ottomans and accelerated the country's move along the Westernizing secular path. It thus shows that the lingering effect of erstwhile Islamic institutions inspired by the sharia rather than the Islamic law itself may be the real stumbling block on the way to modern economic growth. In this way, institutions that were adapted to the ruling economic conditions at the time of their emergence have proven a barrier at a more advanced stage of economic development, when Western societies had undergone basic transformations (Jones, 1981; Landes, 1998; Kuran, 2004b; Greif, 2006).

Recently, Lydon (2009) has lent further support to Kuran's thesis by arguing that a basic flaw in Islamic legal systems lay in their failure to invest paperwork with legal personality. Paradoxically, while Quranic verses placed great emphasis on the importance of writing and documenting credit transactions, written documents such as debt contracts and even fatwas had no value in and of themselves, and could not therefore be used as legal evidence in a court of law. This lack of faith in paper stemmed from the belief that documents can easily be tampered with or simply forged, whereas oral

<sup>1</sup> As noted by Kuran, the central economic institutions of the Middle East evolved over the three centuries following the 'age of felicity' (the period of Muhammad and his first four successors). They were firmly in place around 1000 and persisted until to the nineteenth century (Kuran, 2004b, p. 72).

testimonies given under an oath by witnesses are quite reliable. This limitation constituted a serious obstacle to the modern development of Muslim economies because it inhibited the growth of ‘paper companies’, such as joint-stock companies or corporations as well as the development of complex large-scale enterprises in commerce, industry, and the key sector of banking.

Adverse effects of Islamic core institutions were not limited to the economic domain, but also reached into the political sphere. In particular, the legacy of traditional Islamic law prevented the emergence of a civil society able to push reforms and confront the state. According to Kuran, there are two main channels through which Islam exerted its adverse influence on political freedom. For one thing, because the institution of the waqf benefited the economic elite (since they could thereby protect their wealth), it discouraged them from demanding the constitutional enforcement of private property rights.<sup>2</sup> For another thing, by preventing the emergence of large commercial enterprises, Islam made potential opposition to autocratic rule more fragmented and less effective (Kuran, 2004b; 2006). It is, therefore, no coincidence that the first parliament of the Middle East (the Ottoman parliament in Istanbul) was established only in 1876 and under Western influences (Kuran, 2004b).

It can be argued that, as economic and political reforms did not occur owing to the peculiar legacy of Islam modern values and ideas of the kind propounded by the European Enlightenment could not take strong root in most of the lands of Islam (with the exception of Turkey). True, by emphasizing the possibility of attaining the truth through the use of human reason as well as the need for liberty in the interpretation of the sharia,<sup>3</sup> a number of thinkers and philosophers of Islam have undoubtedly stridden along toward a kind of European Enlightenment – think of Rumi and Yünüs Emre (the Soufist Spinoza) in Turkey, Avicenna (Ibn Sina) and Sohrawardi in Persia, or Averroes (Ibn Rushd) in Andalusia. Yet, even among progressive philosophers, the ultimate reference to God and the divine world has never been abandoned,<sup>4</sup> and, in any event, the momentum that they initiated was not strong enough to alter in a durable manner the traditionalist perceptions about the role of religion in social and political life.

The number of Islamic prescriptions to which Kuran’s thesis applies is obviously restricted and the aforementioned list of examples is exhaustive. Thus, Rodinson (1966) has dealt extensively with the case of the interest rate and argues that Islamic

<sup>2</sup> According to Kuran, the institution of the waqf itself was conceived as a device to shelter personal assets and enhance the material security of the high officials: it actually represented ‘an implicit bargain between rulers and their wealthy subjects’ (Kuran, 2006, pp. 799–802).

<sup>3</sup> Averroes thus believed that not all the words of the Quran should be taken literally: ‘When the literal meaning of Quranic verses appeared to contradict the truths to which philosophers arrived by the exercise of reason, those verses needed to be interpreted metaphorically’ (Hourani, 1991, p. 175).

<sup>4</sup> For Averroes, for example, there is no incompatibility between faith and human reason, the latter remains inspired by God.

prohibitions in this matter have always been circumvented: interests were usually charged under forms considered legitimate, such as commissions or salaries (pp. 179–200). If the argument is historically correct, the example is perhaps ill-chosen because Islamic law does not prescribe a penalty for dealing in interest and because, as pointed out by Rodinson himself, it aims at curbing excessive interest rates rather than prohibiting the practice altogether (p. 189). In fact, the claim that Islam categorically prohibits all interest, regardless of form, purpose, or magnitude, on the ground that it violates a sacred Islamic command, has encountered strong resistance from the earliest days of Islam, and in all large communities Muslims have never stopped dealing in interest.<sup>5</sup> In this, they were aided by the jurists of Islam who devised, as in European territories under Christian rule, stratagems that allowed people to circumvent Islam's presumed interest ban without violating its letter (Kuran, 2004b).<sup>6</sup>

To take another example, the legal status of documents and written pieces of evidence does not seem to have been low at all times and places in the Middle East. Thus, in Egypt during the late Mamluk period, deeds regarding loans, credit, partnerships, deposits, and transactions for goods of various kinds were regularly recorded in court registers, implying that merchants could afford guarantees and did not have to simply depend on the other party's good faith. Moreover, the court documents issued in one city were recognized in the other cities so that a person in Cairo, for instance, could record a sale for a house owned in Damascus, Jerusalem, or Jedda (Hanna, 1998, pp. 50–51, 67–69).

The most substantial question that can be addressed to the pioneering work of Kuran, though, is whether Islamic law is an ultimate or a proximate barrier to economic and political development. In other words, does it constitute the key binding constraint to development, or is its enforcement influenced by the broader institutional environment? The point can thus be made that Islamic law is not necessarily strictly enforced and that the extent to which it is taken seriously itself depends on political forces that shape the 'enforcement environment'. If true, that would

<sup>5</sup> In Iran, for instance, around 1850 interest rates averaged 12.50%, but could vary between 18% and 30% when money became scarce (Issawi, 1971). Under the Safavids, the ulamas (Islamic scholars) themselves developed various subterfuges to make commercial habits compatible with Islamic precepts, particularly in the matter of interest rates (Floor, 2000).

<sup>6</sup> Revealingly, it is only with the present-day radicalization of Islam that we observe an energetic campaign against conventional banking in countries formally committed to Islamization (Kuran, 2004a, p. 122). In these countries, indeed, Islamic banks have emerged through efforts aiming at differentiating the 'Islamic way of life' from other lifestyles, particularly from those identified with the West. Muslim piety is thus increasingly regarded as involving the shunning of interest. It bears noticing that, in countries where Islamic banks coexist with conventional banks, and where people have the freedom to choose between them, only a minority of the Muslim population maintains accounts at Islamic banks: the market share of the latter is a tiny 1% (Kuran, 2004a, p. 123).

mean that the religious law is not any more exceptional than secular laws (Platteau, 2008, 2011; Malik, 2012). We will return to that critical dimension of the issue in Section 21.5.

Note that Kuran admits that Islamic laws are sometimes circumvented and changes are brought through essentially illegal practices. He nevertheless insists that pressures for fundamental institutional reform are thereby reduced and vast constituencies with a vested interest in the *status quo* generated (Kuran, 2003, 2004b). For example, centuries of efforts to overcome the inflexibility of institutions such as the waqf system have bred a culture of corruption and nepotism in state circles. This, in conjunction with the deep-rooted habit of personalizing exchanges and attributing responsibility for an adverse externality to a natural person or group rather than to a legal person, makes the establishment of the rule of law such a hard challenge in the Middle East today (Kuran, 2004b).

#### **21.2.4.2 Goody's Thesis – the Critical Role of Family Reforms in Western Europe**

An important strand of the literature traces the origin of economic individualism and freedom back to reforms in the family brought by Pope Gregory I in the late sixth century. The central idea is that, for self-interested motives, the Catholic church played a crucial role in overturning the Eurasian marriage and inheritance patterns in Western Europe. Characterized by love rather than arranged marriages, the freedom of the testator rather than kin-directed inheritance rules, the employment of the unmarried outside rather than within households, and the fission of households on marriage of the children, the new European system not only promoted personal choice and economic initiative, but it also emphasized contractual rather than affective relationships (e.g. in matters of care for the old) and allowed the couple to control their fertility (essentially through postponing the marriage) (Goody, 1983, Chapter 6).

Following the rise of the nuclear family – ‘a small group of lineal descendants, with women and children as important members, each with their own individual rights, depending upon sex and age’ (Goody, 1983, p. 155) – some economic surplus could be made available for investment instead of being eaten up by population growth. Of course, such dramatic changes would take time to yield perceptible effects. For example, Stone (1979) argues that the decline in both kinship and clientelist relations among the British aristocracy and greater gentry really occurred in the period 1500–1750 and not before (Stone, 1979, Chapter 4). The same applies to the concept of kin responsibility for individual crimes and actions: till the advent of this period, the blood feud and the vendetta were more important as law enforcement agencies than the royal writ and the royal law courts (Stone, 1979, p. 95). The key point nonetheless remains that Western Europe had embarked upon a different evolutionary trajectory than the rest of the world once the traditional patterns of marriage and inheritance were questioned in the early seventh century.

How did Gregory I spark off such a momentous institutional change? The answer lies in papal injunctions that owed ‘little to Scripture, Roman law, or the existing customs in the old or new areas colonized by the Christian church’. These injunctions rejected practices of heirship, such as inheritance of familial property, the provision of an heir (possibly through adoption), and the maintaining of social status in an advanced agricultural society (Lal, 1998, p. 83). As pointed out by Goody (1983, p. 45), the prohibition of kin marriage, the discouraging of adoption practices, the condemnation of polygyny, concubinage, divorce, and remarriage had the effect of depriving many families of immediate male heirs. The church’s attitude was self-interested insofar as by defending the right of women to control or inherit a portion of their husband’s property, it became ‘a natural candidate for their bequests’. The church did not only profit from widows. Indeed, by exalting virginity it also contributed to creating a sizeable class of female faithful without any family of their own, but endowed with properties inherited from their fathers and mothers (Lane-Fox, 1988, p. 311, quoted from Lal, 1998, pp. 84–85).

The second papal revolution was instigated by Pope Gregory VII in the eleventh century to counter the attacks against the enormous accumulation of property by the church. His reforms, which included the enforcement of celibacy of the clergy and the strengthening of the prohibitions on marriage,<sup>7</sup> were aimed at securing the maximum amount of property for the church (Goody, 1983, p. 118). They were also accompanied by efforts to create modern legal institutions since it was at that time that the Roman church transformed itself into a church-state, a law-state, and a bureaucratic apparatus that came to form the first modern Western system of government and law (Lal, 1998, p. 82). In particular, as the first systematic body of law in medieval Europe, especially in such areas as marriage, property inheritance, and canon law it became the model for the various secular legal systems that would later emerge. Before the twelfth century, custom and kinship rather than statutory law ruled much of both ecclesiastical and secular domains, implying that collective rather than individual responsibility mattered. One of the main merits of the canon law is that, in the chaotic context that resulted from the barbaric invasion of the Roman empire, it restored the best of the Roman legal order, bringing forth the concept of free consent, and the necessity to prove guilt and innocence through rational rules of evidence rather than through magical tests such as the ordeal of the fire (Woods, 2005, pp. 189–197; Berman, 1983, pp. 179–195). Therefore, concludes Lal (1998, p. 94), the legal institutions that arose from the papal revolution of Gregory VII ‘have ultimately led to the European miracle’.

Such grand, mono-causal schemes of explanation from which multiple feedback loops are absent are obviously vulnerable to the critique of those who believe that institutional change is a multifaceted problem marred by fundamental endogeneity. Yet, it is

<sup>7</sup> The range of degrees of kinship between which marriages were forbidden was thus widened, while the severity with which the canonical rules were applied was simultaneously increased (Goody, 1983, p. 155).

worth noting that at the core of the process identified by Goody lies, the self-interested behavior of the authority of the Catholic church rather than the normative force of religious laws or tenets as emphasized by Kuran in the case of Islam. Moreover, the long-term consequences entailed by the Gregorian reforms, and their beneficial effects for economic and political development in Western Europe, were not in any way intended by the actors, but were the unintended outcome of decisions aimed at practical and short- or medium-term objectives.

The idea that Christianity helped to emancipate the individual from kinship ties has been recently taken up by [Greif and Tabellini \(2012\)](#) with a view to highlighting the origin of the long-run institutional divergence in social organization between Western Europe and China. According to them, religion (in particular, its norms concerning the strength of one's identification with blood-related versus proximity-related individuals) influences the mode of development of a country. They start with a well-documented fact that the locus of cooperation in China has been the clan (i.e. common descent), while in Western Europe, cooperation has been essentially organized within cities. They propose the following two-way explanation for these divergent trajectories. If people identify strongly with their clan or extended family, they will be intrinsically more motivated to abstain from behaving opportunistically towards members of the same clan. It is thus easier to enforce cooperation within the clan (than within the neighborhood/city): for instance, gains from specialization or scale economies can be exploited or valuable collective actions can be carried out within the clan. Furthermore, parents socialize their children into values similar to their own; thus, future generations are also likely to have clan-oriented identification. On the other hand, if people strongly identify with their co-citizens, they are intrinsically motivated to abstain from free-riding on their neighbors. The collective action is then organized around the city. These individuals (that the authors qualify as 'generalist-value') are more likely to have offspring socialized into similar values. Thus, in the long run, a society where the initial distribution of values is more skewed towards 'clannish' values is likely to have smaller (or less economically important) cities, informal enforcement institutions (enforcement within clan) tend to dominate, and the foundation of cooperation is the clan. A society with an identical initial situation except for the distribution of values (i.e. more skewed towards the 'generalist' values) is in the long run likely to have larger cities, be run essentially by formal institutions, and the city serves as the engine of long-run growth. The paper then provides rich historical and empirical (within-Europe) evidence for this bifurcation and the elements of this theoretical mechanism.

What is the role of religion? The authors argue that in medieval China, Confucianism placed strong emphasis on the predominance of loyalty towards one's kin over that towards the law. In contrast, in Western Europe, Christianity fostered the dissolution of kinship ties and emphasized generalized morality. On many accounts, medieval China and Europe were otherwise similar. Thus, these initial differences in moral values were driven by

religious factors, and – given the self-reinforcing mechanism described above – religion thus has played a key role in the long-run differences in social organization between China and Europe.

Finally, we need to stress that there exist alternative accounts that do not refer to religion at all to explain the leading role of Western Europe in modern economic growth. They are obviously beyond the scope of this chapter, yet one of them (Hartman, 2004, Chapter 3) deserves particular attention because it provides a completely different explanation than Goody for the transformation of the family system in Europe during modern times. According to Hartman, it is the scarcity of labor relative to land, caused by the plague, that was the key factor driving individualization of the Western European family. Lack of labor, indeed, led to the fragmentation of manorial estates and to the rise of wage labor, thereby affecting the link between marriage and land inheritance. Whereas before the plague sons received land from their father upon marriage, after the plague land access became so easy that possession of land was no more pre-conditioned on marriage. As a result of this new situation, the age at marriage increased, fertility declined through a Malthusian mechanism (preventive check), and capital accumulation accelerated. For Hartman, clearly, changes in the economic-demographic environment played a key role in inducing a shift from the early-marriage to the late-marriage model in North-Western Europe. Motivations essentially stayed unchanged. In her own words (Hartman, 2004, p. 82):

*The odd late-marriage model of family formation in North-Western Europe responded to the same concerns as the early-marriage one. Each enabled family households to ensure a labor supply for land they controlled, to help guarantee legitimate heirs, to manage intergenerational property transfers, to secure the care of elders, and to guard or enhance the social status of the new generation.*

### **21.3. THE ROLE OF RELIGION AS A RESPONSE TO MARKET OR STATE IMPERFECTIONS**

The previous section considered religion and religiosity as exogenous. Although it is true that religion is less of a choice (as compared to, for instance, individual consumption or labor supply), a critique might argue that adherence to and interpretation of religious dogmas can be a strategic choice. This section starts to consider this endogeneity problem: religion/beliefs are still taken as exogenous, but individuals can use religious beliefs as instruments/means towards their (economic) ends.

#### **21.3.1 Adoption of an Established Universal Religion as an Escape Strategy**

At the beginning of the growth process as they become exposed to new economic opportunities, people tend to live in close (traditional) communities where relationships among members are highly personalized and long-standing. Such a social

organization seems to provide the right setup for solving the contract enforcement problems that unavoidably arise when market exchanges develop. In game-theoretic terms, the traditional community is the functional equivalent of a game that is repeated indefinitely among players who are well informed about their respective actions and trust each other at the start of the play (Platteau, 2006). Since reputation effects act as a powerful disciplining mechanism, cooperation (honest behavior) in trade deals is possible.

In actual practice, things may not work out that way, however. The reason is not only that effectiveness of punishment and reputation mechanisms may be undermined or reduced by considerations of honor, social prestige, and hierarchy, but also that traditional communities may be governed by social norms and customs that discourage individual economic emancipation (Platteau and Abraham, 2002; Platteau, 2000, 2009, forthcoming). This is clearly the case in lineage-based societies where moral and social proscriptions against self-enrichment are typically pervasive, and often accompanied by redistributive pressures enjoining successful individuals to share their surplus with kith and kin. Backed by strong sanctions and witchcraft beliefs, these pressures aim at sustaining a rough egalitarianism or a given distribution of ranks and status. One important strategy adopted by dynamic individuals to escape redistributive pressures consists of estranging themselves from their indigenous community on the spiritual rather than the physical level. They become 'native outsiders' by converting to a monotheistic religion (e.g. Islam or Christianity). The underlying mechanism is situated on the plane of a contest between two kinds of spiritual forces – those belonging to the world of ancestors' spirits (animism) and those of the God of the Muslims or the Christians. This has been aptly and vividly described by Kennedy (1988, p. 142) in the following terms:

*... the conversion of some young entrepreneurs to the Islamic faith might follow a long period of psychological tension and physical illness induced by the possibility of conflict with the elders whose status and power were threatened by the younger men's activities. Such 'illness' could be diagnosed as caused by powerful Islamic spirits whose appeasement required nothing less than the religious conversion of those unfortunate enough to become possessed. Once this had occurred, the Islamic ban on the consumption of alcohol and certain foods, as well as the need to follow a partly separate ritual and social life, all provided the opportunity for entrepreneurs to reduce their level of involvement in traditional society. Yet this behaviour no longer incurred community displeasure since it was now judged to be religiously determined rather than the result of selfish individualism. At the same time, the converts were still reasonably close to community affairs and so could use their social connections with the elders in order to gain access to land, reliable information, business contracts and so on.*

The same mechanism is reported by a dynamic individual who had converted to the Pentecostal church in Burkina Faso. According to him, indeed: 'If people see that someone is going to fare better, they use magic tricks to kill him, and this is something that inhibits our development because jealousy is great ... there are those who

want to harm me, but I also know that, thanks to my love for God, they are made powerless since the power of God surpasses that of the evil local spirits' (Fancello, 2006, p. 124).

In the new spiritual community, emphasis is put on virtues of self-restraint and consumption moderation (e.g. abstaining from drinking alcohol and gambling), and on the need to concomitantly do away with traditional feasts where lavish expenditures on food, drinks, and other goods are the rule. Along the same line, converts are made immune to the demands of kinsmen, friends, and neighbors since their loyalty has shifted from the traditional community to a church association or a religious sodality of their own choice. The language of Pentecostalism is the most explicit in this regard: new converts are called 'newborn', implying that their social network and emotional commitment have been entirely redefined. In the words of Aboubacar Fofana, an influential reformist Muslim cleric of Côte d'Ivoire, 'what matters is not where an individual comes from, but what he or she does'. Muslim brotherhoods put emphasis on personal merits and engagement, not on social status and ethnic identity: they are based on elective membership (Miran, 2006, pp. 450, 472–473). Moreover, if the religious sodality or association serves as a business network, the convert enjoys the additional advantage of secure access to an effective contract enforcement mechanism. As a matter of fact, sharing the same faith ensures that people abide by the same codes of behavior, adopt the same rituals, and use the same language, resulting in a common identity grounded in the same symbolic universe. If the brotherhood is sufficiently small for information transmission to be effective, the mutual trust that it nurtures, and the repeated interaction framework that it provides, allows the members to solve numerous incentive problems (of both the moral hazard and adverse selection kinds) arising in commercial relationships. Furthermore, adherence to a common religion performs the function of signaling or identifying members: the major social function of Islam, wrote Austen (1987, p. 43), was 'to provide merchants with an identity which reinforced their occupational role'. The religious association thus works as a club: entry into it involves a fixed cost (the initial fee) under the form, useless for outsiders and therefore not transferable, of learning the language as well as the doctrine and the rituals. It replicates a gift exchange relationship by a group of agents, and is effective to the extent that any violation of the standard of behavior (honest trading) within the club is punished by the termination of club membership and the consequent loss of the fixed investment (Aoki, 2001, pp. 64–67).<sup>8</sup>

<sup>8</sup> Clearly, this (or a closely related) mechanism applies as well to religions other than Islam. Levy and Razin (forthcoming) show, in their study of Calvinism, that Calvinistic beliefs about predestination serve as an incentive for good works. If an individual learns about oneself by observing one's own actions, then good works serve as a double signal: towards oneself and towards others (as beliefs can create a social pressure to behave well, good works can signal to others that individuals belong to the 'elect' and are therefore likely to behave well in social interactions).

Examples of such religion-based clubs abound, especially in Muslim countries. The ‘trading diasporas’ of West Africa, which date back to the thirteenth and fourteenth centuries, are cases in point. An important feature of these networks was their openness to new entrants on the (obviously restrictive) condition that they shared or accepted the essential cultural requirements for participation in the moral community which distinguished the members from the host society: Islam and the appropriate trading language (Austin, 1993, p. 115). The adoption of Islam thus spurred the economic integration of West African regions and their integration into trans-Saharan trade, partly as a result of increasing safety of the caravans and smaller contract enforcement costs (Cohen, 1969, 1971; Hopkins, 1973, pp. 58–65; Levtzion, 1973; Brooks, 1993, p. 117). To enforce contracts and rules of commerce along the Juula and Hausa inland networks, as well as at the Sahelian entrepôts along the Niger bend, a parallel diaspora of clerical specialists, both judges (qadis) and legal scholars (muftis), was created (Lydon, 2009; see also Launay, 1992, p. 191 for the Dyula of Côte d’Ivoire).

Note that the appeal of rather puritanical versions of monotheistic religions in developing countries can be explained within the above framework. For example, in the towns of Maradi (Niger) and Koko (Nigeria), the main reason why the younger educated elite espouse a puritanical version of Islam (Wahhabism) that departs from the relatively tolerant forms represented by the Sufi orders is that they are attracted by its asceticism and its proclaimed rejection of any ostentatious redistribution of wealth. They want to set their members apart from the older Islamic community by rejecting the authority of local scholarly traditions, and adopting distinctive behaviors and rituals (Launay, 1992, pp. 104–131; Gregoire, 1993, pp. 109–110; Cooper, 1997, pp. 130–134).

The appeal of a strict Islam also seems to be strong for groups that were either excluded from the traditional sociopolitical structure or felt that their position in it was, on the whole, disadvantageous. For these groups, indeed, pure Islam ‘provided a means by which the legality of the traditional system might be challenged’, since this system could be shown to be ‘a denial of the essential brotherhood and equality of man, irrespective of his ethnic and social origins’ (Fage, 1995, p. 195). A striking illustration of the latter possibility is the rise of Wahhabism in Côte d’Ivoire, which occurred during a period of increasing disruption of the traditional society under conditions of fast-growing urbanization and migration movements after World War II. The Wahhabite doctrine attracted rich merchants whom it supplied with an ideology that was both anti-establishment and ‘bourgeois’. It was anti-establishment in the sense of being opposed to the feudal-like elite of the marabouts, who are at the heart of traditional Islam, but are viewed as impostors illegitimately interposing between God and the faithful, and it was ‘bourgeois’ in the sense of being emancipated from the constraints of the traditional aristocratic system (Miran, 2006, p. 250). It is true that its egalitarian discourse also appealed to low-caste people willing to liberate themselves from the yoke of the traditional system of hierarchy, but it is only in the 1980s that

Wahhabism started recruiting from the urban poor. For these poor, Wahhabism offered a partial response to their quest for social protection and spiritual advice in a context of urban economic precariousness (Miran, 2006, p. 285). What bears most emphasis is that behind the screen of religious antagonisms lay genuine social and political conflicts (Miran, 2006, p. 259, our translation):

*... the battleground was less religious and doctrinal than social and political. As a matter of fact, the recourse to the religious sphere through Wahhabite sectarianism allowed dissatisfied people to express differences that could not be overtly declared in the political realm. Accusations of intolerance, dogmatism and narrow-mindedness against the Wahhabites were therefore partly correct: since their separatism was grounded elsewhere, no discussion of a doctrinal nature was possible and no practical compromise could be reached with traditionalist Muslims.*

### 21.3.2 Religious Conversion as an Adaptive Strategy

Strategic choice of religion may not only consist of the adoption of an established universal religion by members of animist communities, but also in the conversion from one to another of these religions. Perhaps the most striking illustration of such a possibility is provided by the conversion into Protestantism of many Catholic merchants and entrepreneurs from the Low Countries during the sixteenth and seventeenth centuries. The episode is especially instructive because it casts serious doubt on Max Weber's thesis according to which religion, under the form of Protestant Reformation, has played a primary role in sparking off capitalism in Western Europe.

There is solid evidence that it is to escape the oppressive climate of the Counter-Reformation in the Low Countries that dynamic people, merchants in particular, fled from southern areas (most notably from the city of Antwerp, in today's Belgium) to northern Calvinist-controlled areas (Murray, 1970; Stark, 2005, pp. 131–147; Szirmai, 2005, p. 490). When they had not done so before, a significant number of these migrants chose to convert to Protestantism in their new location. This sequence of events strongly suggests that, rather than being the driving force of capitalism as suggested by Max Weber (1930), the rise of Protestantism has been induced by emerging capitalist entrepreneurship. In other words, dynamic individuals did not become merchants or capitalist entrepreneurs because of their (Protestant) beliefs, but they instead adopted a religion that was compatible with their economic aspirations and their interests in particular historical circumstances. In the sharp words of Hicks (1969, p. 79): 'it was practice that made the [Protestant] Ethic, not the other way round'.

This direction of causality, Pettegree (2001) argues, is reflected in the fact that Luther's initial call for reform found a strong resonance in the provinces of the Low Countries – a region with 'proud and prosperous urban communities eager to sponsor a renovation of religious life'. In these provinces and in German-speaking areas, the articulate, highly literate populations welcomed the printed literature of

the Reformation, including Dutch translations of the Bible (Pettegree, 2001, p. 68). In a similar manner, after having acknowledged the strong relationship between Protestantism and literacy and book consumption (Protestantism was able to explain almost all of the difference in literacy between northwestern Europe and the rest of the subcontinent), van Zanden (2009, p. 195) draws attention to the endogeneity problem. It is not clear, indeed, that the Reformation constituted an external factor, an exogenous shock that caused literacy to improve dramatically. Evidence suggests that it can be considered as an endogenous response to particular circumstances. In particular, growing literacy at the grassroots level during the late medieval period might have created favorable conditions for the message of Luther and Calvin. Moreover, how can we account for the fact that Switzerland, a (partially) Protestant country that was a leading publisher during the sixteenth century, fell back dramatically during the next two centuries? Why is it that England (except the area of London), despite its comparatively high degree of urbanization and commercial development, remained a laggard in matters of literacy compared not only to Sweden, but also to Germany and the Low Countries (Todd, 1990, p. 138)?

Interestingly, Tawney (1987) himself was more inclined than Weber to reckon that the Reformation stimulated a movement already under way: were not the more highly developed districts those that gave most support to the Reformation, finding its creed more suitable to aggressive and progressive ways of life (Higgins, 1968, pp. 163–164)? Growing emphasis on the individual and individual liberties thus appears to have been the result, as much as the cause, of increasing economic liberalization. To the extent that economic liberalization and the rise of capitalism required the intervention of path-breaking innovators, the latter seem to have been supplied by migrant minority groups with very different religious backgrounds and a strong spirit of dissent (see, e.g. Meier and Baldwin, 1957, p. 168; Szirmai, 2005, p. 490; and Samuelsson, 1961, for a thorough critique of Weber). Perfectly in line with the above analysis is an analogue observation for Judaism. A powerful movement of Reform Judaism emerged at the turn of the nineteenth century in Germany. It followed the emancipation of Jews (partial or complete) in various parts of Europe and constituted a belated reaction to the Protestant Reformation (Lilla, 2007, pp. 234–250). Revealingly, it was driven at first by practical men rather than rabbis and intellectuals. According to Carvalho and Koyama (2012), the attractiveness of new economic opportunities prompted religious Jewish communities to relax practices, such as dietary laws and strict observance of Jewish holidays and the Sabbath, which inhibited economic and social interactions within the society in which they lived. Reform Judaism allowed urban and secularly educated Jews to maintain their religious and cultural identity while participating in social and economic spheres of activities previously reserved for Christians. As for intellectual leaders (e.g. Abraham Geiger and Hermann Cohen), their role was played out later when the need was felt to rethink

the religious foundations of Judaism in a way justifying the innovations that had taken place.<sup>9</sup>

In other areas where economic opportunities remained few, at least for members of Jewish communities, particularly in Eastern Europe and Russia, what dominated was an ultra-Orthodox reaction (the ‘Old Believers’ in Russia) that condemned innovations and imposed strict observance of religion-based prohibitions (see, e.g. [Kizenko, 2009](#)). Whereas Reform sought to change Jewish religious practice in order to adjust to changes in the outside world, ultra-Orthodoxy reformed Judaism with the purpose of isolating it from these changes. In other words, ultra-Orthodoxy was a form of cultural resistance emphasizing features that distinguished Jews from outsiders. In the theoretical model they use to explain the above facts, [Carvalho and Koyama \(2012\)](#) explicitly assume that the content of religion depends upon the economic environment. They thus conceive that the level of strictness in observance of religious rituals is set by religious leaders who face a tradeoff. By imposing strict rituals and thus ‘taxing’ outside activities, the leaders induce the members of the community to redirect effort toward production of the religious club good. Doing so, however, implies that monetary contributions to the community are foregone. When economic development proceeds slowly and outside economic opportunities are scarce, the gains to the religious authority associated with the strategy of ‘taxing’ participation in outside activities exceed the losses incurred as a result of reduced monetary contributions. Conversely, when economic development is rapid, the increased financial contributions from a richer congregation more than compensate for the lower levels of effort applied to the production of the club good.

### 21.3.3 The Strategic Use of Religious Symbols: The Wearing of the Veil

In the above discussion, we have focused attention on the endogenous choice of a particular type of religion by people who pursue certain objectives. Such an approach implies that people’s religious beliefs do not necessarily respond to purely emotional drives, but may be grounded in rational, selfish calculations. This is especially true of those who choose to convert into a new religion or to abandon animism for a monotheistic faith. In the same line, in some recent literature, both economic and sociological, we find the idea that people may rationally choose to display religious symbols pertaining to a given religion regardless of the true nature of their deep beliefs. Thus, educated and urbanized women wearing the Islamic veil may do so as a manner of escaping

<sup>9</sup> Thus, Hermann Cohen wrote that ‘Love of our country is a necessary corollary of the idea of the messianic God ... For messianic mankind by no means implies a disintegration of all nations, but rather their unification in a spirit of morality ... It is the duty of any Jew to help bring about the messianic age by involving himself in the national life of his country ... Our state is our fatherland’ (cited from [Lilla, 2007, p. 241](#)). Cohen was not concerned that the religious passions traditionally associated with messianism, which resulted in so many heresies, false prophecies, massacres, and self-immolations, were still alive ([Lilla, 2007, p. 243](#)).

traditional norms that control their physical movements outside the family space. By manifesting their belief in a pure Islam, they claim the right to relate directly to God, so as to be dispensed with the need to follow repressive rules enforced by men in the name of Islam and thereby obtain access to public life: the wearing of the veil is ‘the sign of submission to God and not to men’ (Boubekeur, 2004, p. 151; see also Adelkhah, 1991; Göle, 1993). The very fact that the veil allows them to conceal more fully their body provides an astute rebuttal of the argument according to which women’s free movements in the outside space threaten the honor of the whole family. Carvalho (2013) offers us a slightly different argument that he elaborates theoretically: according to him, veiling is a commitment mechanism that Muslim women use to limit temptation to deviate from religious norms of behavior. The intuition is as follows. Women, particularly educated women with an urban, middle-class background, are eager to seize new economic opportunities available outside their own community. However, responding to these opportunities involves exposure to environments in which liberal mores and opportunities for religiously prohibited behavior prevail. This is a problem inasmuch as it may cause social disapproval within the women’s community. In order to avoid paying this social price of economic integration, women therefore opt for veiling, which is a costly commitment mechanism that reduces temptation to engage in religiously prohibited behavior. In other words, veiling is a protection that automatically guards women against the risk of indulging into improper behavior, such as getting mixed up in the alien (Western) culture.<sup>10</sup> When veiling is thus conceived as a strategy for integration that allows women to seize outside economic opportunities while preserving their reputation within the community or protecting the honor of their family, we become able to explain why the spread of (private) religious values have gained (public) expression through increasing veiling, not only among religious types, but also through increased pressure on secular types to veil. It is interesting to observe, in this respect, that in many countries the new veiling movement appears to have originated among urban, educated, middle-class women who work outside the home, that many veiled women are not members of a religious group, and that veiling does not seem to limit the time women spend on secular activities (Carvalho, 2013).

There exist other rationalistic accounts of veiling, yet they do not purport to explain the recent spread of the phenomenon, whether in the Middle East and Asia (e.g. Indonesia) or among the Muslim communities residing in Europe and North America. For example, a well-known explanation of the wearing of the veil is that it serves as a

<sup>10</sup> Incidentally, Carvalho shows that bans on veiling can be counter-productive by inhibiting social integration and increasing religiosity. This happens if the returns to education and formal employment are low relative to the personal and reputational costs of de veiling. In this case, a ban on veiling induces religious types to forego economic opportunities and segregate in their local community as a (costly) substitute for veiling. As a result, differences in behavior across types can be accentuated, causing returns to religious education to increase.

signaling device whereby a woman (possibly at the behest of her husband) manifests that she belongs to a rather high social class that dispenses her with the necessity to work. [Barfield \(2010, p. 202\)](#) explicitly refers to this motive in order to explain why the use of the full veil has become more widespread in the Afghan countryside during the recent decades. According to him, indeed, the veil is a social marker adopted by rural women because it had previously been a practice followed only by the urban upper class, whose women did not need to work.

This argument of the use of veiling as a mechanism to overcome information asymmetries is also related to some earlier work, in different contexts, in particular by [Iannaccone \(1992\)](#) and [Berman \(2000\)](#). [Iannaccone \(1992\)](#) poses the question why many religions and sects require its members to undertake rituals that involve substantial sacrifice. He argues that this has little to do with subjective belief, forced indoctrination, or irrationality. The fact these sacrifices seem aimed at destroying valuable resources is crucial: for the author, this can be reconciled with the observed continuing success of groups with such behavioral requirements and seemingly inefficient prohibitions. The explanation is as follows: religion is a club good that displays positive returns to ‘participatory crowding’. The collective character of religious activity implies a free-rider problem that is difficult to overcome by monitoring. However, the free-rider problem can be mitigated by the costly rituals that serve to screen out people whose participation would otherwise be low, while at the same time increasing participation among those who do join. As a consequence, the utility of group members can increase when apparently unproductive sacrifices are required. [Berman \(2000\)](#) uses a similar screening argument to explain why the Israeli ultra-Orthodox men who choose to study full-time in a yeshiva until age 40 choose yeshiva over work (and remain poor). He argues that yeshiva attendance signals commitment to the community, which provides mutual insurance to members. One consequence of the prohibitions is that while they strengthen communities by effectively taxing real wages, they also induce high fertility. The novelty of this paper with respect to [Iannaccone’s](#) argument is that it shows how a conventional rational choice model, augmented with social interactions and excludability, produces extremely large behavioral responses to interventions.

In a recent contribution, [Levy and Razin 2012a](#) analyze the relation between religious beliefs, religious participation, and social cooperation. They focus on religions that instill beliefs about the connection between rewards and punishments and social behavior. The paper asserts that religious organizations arise endogenously, analyze their effect on social interactions in society, and identify a spiritual as well as a material payoff for being religious. The main finding is that religious groups that are more demanding in their rituals are smaller, more cohesive, and are composed of individuals whose beliefs are more extreme.

In another paper, [Levy and Razin \(2012b\)](#) compare ritual-based religions to discipline-based ones, again exploiting the idea of religiosity as a social signal of cooperative

behavior in religious organizations. The model embeds a ritual-based religious organization in which signaling arises through the use of costly rituals and a discipline-based religious organization in which such signaling occurs through the monitoring of past behavior. The authors show that ritual-based religions, while using a costly and wasteful signal, also imply a higher level of coordination of behavior in social interactions and a higher incidence of mutual cooperation. The normative analysis in the paper suggests that communities are more likely to support a switch to a discipline-based religion if strategic complementarities are high and if there is a sufficiently high level of public information about social behavior. This accords with the success of Calvin's Reformation in Switzerland and France – a process characterized by the reduction of rituals along with the creation of institutions to monitor and publicize individuals' behavior, such as the Consistory.

#### **21.4. MARKET STRUCTURE MODELS: THE EFFECT OF COMPETITION ON RELIGION**

In this section, we discuss the literature that endogenizes religious beliefs and the contents of religious norms. The principal approach taken is that of industrial organization and, in particular, of spatial competition between religious denominations (or between a denomination and the secular state). Overall, this literature assumes that religious authorities act strategically and choose/influence the contents of the norms to maximize some objective function. However, if there is no monopoly denomination (either because of the technology or because of regulations on entry), the denominations have to compete with each other. Therefore, such analyses normally make predictions about the effect on the contents of religious norms of an exogenous change in the market structure. This literature is still quite small, but is growing rapidly. Instead of attempting to cover all the existing studies available, we have chosen to discuss the most salient contributions in detail.

##### **21.4.1 Spatial Competition Models**

The theoretical contributions differ by their basic assumption concerning the objective function of the religious denominations. [Pita Barros and Garoupa \(2002\)](#) construct a first minimalist model by assuming that a denomination maximizes the welfare of its members (i.e. the gains of individuals deciding to join the denomination minus their cost of joining it). The individuals are ordered in terms of their preferred strictness of the doctrinal position of the denomination. The denomination also provides a club good to its members, which gives rise to the choice of individuals about whether to join the church or to be secular. The choice of church strictness by (monopoly) church head then involves the following tradeoff: being stricter increases the welfare of some members (those with more conservative preferences), but it decreases the welfare of the

relatively more moderate individuals. When adherence to the church is not mandatory (which is modeled by the existence of the secular option with zero strictness), being stricter involves an additional loss, which comes from the most liberal individuals not joining the church altogether. An extension of the model also allows for the entry of a (conservative) sect. The model then delivers two interesting predictions: (i) the potential entry of and the competition with the conservative sect make the dominant (incumbent) denomination move in the more conservative direction; (ii) the competition with the secular state has two opposing effects: to avoid the loss of (more moderate) members, the church has the incentive to become more liberal; however, given that the adherence is not mandatory and some liberals leave the church, the median member is more conservative, hence the incentive to move in the more conservative direction. *A priori*, which of the two effects dominates is unclear.

Montgomery (2003) uses a similar modeling approach, but assumes that denominations compete first by entry (i.e. choosing a fixed position on the line) and then by deciding on the amount of effort to allocate to improve the appeal to potential adherents (e.g. by providing more services). Potential adherers differ both in terms of their preferred position on the line and in the overall degree of religiousness. They rationally decide whether to adhere to any denomination (i.e. whether, given the entry and effort choices of denominations, adhering to any one of them would provide a positive utility to the individual) and, if so, which denomination to join. The paper then investigates how the degree of inter-denominational competition affects overall religious participation, and shows that the sign of the relationship crucially depends on whether denominational effort choices are strategic complements or substitutes. The paper also builds a simple empirical analysis of the sign of this relationship, using data from counties in the United States. It finds that counties with more competitive religious markets tend to have lower overall religious participation.

One important shortcoming of these early models of competition in religious markets is that they do not take into account the key particularities of the type of the 'good' that is exchanged between a denomination and adherents. In other words, the models of product differentiation borrowed from industrial organization economics are applied in a somewhat 'off-the-shelf' manner. The more recent models tackle this weakness and qualify the earlier findings in an important way. Eswaran (2010) thus models both the behavior of adherents and denomination heads in a richer way. (i) He assumes that the denomination acts as a non-profit organization (i.e. is barred from distributing profits) and maximizes the piety of its adherents, subject to breaking even financially. (ii) The adherents decide on how much time to devote to religious activity (devoted time increases their piety) and on how much to donate to the organization. (iii) Denominations can influence the mix of time and money that adherents choose – an approach suggested long time ago by David Hume who pointed out that a clergy may have an incentive to distort the message of religion. This model is thus different from

standard club-good models, as it places the emphasis on the problem of moral hazard at the supply side of religion (rather than at the demand side, i.e. adherents). It analyzes how the content of the religious message depends on the intensity of market competition, in particular whether stronger competition improves or worsens the piety of adherents. There are arguably two opposed effects at work here: (i) the Smithian effect (the presence of competing denominations imposes a discipline on each denomination) and (ii) the Humean effect (given that religious denominations choose the spiritual content of their religious message, more intense competition can lead to a stronger distortion towards enhancing money donations rather than time). Thus, the model allows assessing theoretically the relative importance of the supply-side and the secularization theories.

McBride (2010) also builds a rich model of competition by analyzing how growth in incomes affects both the demand for religious services and their supply. (i) He establishes that economic growth can have several (and potentially opposed) effects on overall religiosity. In line with the supporters of the secularization theory, an increase in the return to secular activities (higher wages) induces individuals to prefer less strict denominations. However, given that denominations adjust their strictness strategically, so as to maximize affiliation rates, this demand-side effect can be mitigated. (ii) There is an effect of the increase in wage inequality on religious pluralism: there may be more individuals demanding high religious strictness. (iii) If growth in incomes increases the suppliers' opportunity cost of providing religious goods, this can lead to a decline in pluralism (driven by exit of some denominations), as well as improvements in the technology of providing religious benefits. Overall, the sign of the relationship between economic well-being and aggregate religiosity and pluralism is not clear, and depends on the relative strength of the above mechanisms. It would therefore be incorrect to conclude that the secularization channel always dominates.

#### 21.4.2 Empirical Evidence

On the empirical side, Hungerman (2011) criticizes the above literature focused on the strategic competition effects between denominations. He stresses that the heads of religious denominations (in the United States) express the feeling that they compete essentially with the secular world, rather than with other denominations. If this were generally true, the above models would have little relevance to the real-world phenomena. The data on the United States should be taken with caution, however, for two main reasons: (i) these findings may be less valid outside the United States and (ii) the historical evidence shows that the competition between denominations was clearly one of the main driving factors in the evolution of religious economies. Below, we discuss some of this literature in detail.

Barro and McCleary (2011) concentrate on two activities that the Catholic church has been carrying out, with a large temporal variation in frequency: beatification and canonization. While these activities increased enormously in frequency during the

papacy of John Paul II and Benedict XVI, it is interesting to study the evolution of beatification and canonization from the twelfth century onwards. The authors study the church's choices over time regarding the number and location of persons designated as blessed (based on residence at death). They find that beatification and canonization have become much more globalized over the last several decades, and have expanded substantially beyond Europe to Latin America, North America, Asia, and Africa. The authors link this pattern to the increasing competition that the Catholic church faces within Christianity from Protestantism and, more particularly, in recent decades from Evangelical or Pentecostal faiths. In other words, the Catholic church might be using saint-making as a strategic mechanism in order to invigorate local Catholic populations and thus discourage conversion into Protestantism. The paper then takes a historical view, and uses the data on beatification and canonization and regional populations by religion to assess how the competition between Catholicism and Protestantism in Europe evolved over the past several centuries. They find evidence of responses of beatification and canonization to Protestant or Evangelical competition in the period since roughly 1900, but not in earlier times.

Mochrie et al. (2012) look at the data from Scotland and exploit the historical episode that started in 1842, when the largest churches in Scotland entered into a dispute about state funding, which ended in the Disruption of 1885, and thus created a discontinuous change in religious market size. The authors use the data from 1032 local markets for religious services, and study the relationship between the number of denominations active in each market, market size, and religious affiliation (proxied by measures of attendance and voluntary congregational giving). They find that the relationship between the number of denominations and religious affiliation is positive, in line with the prediction of the model by Montgomery (2003) discussed above. However, the authors argue that this evidence is better explained by an alternative proposition, namely that, given the particular structure of markets and denominations, the number of denominations rises when the market size exogenously increases.

## 21.5. THE STATE AS A STRATEGIC ACTOR: A POLITICAL ECONOMICS APPROACH

In Section 21.3, we have seen that individuals may choose their religion, or change their religion, on the basis of considerations that can be explained rationally. In Section 21.4, the focus was placed on the role of competition between different churches and religious denominations, and therefore the possibility that an individual changes his or her religious affiliation within the framework of a given religion (e.g. Christianity). In this section, we again consider that religion may be chosen, and used, but this time it is a collective actor, the 'state', which is the intentional subject. In the following, we elaborate on two types of strategic use of religion by a state.

In the first instance, the political ruler adopts a particular religion for the purpose of nation-building and external positioning, while in the other instance religion is instrumentalized with a view to taming internal political opposition and consolidating authoritarianism.

## 21.5.1 Religion as a Supporting Ideology for Nation-Building<sup>11</sup>

### 21.5.1.1 *In the Christian world*

The role of religion as a supporting ideology for nation-building can be illustrated with reference to Christianity and Islam. Regarding the former, it is important to bear in mind that the division of Western Christendom into competing confessions, which was definitively sealed with the Council of Trent, created a highly explosive situation when it was combined with the emergence of political units resembling modern nation-states. In the sixteenth century all across Europe, religion and politics combined in such a way that ‘religious enemies, their hatred fanned by confessional ideology, became political enemies, and *vice versa*, as people at odds with one another for social or political reasons tended to choose opposing sides religiously as well .... Competitions for power, wealth, or land became cosmic struggles between the forces of God and Satan’ (Kaplan, 2007, p. 102). In such circumstances, rulers across Europe tended to choose among faiths and impose their choice on their subjects, thereby turning religious choice into an attribute of sovereignty. Modern European nations were thus ‘imagined communities’ in which civic and sacral allegiances had to largely coincide on the national or territorial level. They were built upon the principle that a crucial cement holding states together consisted of a shared religion, and that religious division undermined social and political unity, if only because religious dissenters were perceived as potential traitors. As kings strove for religious unity in their lands, regarding it as the foundation of political unity, they thus came to equate orthodoxy with obedience and religious dissent with rebellion (Kaplan, 2007, pp. 102–103).

As a result, politics became increasingly polarized along confessional lines and, by the early seventeenth century, the religious identity of most European states ‘had sunk roots deep enough that it could not be overturned’ (Kaplan, 2007, p. 122). As concluded by Pennington (1970, p. 135), ‘Whatever religious or material factors may have determined the original spread of the Reformation, the boundaries between Catholic and Protestant Europe were eventually drawn by political power’. The varieties of confessional Christianity had thus succeeded in supplying governments with official ideologies, and in providing large, geographically dispersed communities with common symbols and values that became a defining aspect of political identity. Those inhabitants who did not subscribe to the official creed and church of their polity could

<sup>11</sup> This section is heavily inspired by Platteau (2012), especially Chapters 2, 5, 6, and 7.

not claim all the privileges of full citizenship and against them the harshest regimes could bring the charge of treason when they felt threatened (Pennington, 1970, pp. 110, 114–115, 121–123, 136; see also Gunn, 1999). According to Kaplan (2007, p. 102) again, this ‘fusion of religious and political identity, piety, and patriotism’ was a great cause of religious intolerance in early modern Europe. Clearly, the Augsburg principle *cuius regio, eius religio* (‘whose realm, his religion’) had revealed its basic flaw: it was utterly dependent ‘on the whims of individual rulers and dynasties that had considerably more concerns than what denominations their subjects practiced’ (Naphy, 2007, p. 119).

Consider the case of Poland, where a tradition of religious tolerance had come to prevail even after many nobles converted to Calvinism from the middle of the sixteenth century. There, identification of the nation with Catholicism came only after the invasion of the Swedes around the middle of the following century. The conflict between the two countries did not begin as a religious war, yet it became one in due course. Resenting the Swedish occupation, the Poles began to recast the war in religious terms, viewing the struggle against the Protestant invaders as a war against heretics in defense of Catholicism (Kaplan, 2007, pp. 111–114; Naphy, 2007, pp. 106–109).

### 21.5.1.2 *In the Muslim world*

There is an obvious analogy between the ideological/religious polarization between Poland and Sweden, on the one hand, and that between Iran and Turkey, on the other hand. As a matter of fact, Shi’ism in its present form (Twelver Shi’ism, in particular) was largely conceived by the Safavid rulers as a convenient ideology of nation-building *vis-à-vis* the rival Ottoman Empire.<sup>12</sup> Originally a quietist Sunni order from Azerbaijan, the Safavids became militant warriors following a kind of Twelver Shi’ism in the mid-fifteenth century, after they travelled among the Anatolian nomadic tribes. Their brand of Shi’ism was radical, reminiscent of Shias of the earliest times: believing in divine reincarnation, they considered their leaders to be divine and their egalitarianism was strong (Keddie, 2003, pp. 10, 13).

Yet, soon after they took power in Tabriz, Safavid rulers began to moderate their views, turning their doctrine ‘from one suitable for popular, enthusiastic, egalitarian revolt and conquest into one suitable for stable, conservative rule’, and concomitantly ignoring their tribal followers, justifiably considered to be too anarchic (Keddie, 2003, p. 10). They decided to import some official Twelver theologians from nearby Arabic-speaking lands. Having few ties with the local population, and benefiting from the

<sup>12</sup> Twelver Shi’ism is one of the three different lines of Shi’ism that took shape under the Abbasids (749–1256), the other two lines being the Zaidis or ‘Fivers’ (who revere the fifth imam) and the Ismailis or ‘Seveners’. The Twelvers, who believe that the infant son of the eleventh imam went into ‘occultation’ in the ninth century, consider that there is no infallible interpreter of the twelfth imam’s will until he reappears as the Mahdi to institute the realm of perfection and justice (Keddie, 2003, p. 7).

financial and political largesse of the ruler, these learned men quickly became a strong pillar of political support for the new regime (Keddie, 2003, pp. 10–12, 15). As part of the official ideology, the Safavids cursed the first three caliphs considered holy by the Sunnis and they claimed descent from the Seventh imam, which gave them impeccable religious credentials (Keddie, 2003, pp. 13–15). As pointed out by Keddie (2003, p. 11), one of the main reasons why Ismail and his followers chose to cause a split between Sunnis and Twelver Shi'is was to endow Iran with a specific ideological distinction and national identity *vis-à-vis* its (Sunnī) military/political enemies, the Ottoman Empire and, for a time, the Central Asian Uzbeks. The consequences of this split between two main strands of Islam, now viewed by each other as heretics and enemies, have been carried over into the present time.

There is a striking parallel between Iran and Saudi Arabia to be drawn here. As a matter of fact, the puritanical Islamist movement created by Ibn al-Wahhab (1703–1792) was not important in his own time. Yet, because he was linked to the Seoud tribe that was striving to take hold of power by conquering the Arabian deserts, his doctrine was to gain wide significance much later and exert considerable effects on the Islamic world during the second half of the twentieth century. The Seouds, indeed, succeeded in uniting diverse tribal groups into a movement that eventually conquered most of Arabia and established the kingdom of Saudi Arabia in 1932. The Saudi royal family, which is essentially a secular polity, then co-opted a religious elite and used Islam in order to consolidate a Saudi national identity, and thereby reinforce its own legitimacy (Al-Rasheed, 1996, 2002, 2006; Nevo, 1998).

The case of Afghanistan is also inspiring. The first (internationally recognized) Afghan king, Emir Abdul Rahman Khan (1880–1901), worried about the threats to his central power coming from the main tribes of the country, constantly referred to Islam as a way to establish his authority and legitimize his power. In order to pacify the northern opposition and to extend his authority to the east and the center, and to overcome the profound sense of tribal identity among Afghan people, he took the title of 'Protector of the nation and of the religion' (Zia ul-millat wa ud-din), thus claiming spiritual leadership of the Afghan millat (a subdivision of the umma). Ruling by 'grace and will of Allah', he fulfilled the dual role of leader and interpreter of Islam and Islamic law (mujtahid). Ushering in the theory of the divine rights of kings for the first time in Afghan history, he enlisted high-ranking ulama in defense of the country and took various measures aimed at undermining the power of the ulama as a class. He also decided that he was the only person habilitated to declare the jihad, because he wanted to guard against the possibility of fatwas for jihad being issued by religious figures close to his enemies (Magnus and Naby, 2002, pp. 89–90; Rasanayagam, 2005, pp. 11–12). In his mind, it was the duty of all good Muslims to support their king in his efforts to unify and strengthen the country against the infidels. If he advocated the implementation of the sharia instead of tribal common law, he also attempted to integrate the clergy with

the secular institutions of state, much like the Safavids did in Iran (Roy, 1990, 1993, p. 493; Rasanayagam, 2005, p. 12; Barfield, 2010, p. 160).<sup>13</sup>

### 21.5.2 Instrumentalization of Religion by Authoritarian Rulers

Continuing to tell the story of Rahman serves the purpose of showing that Afghan rulers could use religion not only as a nation-building ideology, but also as a tool to justify tyrannical practices. Rahman actually became a ruthless despot over time and, if he stressed the pure Islamic character of the Afghan state, he created a fundamentally secular government that so dominated the religious establishment that Islamic clerics ‘were reduced to being either arms of the state or apologists for it’ (Barfield, 2010, pp. 155, 166). Appeal to a rather retrograde version of Islam (Rahman portrayed himself as ‘a paragon of Islamic leadership’ or ‘the light of the nation and religion’ chosen to defend the country’s integrity against attacks by infidels) was accompanied by a relentless use of sheer force so that, by the end of his reign, he had succeeded in creating a powerful police state that instilled ‘fear unmediated by affection’ in the population (Barfield, 2010, pp. 147, 151, 158, 174).

When economists address the issue of the sources of stability of authoritarian rule, they tend to stress the role of repression and the choice of the despot is depicted as that of finding the right tradeoff between repression policies and distribution of patronage aimed at enlisting the support of the people. Both strategies are costly and a mix-up of the two is an equilibrium solution if the two types of expenditures are decreasing in cost-effectiveness, at least beyond a point. We argue below that rulers have yet another strategy available to them – the seduction of religious clerics with a view to establishing and strengthening the legitimacy of the regime. This entails another type of expenditures in the form of salaries, perks, and privileges awarded to these clerics in exchange for their active support. At the interior equilibrium the ruler chooses positive amounts of repression expenditures, actual expenditures, or foregone incomes resulting from the distribution of patronage to the population, and positive expenditures aimed at buying the cooperation of religious authorities. Platteau and Sekeris (2012) present a model in which seduction of religious clerics by the autocratic ruler is an available strategy and the influence of these clerics on the legitimacy of the prevailing political system is specified as a function of the amount of material privileges awarded to them. They show that, when the seduction tactic is not too costly, a despot may more easily set his expenditure levels in such a way that the probability of people’s rebellion is zero (what they call the ‘repressive equilibrium’).

In the lands of Islam, there is a well-established tradition of submission of clerics to political rulers, even when the latter indulge in obvious abuses of power. This implies

<sup>13</sup> Along a slightly different line, Michalopoulos et al. (2012) argue that adoption of Islam has been historically stronger in areas plagued by deep social and economic inequalities that created a conflictual environment. According to them, this unstable situation justified the need for a creed that emphasizes equality, morality, and politically centralized societies.

that seduction of religious authorities to win their loyalty and legitimating support is not a too costly strategy. Therefore, rulers with an authoritarian bend can easily resort to such a strategy while simultaneously opting for a rather oppressive rule. Moreover, if we are out of equilibrium and political opposition mounts against the regime, one way for the ruling clique to silence this opposition consists of taking further steps to enlist the support of religious clerics.

The Ottoman Empire offers a good illustration of the aforementioned kind of religious/political equilibrium. Religious classes were a core member of the Ottoman nobility and a key element of the central and provincial administration. They were submitted to the power of the sultan, but obtained ample economic privileges in the form of lucrative functions, tax exemption, and religious endowments that controlled vast tracts of land. It is therefore not surprising that the ulama, especially those coming from religious families with long-standing honorable ancestries, competed for religious offices, titles, and tax farms (An-Na'im, 2008; Hourani, 1968; Hallaq, 2010; Malik, 2012).

As documented in detail by Platteau (2012), recent history offers us many striking examples (Egypt, Sudan, Algeria, Pakistan, Indonesia, and Iraq) showing that cynical political rulers, often with a secular background, use Islam as a readily available ideology and instrument of legitimacy to deflect criticisms, entrench their power and privileges, or bolster their nationalist credentials. They are thus able to escape the consequences of their misrule, which includes an almost complete absence of channels of communication between the rulers and the ruled, and to avoid the hard task of trying to understand the causes of their country's predicament and undertake the necessary reforms, or else quit power.

However, Platteau argues, political instrumentalization of religion is a dangerous game in the case of Islam, in particular. Indeed, if autocrats can refer to Islam as a justifying ideology and mobilize the active support of the religious establishment, political opponents to their misrule may also avail themselves of such a possibility. This is because in Islam there does not exist any centralized religious structure that can impose a discipline on all the faithful. While in the Catholic Church the right to excommunicate is monopolized by the Vatican, in the lands of Islam any judge can issue a fatwa against an individual, a group, or a political regime considered to be impious or infidel: 'the decision to oppose the state on the grounds that it is insufficiently Islamic belongs to anyone who wishes to exercise it' (Zakaria, 2003, pp. 124–125, 144). Fatwas are opinions or judgments that just carry the legitimacy of the ulama, or the group of ulamas, who issue them. They are thus not equivalent to enforceable (religious) laws, and their impact entirely depends on the number and prestige of the ulamas involved (Beloucif, 2003, p. 150).

Since Muslims can turn to preachers of their own choice, and these preachers are not subject to the rigid rulings of a priestly caste acting as the representative of God, the possibility of both anarchy and manipulation of religion by despotic rulers is clearly present in these contexts. While the ruler increasingly presents himself as the true

guardian of the faith with accounts to give only to God, the radical opposition portrays him as a decadent, impious, and sinful monarch who has strayed away from the true path of Islam. When both opposition groups and the state invoke Islam as the main justification for their actions, thus triggering a religious bidding war, an obscurantist deadlock is created in which all political opinions and judgments have to be expressed in the language of religion. Religious reference is used by rulers in self-defense, or as a counter-attack tactic, against opposition groups frustrated at the failures of corrupt, secretive, authoritarian, and ineffective states that did not deliver on what they promised.

In this more complex interpretative framework, religious actors are of two types: the religious establishment made up of clerics recruited into the state administration and granted special favors and privileges (the religious elite), on the one hand, and lower-level clerics with no official position (the religious counter-elite), on the other hand. Since the latter are not remunerated by the state, they are more prone to abide by their values and to support popular opposition against power abuses and political oppression. In the process, they typically adopt a puritanical interpretation of Islam to justify the revolt. In the formal framework of [Platteau and Sekeris \(2012\)](#), the simplest way of allowing for the action of lower-level clerics is the following. Consider that any further step taken by official clerics toward supporting and legitimizing the autocratic regime exposes them to more (risk of) protest and denial by non-official radicalizing clerics. As a consequence, they require a higher ‘wage’ from the ruler in order to lend him a given amount of political support. In other words, the cost for the ruler of enticing the official clerics to cooperate with him is higher in the presence of religious dissenters acting on the fringe of the official sphere. Under these conditions, the ruler is more likely to choose repression, patronage, and seduction levels that cause the probability of popular rebellion to be positive at equilibrium. When this outcome prevails, what we have is a politically unstable autocracy in which the ‘wage’ of the official clerics is low (and their support of the regime rather mild). If marginal religious clerics become more effective because of some exogenous factors (such as the diffusion of an Islamist ideology from Saudi Arabia), a shift from repressive to politically unstable autocracy may be observed. It bears noticing that politically unstable autocracies are less likely to emerge in the lands of Catholic or Eastern Christianity where a political ruler who wants to mobilize the faith must bargain and broker a deal with the church establishment represented by a well-identified leader. If the negotiation is brought to a successful conclusion, political instrumentalization of religion can yield a stable equilibrium ([Platteau, 2008, 2011, 2012](#)).<sup>14</sup> Thus, in sixteenth century Europe, even though central

<sup>14</sup> Note that other religions, particularly the North American brand of Protestantism, share with Islam the characteristic of having a decentralized authority structure. Revealingly, during the English civil war, political differences among various factions were typically expressed and legitimated within an exclusive religious discourse ([Hill, 1975](#)).

states were still in a nascent state of formation, bishops were typically royal and ecclesiastical administrators who followed the king's wishes (Koenigsberger et al., 1989, p. 290). It is true that the Catholic church, in medieval times particularly, was surrounded by heretic and dissident groups, yet the action of these groups did not amount to anything resembling a challenge to the ruling political order and even to the near monopoly of the Catholic church. This situation is quite different from that typically found in Muslim countries where the religious officialdom does not hold a genuine monopoly of the interpretation of the religious law and dissenting groups have a legitimate claim to their own views.<sup>15</sup>

An alternative (but possibly complementary) explanation of the political instability of Muslim countries has been proposed by Blaydes and Chaney (2011). The authors argue that the key reason behind Europe's exceptionalism in the modern period, particularly with respect to the Muslim world, lies in an event that took place before the early sixteenth century and caused a political divergence of the Christian and Muslim worlds. They notice that since the early eighth century Christian kings became increasingly long-lived compared to Muslim sultans – a political stability that they ascribe to the emergence of feudal institutions and the associated forms of executive constraint in Europe. While these feudal institutions served as the basis for military recruitment by European monarchs, Muslim sultans relied on Mamluks (i.e. the military slaves imported from non-Muslim lands). Dependence on Mamluks, rather than local elites, as the basis for military leadership had the effect of limiting the bargaining strength of local notables *vis-à-vis* the sultan, hindering the development of a productively adversarial relationship between ruler and local elites. According to Blaydes and Chaney, this difference may explain why the Glorious Revolution occurred in England, not Egypt.

In another paper, Chaney (2012) argues that the presence of a well-documented democracy deficit in Arab countries reflects the long-run influence of control structures developed under Islamic empires in the pre-modern era. His claim is based on the empirical finding that the percent of a country's landmass that was conquered by Arab armies following the death of the prophet Muhammad statistically accounts for this deficit. The mechanism behind the institutional persistence hypothesis in this case is the following: the historic division between the military (i.e. the sovereign backed by his army of slaves) and religious leaders contributed to create a situation in which both religious and military elites worked together to develop and perpetuate an abnormally autocratic political equilibrium. Elsewhere, Chaney (2011) also argues that this

<sup>15</sup> Interestingly, in the present debate about the change of constitution in Egypt, outstanding figures in al-Azhar University (the 1000-year-old seat of Muslim teaching in Cairo) have stated that it would be wrong to enshrine al-Azhar itself as the sole authority for interpreting the sharia (*The Economist*, 2012).

equilibrium, which evokes the repressive autocratic regime discussed by [Platteau and Sekeris \(2012\)](#), is more likely to occur when economic shocks hit the country.<sup>16</sup>

### 21.5.3 Islamic Law and Autocratic Rulers

How can we reconcile the above political economy approach with Kuran's thesis reviewed in [Section 21.2](#)? While the former stresses the possibility that political rulers instrumentalize religion to make it serve their own ends, the latter is based on the idea that Islamic law constrains the ruler and his subjects. Perhaps the key answer to that question is as follows: the interests of ruling elites are accommodated through a legal segmentation that delivers a politically expedient division of labor between laws that are enacted by the ruler and religious laws governing matters of minor importance ([Malik, 2012](#)). Since Islamic law is silent on constitutional and administrative matters, the ruler has ample room of maneuver to impose his will on issues that critically matter to him. Thus, although their declared policy was to implement the system of religious law elaborated by the ulama, the Abbasid rulers were never prepared to grant independence to the religious courts. Despite their self-posturing as servants of the sharia, they were used to issue peremptory directives to the judiciary, and to reverse whatever decision displeased them, and arbitrarily dismiss those judges who had dared to confront them ([Coulson, 1964, pp. 121–123](#)). This is a general feature of Islamic history: being in a subordinate position, the Islamic judges were never able to deal effectively with claims directed against a high official of the state.

Islamic inheritance law appears to be quite constraining since it is precisely stated in a number of verses of the Quran. However, in the Ottoman Empire, for example, it did not apply to land and, although usufruct rights could be inherited, they were governed by the Ottoman Land Code rather than the sharia ([Sait and Lim, 2006](#)). In fact, land law was a matter of special concern to rulers because political allegiance was often secured through land concessions. For this reason, 'the political authority himself chose to exercise jurisdiction in this sphere, on the basis of a discretionary system of procedure, and indeed of substantive law' ([Coulson, 1964, p. 128](#)). In the light of this kind of evidence, [Malik \(2012\)](#) concludes that Islamic law never operated in an autonomous domain: politics trumped religion and 'Islam has often been used as an instrument of legitimation and control rather than a constraining influence on the ruler's power' (p. 10).

<sup>16</sup> Based on Nile flood data spanned over 700 years, [Chaney \(2011\)](#) has estimated that deviant Nile floods decreased the probability of change of Egypt's highest-ranking religious authority by resignation or dismissal by roughly one-half. He shows that such evidence can be interpreted as reflecting a rise in the political power of religious clerics that was rooted in their control over popular support.

## 21.6. CONCLUSION

As this survey testifies, there are many angles under which the role of religion can be examined, and many of them are complementary. Moreover, an inquiry into this field raises fascinating questions that are extremely relevant for a better understanding of the dynamics of growth and development. It is not surprising that economists and other social scientists have made different contributions to the subject. The former have essentially followed two research directions. Within the first research program, they have looked at the effects of religion on various types of behavior, relying on different datasets to which they apply econometric techniques to isolate particular effects in multivariate frameworks. Even though these efforts have produced a number of interesting insights (e.g. on the possible crowding-out of state welfare transfers by religious solidarity ties), they have also been fraught with methodological difficulties, particularly those arising from the inherent endogeneity of religion to economic, political, and social variables. Also, one can never be certain that the results obtained are correctly ascribed to the religious factor since the omitted variable problem is hard to overcome and religion may be a proxy for some other, non-observable characteristic of an individual or a group. Finally, results are not necessarily robust to sample choice and selection of independent variables, as attested by the rather inconclusive studies regarding the effect of particular religions on economic performances.

The second research program privileged by economists is devoted to the analysis of the effects of competition on religiosity and the content of religious beliefs or church practices. Many contributions here have an applied theory orientation – a feature that results from the availability of a strong body of relevant theoretical models pertaining to the field of industrial organization. Empirical studies aimed at testing predictions inferred from adapted theoretical setups are nevertheless growing. This is a welcome aspect of the recent economic literature since observation of current realities in many parts of the world confirm that there indeed exists an acute competition between different religions and between different denominations within particular religions.

There are two sets of questions that are rarely raised by economists, but are fortunately much present in the works of anthropologists, sociologists, political scientists, and historians. The first set derives from the idea that people choose their faith, or choose to convert from animism to a universal religion, on the basis of rational considerations. These considerations typically point to their desire to emancipate themselves from oppressive or conservative (static) societal or political environments. While strategic choices are assumed to be made by religious authorities or churches in the economic studies inspired by industrial organization theories, they belong to the potential adherents of religions in the social studies with which we are concerned. While economists are mostly interested in determining the effects of given religious affiliations on individual behavior, other social scientists pay a lot of attention to the possibility that people

choose and change their religion depending upon their interests in particular contexts. They thus treat religion much in the same way as they treat ethnicity: an endogenous choice rather than an immutable characteristic.

The second set of questions addressed by social scientists concerns the relationship between religion and politics. They tend to assume that religion, again like ethnicity, can be manipulated by the state when it suits the particular interests of the ruling elite, especially when this elite holds a considerable amount of political power and intends to concentrate more of it into its hands. A dominant result that emerges from this literature is that religion has been much more instrumentalized by the state than the state has been instrumentalized by religion.

The above picture is, therefore, one of complementary efforts by economists and other social scientists in addressing the issue of religion from a development perspective. Recently, however, economists have started to be interested in the two kinds of approaches favored by other social scientists, as witnessed by the works of Kuran, Platteau, Carvalho, and Chaney, in particular. This is a welcome trend since it heralds a genuine cross-fertilization of different disciplines in tackling a domain that is inherently trans-disciplinary. Cross-fertilization can yield powerful new insights since economists have solid micro-economic tools (game theory and political economy models) to analyze the strategic behavior of both potential adherents of religious faiths and the ruling elites or state authorities. However, the importance of complex feedback effects and of specific historical contexts, tirelessly emphasized by other social scientists, must be taken as seriously as possible by economists if trans-disciplinary collaboration is to have any real meaning.

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