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**Article**

## Does religiosity explain economic outcomes?

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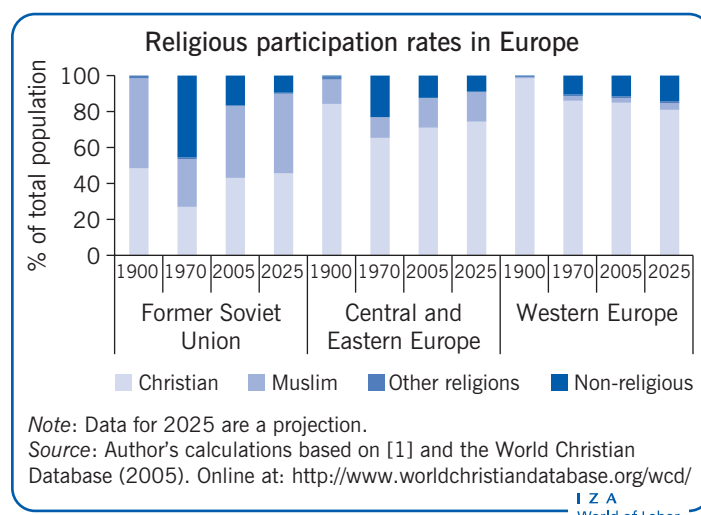
# Does religiosity explain economic outcomes?

## Understanding religiosity is crucial to informed policy making

Keywords: religion and religiosity, secularization, economic behavior, transition economies

### ELEVATOR PITCH

Most religions in transition economies were marginalized by their former communist regimes. Today, some of these countries are experiencing a revival of religiosity, while others are prone to secularization. Religious norms affect individual decision making with respect to human capital investment, economic reforms, marital stability, employment, and other contexts. This implies that the interests of both religious and non-religious communities may differ and must be taken into account when designing and implementing economic policies, which is a challenge for policymakers.



### KEY FINDINGS

#### Pros

- ➕ Patterns of religiosity are distinct within transition countries; some experience a revival, while others are prone to secularization.
- ➕ Religiosity may increase the quality of human capital by improving educational outcomes, motivating health-related behavior, and enhancing individual life satisfaction.
- ➕ Individual religiosity may reduce adverse psychological effects of layoff, hardship, and economic reforms.
- ➕ Surveys provide rich information about religious beliefs, activities, and affiliations, which can be used for policy analysis and design.

#### Cons

- ➖ Declarative religious affiliation and strong religious commitment may affect economic outcomes differently, but existing studies rarely distinguish between these measures of religiosity.
- ➖ Most studies on religiosity and individual economic outcomes and behavior provide correlational, not causal evidence.
- ➖ Research on the social and economic impact of particular religious denominations is missing.
- ➖ Potential negative effects of religiosity stemming from extreme and conservative religious beliefs are understudied.

### AUTHOR'S MAIN MESSAGE

Clear patterns of religiosity exist within European countries. Some countries are experiencing a revival, while others are prone to secularization. It is important to understand the implications of this situation, since religiosity has a number of effects on economic behavior and attitudes. In particular, people with moderate religious beliefs are healthier, more productive, better educated, and seem better protected from adverse individual and countrywide events than the non-religious, while extreme religiosity may lead to adverse outcomes. These differences imply that religious and non-religious people demand and support different governmental economic policies.

## MOTIVATION

Most religions in Central and Eastern Europe (CEE) were marginalized by the ruling communist regimes for many years. This marginalization implied a weaker role for religious institutions in public life and politics and decreased religious participation rates during the communist era.

Contemporary patterns of religiosity in transition economies are characterized by several competing driving forces. On the one hand, decades of state atheism as well as secularization related to economic development decreased religious attendance and church membership. On the other hand, after the breakdown of the Soviet Union, religious institutions in the region became more visible in the public sphere. Unsurprisingly, the patterns of individual religiosity are divergent across transition and post-transition economies. Some of these countries have experienced a renaissance of religiosity, while others have tended towards secularization, similarly to Western European countries. These arguments open a discussion about the patterns and role of religion and religiosity in the economic policies of transition and post-transition economies.

The importance of studying religion and religiosity derives from their role in economic outcomes, behavior, and a range of economic policies, including the welfare state, education, family, and health care policies. As such, it is worthwhile to review evidence on the patterns and role of religiosity for public policy making in Europe's transition and post-transition countries. Note that the studies described in this article either analyze religious beliefs generally without distinguishing between the faiths, or focus only on Christianity as a major denomination in transition and post-transition countries.

### Definitions of religion and religiosity

*Religion*: "Religion is any shared set of beliefs, activities, and institutions premised upon faith in supernatural forces (p. 1466)."

*Source*: Iannaccone, L. R. "Introduction to the economics of religion." *Journal of Economic Literature* XXXVI (1998): 1465–1496.

*Religiosity*: The individual religiosity implies a self-identification with a particular religious denomination, having religious beliefs, praying, and attending religious services.

*Source*: Need, A., and G. Evans. "Analyzing patterns of religious participation in post-communist Eastern Europe." *British Journal of Sociology* 52:2 (2001): 229–248.

## DISCUSSION OF PROS AND CONS

### Religious participation in Europe: Revival vs secularization

There are several theories that can explain the patterns of religiosity in Europe [2]. These include "secularization theory," "economic market theory," and "religious individualization theory." Secularization theory implies a declining role of religiosity and religious institutions throughout the process of modernization and economic development, which include social differentiation, urbanization, and industrialization.

Economic market theory suggests, on the other hand, that competition among multiple religions supports the vitality of religion during the process of economic development. This competition forces religious communities to improve services and attract new adherents. Thus, according to this theory, and in contrast to secularization theory, in countries with greater religious diversity, the process of economic development actually improves the quality of religious services and increases religious participation rates.

Finally, religious individualization theory posits that economic development causes the relationship between church and religiosity to dissipate, and faith practices to become increasingly private and individual. Moreover, even though the institutional presence of traditional religions was weakened by the communist regimes, individual religiosity was suppressed to a lower extent than religious institutions [3]. The empirical evidence suggests that economic development in Western and Eastern Europe is negatively related to all elements of individual religiosity, including religious membership, attitudes, and practices, which is in line with secularization theory and partly with individualization theory. In contrast, economic market theory does not find empirical support [2].

### Regional differences within Christianity

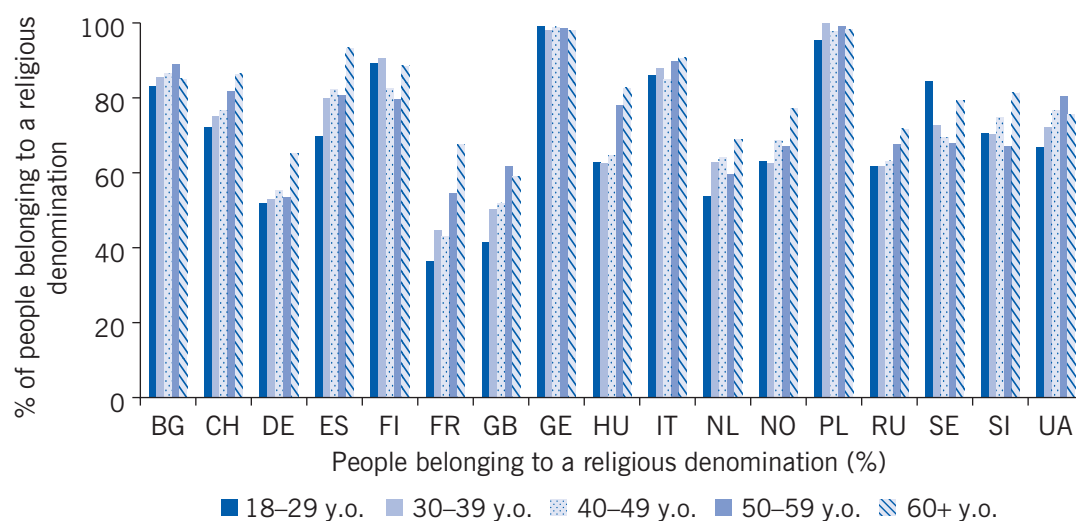
Important denominational differences within Christianity exist between three distinct groups of countries: the former Soviet Union; Central and Eastern Europe; and Western Europe. As of 2000, in former Soviet Union countries, the dominant Christian denomination is Orthodoxy. In Central and Eastern Europe, 40% of the population identify as Catholics and 23% as Orthodox, while in Western Europe, 44% are Catholics and 31% are Protestants.

*Source:* Barrett, D. B., J. T. Kurian, and T. M. Johnson. *World Christian Encyclopedia*. 2nd edn. New York: Oxford University Press, 2001 [1].

Important dimensions in describing the patterns of religious participation in Europe are age, the strength of church resistance to state regimes, and individual economic security. One study distinguishes between two major driving forces of religious participation rates in transition and post-transition economies, secularization theory, and the tradition of state atheism [3]. In line with secularization theory, more educated younger people who live in urban areas should be less likely to declare a religious affiliation and also less likely to attend religious services than older people. On the other hand, if the primary force for decreased religious participation under communism was state atheism, then the fall of communism should have increased interest in religion from people of all ages. The authors argue that secularization is a primary driving force behind decreasing religious participation rates in Eastern Europe, since they found no evidence of increasing participation among the region's youth after the collapse of communism.

Figure 1 shows denomination membership in selected Western and Eastern European countries by age groups. Most countries' denomination memberships increase with age, meaning that younger people generally declare lower membership rates, while older ones report higher rates.

Figure 1. Denomination membership and age in selected European countries



Source: Author's own, based on the World Values Survey (Wave 5, 2005–2009). Online at: <http://www.worldvaluessurvey.org/WVSCContents.jsp>

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Another important dimension for analyzing patterns of religiosity is the relationship between church and state. US data show that church and state can be substitutes for each other in supporting community members, i.e. a decline in governmental welfare expenditures facilitates increased charitable spending by churches [4].

There were also denominational differences with respect to the strength of church resistance to state regimes during communism. According to sociological studies, the Catholic Church, in which authority is centralized in Rome, was more likely to resist communist regimes than the Orthodox Church, which does not have a centralized seat of power. A study finds that a greater strength of church resistance to the state also implies higher religious participation rates at the individual level. This explains why, at the beginning of the 1990s, participation rates among members of the Catholic Church were higher than those of the Orthodox Church [3].

Recent empirical evidence suggests that, today, Catholic and Orthodox transition economies exhibit distinct and divergent trends in religiosity, as measured by a response to survey questions regarding religious affiliation and church attendance [5]. Accordingly, if secularization is a primary force, then religiosity should be attractive to economically insecure individuals, such as the uneducated, the poor, and the old, while economically secure individuals should have less interest in religion. The notion of a revival, on the other hand, implies that all social groups become equally religious. The study empirically tests this hypothesis, using individual-level survey data from 13 former Soviet Union (FSU) and CEE countries. The findings suggest that Catholic countries have been prone to secularization, while Orthodox countries have experienced a revival of moderate religious beliefs. However, the authors note that individual self-identification with a religious denomination does not indicate a strong religious commitment. Further analyses are needed to distinguish between individuals who merely indicate that they have a religious affiliation and those who actually practice their faith and are committed to their religion.

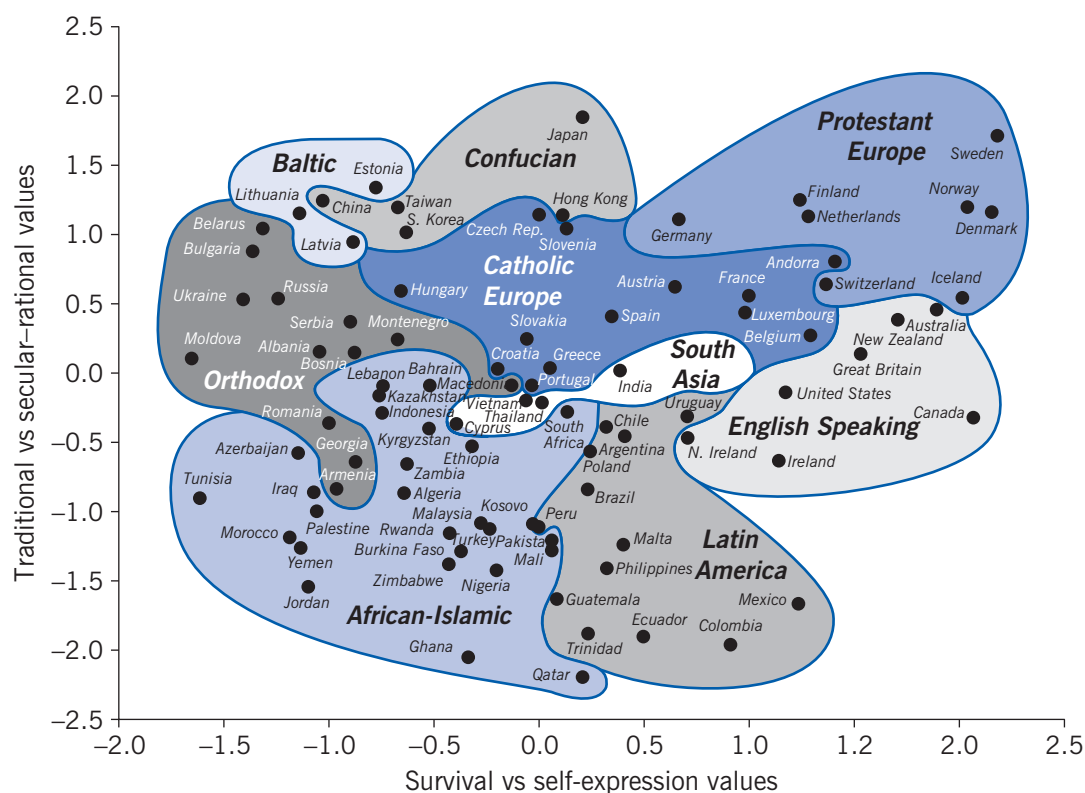
## Religiosity and economic development at a macro-level

A helpful tool in analyzing the economic development–religiosity relationship is Inglehart-Welzel’s global cultural map, which is based on the statistical analysis of global values and attitudes from the World Values Survey. Figure 2 shows this map for the years 2010–2014. Each country is placed on the map according to a specific relationship between religious and economic values. The map has two dimensions: traditional/secular-rational values (vertical axis) and the survival/self-expression values (horizontal axis).

In the first dimension (traditional vs secular-rational values), traditional values emphasize a strong role of religion, the importance of family, deference to authority, and high levels of national pride, while secular-rational values indicate weaker importance of religion and “traditional” families, including the justification of abortion and divorce. In general, this dimension represents the importance of traditional and religious values in a society.

The second dimension (survival vs self-expression values) characterizes economic development and modernization. Survival values include economic and physical security, while self-expression values underscore the importance of quality of life, equality, diversity, and participation in economic and political life. Countries that fall into the bottom-left quadrant of the map have stronger traditional and religious values, but lower economic

Figure 2. Inglehart-Welzel’s global cultural map, 2010–2014



Note: Negative numbers on the vertical axis stand for strong religious and traditional values, while positive ones stand for strong secular values. Negative numbers on the horizontal axis stand for strong survival values, e.g. the importance of economic and physical security, while positive ones stand for strong self-expression values, e.g. the importance of life quality, economic freedom, and diversity.

Source: World Values Survey (Wave 6, 2010–2014). Online at: <http://www.worldvaluessurvey.org/WVSContents.jsp>



development. This negative correlation is in line with secularization theory, which suggests that religiosity declines with a better economic development.

As can be seen from Figure 2, ex-communist countries fall into the top-left quadrant of the map. This means that even though individuals in most FSU countries declare high religious participation, they still have more secular and survival values. This is also true for the CEE countries, although individuals in some CEE countries—such as Croatia, the Czech Republic, Hungary, Slovakia, and Slovenia—are more likely to declare self-expression values than individuals from the FSU. This implies that despite increasing religious affiliation, the importance of religion in individuals' lives in transition and post-transition countries remains low.

### Religiosity as a key to human capital accumulation and happiness

Starting from Max Weber's seminal book *The Protestant Ethic and the Spirit of Capitalism* (1905), an increasing number of economic, sociological, and psychological studies explore the relationship between religiosity and economic behavior. One study reviews the literature for the US and argues that religious norms moderate individual decision making in many contexts, including human capital investment, marital stability, and employment, by influencing the perceived benefits and costs of these decisions [6]. According to the author, there are three channels through which religiosity may positively affect economic outcomes: (i) social networks; (ii) regulations; and (iii) psychological issues [6]. The social network channel implies that religious communities provide psychological and material support to their members. According to the regulative channel, moderate religious norms and teachings can discourage unhealthy and violent behaviors. Finally, religiosity can provide individuals with a sense of the meaning of life, and can help to cope with loneliness and stressful situations. However, as the author argues, religiosity can also have negative effects. For instance, conservative religious norms may encourage early marriage and motherhood, low investments in secular education, and low levels of female labor force participation. Conservative religious beliefs can also be taken to an extreme and may be interpreted in such a way as to tolerate the abusive behavior of men towards their wives [6].

The literature on the impact of religiosity on economic outcomes in European countries, especially in (post-)transition economies, is still in its infancy. Existing studies underscore mostly positive effects of religiosity. One of the analyzed economic outcomes is individual life satisfaction, which is an individual's self-evaluation of their own life quality and is typically measured using a survey question. One of the earliest studies analyzes the role of economic and ideological freedom on life satisfaction in Hungary in 1992 and 1998 [7]. Controlling for individual socio-economic characteristics, the author finds that individual participation in religious services increases life satisfaction, this positive correlation is stable over time. Another finding is that the effect of income on life satisfaction is lower for religious people compared to non-religious people. Finally, the author argues that ideological freedom, which is reflected in the increasing role of the church in public life, does not influence individual life satisfaction directly, but only through individual religiosity. In other words, ideological freedom increases individual religiosity, which, in turn, affects life satisfaction positively. A recent study extends these findings to more transition economies, including Bulgaria, the Czech Republic, Poland, and Slovakia, and confirms a positive correlation between life satisfaction and religious services attendance in transition economies [8].

Recently, researchers decomposed the effect of religiosity on life satisfaction into “costs” and “benefits” [9]. Religiosity brings tangible benefits, e.g. social contacts, emotional and material support from a religious network, as well as various spiritual benefits, e.g. the prospect of an afterlife, while the costs are related to the obligation to comply with religious rules and restrictions. Using data on European countries, the authors conclude that tangible benefits associated with religious affiliation do not increase life satisfaction, while spiritual benefits coming from active religious practice are positively correlated with life satisfaction. This opens a discussion on religious practices and religious affiliation as different measures of religiosity: while religious practices affect economic outcomes, merely being affiliated with a religion may not necessarily do so.

Another important consequence of religiosity is related to human capital. Researchers find that praying, participating in religious services, and self-assessed religiosity are associated with better educational outcomes and favorable health-related behavior [10], [11]. Most studies in this stream of literature analyze individual-level data from the US. For instance, one study finds that self-reported importance of religion results in healthier lifestyles for adults and adolescents by reducing tobacco, drugs, and excessive alcohol consumption [10]. This shows a regulative effect of religious norms on individual risky health behavior. Another study suggests that religiosity is associated with more years of schooling and lower dropout rates from school [11].

### **Religiosity as insurance against stressful events**

One explanation for the positive relationship between religiosity and various economic outcomes stems from a so-called “insurance effect” of religiosity. This effect implies that religiosity mitigates psychological stress related to various adverse individual events, such as economic hardship or job layoff, and aggregate shocks, like country-wide economic reforms [12], [13]. These studies document that religiosity has a smoothing effect by reducing an individual’s vulnerability to both negative and positive shocks.

One of the first studies on the insurance effect of religiosity explores whether individual religiosity mitigates the negative effects of a layoff on the life satisfaction of individuals in European countries [12]. The findings suggest that all denominations are insured against negative effects of unemployment when compared to the non-religious. This effect persists if other indicators of religiosity, such as churchgoing and praying, are used. Another finding is that due to the insurance effect of religiosity, religious people are less likely to support job provision by the government and less likely to actively look for a job when they are unemployed. Finally, the authors discuss the policy implications of their findings; they underscore that more religious countries have lower replacement rates for the unemployed. Another implication is that religious and non-religious people may favor different kinds of social support.

A recent study extends the analysis of the insurance effect of individual religiosity to economic reforms in transition countries [13]. Unlike previous studies, this analysis provides causal evidence regarding the insurance effect of religiosity. The findings suggest that religiosity protects individuals against the stressful effects of economic reforms, e.g. massive layoffs that may occur as a result of large-scale privatization. This implies that religious people are more likely to support market-oriented reforms, which may speed up the reform implementation process in more religious countries.



## LIMITATIONS AND GAPS

While psychological and sociological studies of religiosity have a long tradition, economists have only recently begun to investigate its economic causes and consequences. Most studies on religiosity and economic outcomes still provide correlational, but not causal evidence. For instance, when facing adverse life circumstances, an individual may start attending religious services more frequently to receive some psychological support [13], a phenomenon known as “endogeneity.” As a result, it is not possible to establish the direction of causality between adverse outcomes and religiosity, and it is thus difficult to accurately inform policymakers about this relationship. In particular, causal studies on religiosity in transition and developing countries are rare. Causal analyses would help to account for the direction of causality, and would allow for a better understanding of certain economic decisions, such as investments in human capital.

Another limitation is that, due to data limitations, studies rarely distinguish between declared religious affiliation and active religious practices. One way to overcome this limitation would be to consider several measures of religiosity (e.g. the importance of religion, self-assessed religious beliefs, religious membership, and active religious practices) in the analysis. Future studies should distinguish between the economic and social impact of particular religious denominations, and of extreme and moderate religious beliefs. This will shed more light on both the positive and negative effects of religiosity.

While an increasing number of individual surveys include questions on religious beliefs, activities, and affiliations, detailed regional statistics on religious institutions in (post-) transition economies remain scarce. However, the analysis of detailed church statistics, e.g. the number of churches in different regions, the number of adherents of a particular church, and revenues and expenditures of different churches may facilitate a number of useful studies related to church activities and public policies. Interdisciplinary efforts in collecting historical, institutional, and economic statistics on religious organizations and the adherents of various religions are needed to provide a comprehensive picture of religion and religiosity in (post-)transition economies.

## SUMMARY AND POLICY ADVICE

The reviewed studies indicate that transition and post-transition economies exhibit distinct patterns of religiosity. While some countries experience a revival of religiosity, others are prone to secularization. These differences in patterns depend on which religious denomination are predominant in a given country, and that religion’s historical strength when it came to resisting or compromising with the respective state regime.

Religious norms may regulate individual risky health behavior and reduce individuals’ vulnerability to life events, from job layoff and economic hardship to countrywide economic reforms. Implications for policy making can be derived from these findings. For instance, religious people are likely to demand less governmental social support in terms of unemployment and other benefits. Due to the psychological protection and lower vulnerability to stressful events, religious people are also more likely to support and speed up the reform implementation process in transition countries.

Research on religiosity in transition and post-transition economies still faces significant challenges when it comes to distinguishing between declared religious affiliation and active religious participation and beliefs, between the impact of extreme and moderate religious

beliefs, and between different religious denominations. Determining how economic outcomes vary based on these different characteristics will help policymakers consider the interests of both religious and non-religious communities, while enabling them to design and implement more appropriate economic policies, particularly with respect to the welfare state, education, family, and health care.

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### Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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