



Does religious beliefs affect economic growth? Evidence from provincial-level panel data in China



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ABSTRACT

More and more literature on economic growth and development has increasingly focused on long-run effects of geographic, historical, and cultural factors on productivity and income per capita. This paper investigates the effect of religious beliefs on economic growth using provincial panel data from 2001 to 2011 in China. It's very meaningful to study the role of religion playing in economic development since religion has influence on political preference, human capital and work ethic, especially in current China which is faced with income disparity, environmental pollution, and official corruption. Our results reveal that, among the different religions, Christianity has the most significant effect on economic growth. This conclusion is consistent among different estimators and robust with stability over time. However, no consistent or robust conclusions can be drawn for other religions. Different estimation methods give different signs or significance. Given the very few studies and limited data resources about China in this field, the paper as a tentative study provides a brand new viewpoint.

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1. Introduction

Religion has played an important role in human civilization and social development for centuries. Smith (1776) and Weber (1930) have laid the theoretic foundation for traditional economics and sociology proposition in the economic growth theory. North (1990) regarded religion, customs, ideology and code of conduct as informal institutions which are receiving more and more recognition in the process of economic development.

But religion was neglected in development studies for a long time. This is partly due to the perception of religion as irrelevant to modern societies and a constraint on progress. Recently, many trends, such as the inseparability of religion and politics (especially in Islamic countries), the continuing importance of religion in people's lives and identities, have brought religion back into economics research. As argued by Deneulin and Rakodi (2011), "because religion is fundamental to people as they try to make sense of and give meaning to their lives, and because it is one of the primary sources of values and morality for the majority of the world's population, it is important that development studies acknowledges the religious dimension of people's lives; understands the relationships between religion, societies, and states." Some literature on economic growth and development has increasingly focused on very long-run effects of geographic, historical, and cultural factors on productivity and income per capita. Some papers have found that religion has in fact historically played a significant role in the development of political and economic institutions, and in the levels of economic growth and development realized. Woodberry (2012) argues that although many aspects of "modernity" have been replicated in countries around the world, religion shaped what spread, where it spread, how it spread, and how it adapted to new contexts.

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More and more studies take religion as one important factor in growth models. Some empirical studies confirmed the relationship between religion and economic growth, such as Barro and McCleary (2003), Grier (1997) and Noland (2005). The null hypothesis that religious affiliation is uncorrelated with economic performances can frequently be rejected (i.e., religion matters), but the regressions do not yield a robust pattern of coefficients with respect to particular religions (Noland, 2005). There exist some contradicting evidences as to the robustness and sign of the effect. Moreover, it is not yet clear about the way that religion affects the economic growth. The debate on the economic effects of religion is far from settled.

Several reasons motivate us to focus on the effect of religion on economic growth in China. First, China is a multi-ethnic and multi-religion country with a long history. According to a 2006 survey by the Pew Global Attitudes Project, 31% of the Chinese public considers religion to be very (12%) or somewhat (19%) important in their lives.¹ The proportion of religiously affiliated people is about 16%. Although the percentage is not high, the sheer number is quite large. They play an important role not only in China but also in the world. Buddhists represent the largest religious group in China, making up between 11% and 16% of the adult population. Christianity is China's second-largest officially recognized religion with less than 4% of the adult population identified as Christian. There is also a large number of Muslims in China, approximately 1.5% of the total population according to the 2000 census. From the point of economic theory and policy making, it's meaningful to understand the religion's role in the economic development.

Second, China has borrowed many experience and institutional model from developed countries since the introduction of the reform and opening policy. Behind the high economic growth, many problems arise, including official corruption, environmental pollution, moral decline and income disparity etc. It is evidential that cloning institutions without certain intangible aspects of culture often proves futile. While education and rule of law might seem straightforward secular policies, the cultural forces that carry them into a society, including religion, have a lot to do with whether people respect them. Religion affects the way that a society operates. Because religion is an important force that shapes people's values, what they consider worthwhile and valuable, it is integral to social, political, and economic life. This is important with regard to not only how prosperous but also how harmonious that a society can become. A person without religion who has nothing to fear and nothing to admire has no bottom line to do anything. The loss of belief is being regarded as one serious social problem in current China and this explains the above problems at root in China. It's the harmony of economy instead growth rate that China needs most for some time to come. So, it's meaningful to study the role that religion plays in the economic growth. If religion is an important factor, it cannot only promote economic growth, but also help economy grow healthily.

Our paper focuses on two questions. First, is there any relationship between religion and economic growth? Second, different religious groups have different principles and criteria, and therefore there is a significant difference in the implementation of public policy, resulting in a noticeable difference in economic development. If the relationship between religion and economic growth exists, does it vary among different religions? Synthesizing the contributions:

- (1) Given the very few studies in this field about China, our research provides new evidences of the relationship between religion and economic growth. As the biggest transition country in the world, China has attracted much attention because of its high growth rate, but few literatures, especially quantitative studies, have given concerns to the relationship between religion and economic growth. Under the background of ignorance of religion in developing studies in the world for a long time, there are some specific reasons for China. First, religion is a somewhat sensitive topic in China. Researchers must take the political effect into account for their relevant studies. So most research was conducted along the mainstream. Second, the availability of statistical data about religion is very limited. Except some scattered data here today and there tomorrow, there is no systematic available official data at all. We use the number of religious institutions in each province as the proxy variable of religion. The data come from the China Data Center at the University of Michigan. Our paper provides a tentative study about the effect of religion on economic growth.
- (2) It is a challenge to infer the causality from religion to economic growth. One important reason is the endogeneity of religion. Different with Barro and McCleary (2003) and many other studies, we use the subnational panel data in our analysis, so it is easy to control for country-specific cultural, economic, political, and institutional influences. Unlike many cross-national results, some economic phenomena that vary across countries such as differences in inflation rates, trade policies, or judicial practices can be ignored. We use Hausman–Taylor estimator, Amemiya–McCurdy random effect estimator and fixed effect vector decomposition estimator to solve the endogeneity problem because of the time invariance of the religion variable. This avoids the arbitrariness of choosing instrument variables to some extent.

The structure of the paper is as follows. Section 2 reviews the current literature on this topic, and in Section 3 we make an econometric analysis using the provincial panel data to estimate the effect of religion on economic growth. Robustness check of model stability is given in Sections 4 and 5 concludes.

2. Literature review

The empirical literature on economic growth and development has moved from the study of proximate determinants to the analysis of ever deeper, more fundamental factors, rooted in long-term history. Spolaore and Wacziarg (2013) survey the new literature and provided a framework to discuss different channels through which inter-generationally transmitted characteristics may impact economic development, biologically and culturally. The evidence suggests that economic development is affected by traits that

¹ <http://www.pewforum.org/2008/05/01/religion-in-china-on-the-eve-of-the-2008-beijing-olympics/>.

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