

Two of the most highly debated and controversial aspects of human life are religious beliefs and the economy. These are both key features of individual lives, cultures, and history. Due to their importance and impact on peoples' lives, religion and economics are some of the most studied, analyzed, and questioned topics of intellectual pursuit. It is the goal of this paper to investigate the complex and constantly evolving relationship between religion and economic growth.

In order to investigate these two topics, it is important to understand their definitions as they will be used in this paper. According to the Merriam-Webster dictionary, religion is “a personal set or institutionalized system of religious attitudes, beliefs, and practices” or a cause, principle, or system of beliefs held to with ardor and faith” (merriam-webster.com). Simplifying this, one could say that religion is a systematized set of faith-based beliefs and practices. Religious beliefs have a major impact on the way people view the world. It is not the goal of this paper to analyze the validity of one religion versus another, but rather to investigate the relationship between religious belief and economic growth.

According to the Merriam-Webster dictionary, economics is “a social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services” (merriam-webster.com). Many different schools of economic thought seek to explain the complex web of production, consumption, and all the interworking of an economy. These schools take all kinds of stances in their economic explanations. One of the biggest differences in these schools of thought is where they begin their economic analysis and explanation. Some schools of thought, like the Keynesians, begin at the macroeconomic level, in which they seek to explain economic phenomenon in terms of the economy at large. The

Austrian school, on the other hand, begins at the microeconomic level by looking at individuals' actions and values.

The Austrians say that economic growth is the result of saving and investing. Saving is the forgoing of present consumption. Investment is the process of directing savings into the production of capital goods. These capital goods are then used to produce other goods, which increase one's standard of living.

One of the most common ways to measure economic growth is by looking at Gross Domestic Product (GDP). GDP is a measure of aggregate spending. This measurement incorporates a "basket" of goods from different time periods to measure the changes in prices of the goods. GDP must make several questionable assumptions, and Austrians are rather skeptical of its legitimacy and accuracy, but never-the-less it is the most commonly used, quantified measurement of economic growth. (wiki.mises.org) The problem of quantifying seemingly unquantifiable economic and religious phenomena will be a theme throughout this paper.

With religion and economic growth defined in the correct terms, one can move on to exploring the relationship between the two. Once this relationship is identified, one can then move on to analyze the general relationship between religious belief and economic growth in a more empirical manner. After this general investigation, the paper moves into a more specific case study of the relationship between Islamic beliefs and economic growth.

As this paper will indicate, many problems arise when trying to quantify many of the important and defining aspects of religion and economic growth. Many of these questions will be left unresolved. Some of these are not answered due to man's finite resources and lack of necessary means to explain such phenomena, while others are left with no explanation because they are too far removed from the scope of this particular paper. Amid all of the uncertainty and

inability to fully analyze the relationship between religion and economics, one can be certain that there is an indirect relationship between beliefs and economic growth that is bridged by human action. Furthermore, these actions take place in a world of consistent and unchanging economic laws.

The Austrian school of economics provides a satisfactory and somewhat revolutionary explanation about the relationship between religious, ethical, moral, etc. belief and economic growth. One of the key components of Austrian economics is the idea of praxeology. Praxeology means “human action.” Austrians build their economic theory from this simple, fundamental notion of humans – they act.

One undeniable fact about the world in which we live is that it has a limited number of resources. Furthermore, one key fact of the nature of human beings is that they have an endless number of ends. Individuals value ends differently based on many things, including their religious and ethical beliefs. In order to attain these uniquely personal ends, one must engage in human action – doing something to attain the ends that one desires.

Human action is the link between one’s ideas, beliefs, etc., which affect the things that he values, and the attainment of his desired ends. For example, if a person values and desires a new car, he must engage in particular actions (earning money, finding a car dealer, etc.) that will lead to his acquisition of the new car. Similarly, one’s religious beliefs, values, etc. will influence the way in which he acts. Furthermore, his actions will have economic consequences. These economic consequences can be boiled down to economic growth, economic stagnation, or economic decline. This paper chooses to focus on economic growth. Therefore, human action is the bridge that joins the indirect relationship between religious beliefs and economic outcomes, namely economic growth.

Historically, economists have tried to separate man's religious, political, and ethical beliefs from his economic actions. Many economists have written about the idea of *homo economicus*. This is the idea of an "economic man" or "economic agent" that thinks only in terms of maximizing his utility with regard to little or anyone else. The idea of *homo economicus* was introduced by John Stuart Mill. Adam Smith also argued for this separation of economics and religion when performing economic investigations. Many other economists have also done their economics with this idea of *homo economicus* in mind.

Ludwig von Mises, one of the great pioneers and developers of Austrian economics, established what he calls "value-free" economics. Mises says that the things that man should do (ethics) and what man does and how he acts in the real world (economics) are very different things that answer very different questions. Mises also says that one's religion, social status, political tendencies, as well as many other aspects of life, effect individual choices. This is the same idea that was mentioned above. Man engages in actions that are based on his personal beliefs and values:

Mises abandoned the convoluted efforts to pretend, for the sake of economic analysis, that humans were coldly calculating, soulless, profit-maximizing beings. Instead, he readily acknowledged that humans are complex beings whose economic behavior is informed and influenced by the unique, ever-changing combination of the various religious, psychological, biological motivations (his values, goals, perceptions, desires, and the like) competing for supremacy within the individual as he is confronted with the particular set of circumstances surrounding him at a given point in time. Mises emphatically eschewed as futile and impossible any attempt to separate economic action from the totality of the individual. (Hendrickson)

Rather than completely polarizing economics and religious beliefs, Mises actually advocated for their inseparability. To Mises, one's values and beliefs are organically connected to his actions. (Hendrickson)

According to Ludwig von Mises, we should not try to separate economic action (economic growth due to economic action) from religious beliefs because they are closely intertwined and have a clear impact on each other. In fact, they cannot be separated in a certain sense. However, Mises also says that one must realize that religious beliefs and economic growth are fundamentally different areas of study and aspects of human life. They also accomplish, or seek to accomplish, distinctly different ends. (Hendrickson)

In his article, “Misesian Economics and the Bible,” Dr. Mark Hendrickson makes the important distinction between the “descriptive” and the “prescriptive.” According to Dr. Hendrickson, economics is a descriptive science. This means that economics deals with the way things actually are in the real world, how things actually work, etc. Mises’ idea of “value-free” economics is the same idea as Dr. Hendrickson’s idea of the descriptive. Descriptive things are not right or wrong. They are not good or evil. Religious and ethical beliefs have no effect on the realm of the descriptive. Dr. Hendrickson uses the example of gravity to illustrate this point: “the fact that the law of gravity pulls things downward is not good or evil; it is simply the way this world normally works” (Hendrickson). Economics by itself is a descriptive science. Economic laws exist, and one’s ethical or religious beliefs and inclinations have no effect on these laws. (Hendrickson)

The prescriptive, on the other hand, deals entirely with the ideas of how one should accomplish certain ends. This does not focus on the way things are, but rather on the way things ought to be. The prescriptive is “value-laden.” It deals entirely with one’s religious and ethical beliefs. For example, a particular individual’s ethical beliefs can only say how one should operate within the economic laws of this world; it does not affect the existence or manner in which these laws work. (Hendrickson)

Dr. Hendrickson points out that some economic phenomena are both descriptive (value-free) and prescriptive (value-laden). Prices are one such phenomenon. They are prescriptive in the sense that they are subject to economic laws, no matter how adamantly someone feels about them. Prices, in their purest form, are morally neutral. Prices are simply exchange ratios determined by supply and demand. This is neither good nor evil. However, prices are prescriptive in the ethical sense that one should or should not set a certain price for whatever it is that he is selling. Thomas Aquinas wrote extensively about the “just price.” To Aquinas, charging a certain price for a good or service could be morally good or evil. For example, swindling someone or allowing someone to pay too high of a price would be evil. The prescriptive says what price you should set. It does not say how the price phenomenon works in the economic sense. (Hendrickson)

Interest is another economic phenomenon that integrates both descriptive and prescriptive elements. In the descriptive sense, interest is morally neutral (just like prices). Just because there is a time value to money does not mean that it is right or wrong – it is simply an economic law of this world. On the other hand, interest does have an ethical component. Just like the idea of money, many people argue that there is a morally correct rate of interest and a morally wrong rate of interest. For example, Islam teaches in the Koran that one should not charge interest. This is an extreme case, as many people will say that charging interest is morally acceptable as long as it is not above a certain level. (Hendrickson)

This idea of the duality of the prescriptive and descriptive is true of many economic phenomena, and supports Mises important notion of value-free economics. Man must act within the confines of economic law (descriptive), but his beliefs and values determine the way in which he will act (prescriptive). In a certain sense, economics is like a game in which the rules of

the game never change (descriptive), but the ways in which people think the game should be played (prescriptive) can be quite different.

Islamic economics serves as a detailed, theoretical example of the relationship between one's religious beliefs, his economic actions, and the resulting economic conditions. This economic system is a form of fundamentalist economics, which applies fundamental principles of religious faith or belief (Islam in this case) to the study of economics. Thus, Islamic economics employs an explicit, interwoven relationship between the descriptive and prescriptive.

In his article, "Islam and Underdevelopment: An Old Puzzle Revisited," Timur Kuran explains three different theses concerning the relationship between Islamic economics and economic development. The first thesis is called "The Economic Irrelevance Thesis." This thesis states that the economic conditions of Muslim societies have nothing to do with the fundamental teachings of Islam, but rather are explained by changes in material conditions. Some people argue that Muslims actually resign themselves to poverty. This thesis would say that, if this is the case, subpar economic conditions in Muslim societies are not based on any kind of religious beliefs. Maxime Rodinson, one of the leading proponents of this thesis, argues that it is not a resignation from poverty, but rather a rational response to the futile efforts of changing or resisting political obstacles to economic development and advancement. (Kuran)

The second thesis provided by Kuran is "The Economic Advantage Thesis." This thesis proposes the idea that Islamic beliefs support economic development. It says that Islamic principles in the Quran call for economic development and concentrated efforts in attaining this end. Kuran sums it up well by saying that "economic prescriptions of Islam (financial regulations, contracting guidelines, distributional instruments, and behavioral norms) provide an ideal framework for economic development" (Kuran). These "prescriptions" are the ideas and

beliefs of Islamic economics that say how one should act within the descriptive framework of economic laws. This thesis also says that economic growth or decline in Muslim societies could be effected by more than just Islamic factors. Things like cultural interactions and resource conditions at specific periods of time can have a major impact on economic performance.

(Kuran)

The third thesis is called “The Islamic Disadvantage Thesis.” This essentially says that the Islamic world, despite its rich endowment of oil, remains economically poor. Kuran gives four possible variations of this thesis. The first (and most relevant) variation is the idea of Islam being a permanent barrier to development. The previous examples are just a few of the ways to look at the relationship between Islamic economics and economic performance. (Kuran)

In his article, “Principles of Islamic Economics,” Masudul Alam Choudhury provides three fundamental principles of Islamic economics. The first of these principles is “The Principle of Tawheed and Brotherhood.” The literal translation of tawheed is “unit.” The essence of this principle “lies in equality and cooperation”(Choudhury, 93). This principle teaches man how to balance his actions with other humans with his relationship with god (Allah). Islamic economists argue that social justice should be the fundamental truth behind the workings of an economy. Furthermore, the importance, as well as the ability to employ this social justice, is found in the Quran. This principle instructs Muslims on how to interact with other men (how to act) in an economy in relation to one’s relationship and duties to Allah. It is quite evident from this first principle how closely related the Islamic religious faith is with the fundamental tenants of Islamic economics. (Choudhury)

The next fundamental principle of Islamic economics is “The Principle of Work and Productivity.” This principle “states that an individual’s wages must be proportionate to the



amount and category of labour performed by him” (Choudhury, 94). This is a clear example of the prescriptive, or what one should do within the confines of economic laws. Islamic economists do not say that wages in and of themselves are good or evil, but they do say that one has a religious obligation to receive a wage based on the quantity and type of labor he performs. This principle also says that “one commits a form of excess” (Choudhury, 94) if he accepts a higher amount of income than is due to him (based on his labor). This form of excess is called “rububiyah.” (Choudhury)

The idea of excess arises from the Islamic teaching that god owns all the means of production, and made the “good things” for man’s use. Therefore, if man abuses this gift from Allah, then he commits excess. Islamic religious teachings are quite specific about rububiyah: “Under this category of excess are included rent on land and sharecropping, but rent on money capital is permitted” (Choudhury, 94). Rent is actually only prohibited on land that has not been developed. Rent on land that has been developed is permitted, but the payment of the rent must be in monetary form. Again, just like the “Principle of Tawheed and Brotherhood,” this principle provides clear, prescriptive instruction regarding wage rates, rent, and sharecropping. These instructions stem directly from Islamic religious teachings and beliefs. (Choudhury)

The third fundamental principle of Islamic economics is “The Principle of Distributional Equity.” This principle deals with “the right of society to redistribute private property” (Choudhury, 94-95). This redistribution of private property can take many different forms including the following:

...*zakah* (tax on wealth exceeding a certain exemption level), *sadaqah* (voluntary charity), *ghanimah* (war booty), *fai* (property acquired in war without fighting), *fidth* (a part of fai whose distribution pattern is similar to zakah), *kharaj* (tax on lands conquered during war), and *ushr* (zakah on crops). (Choudhury, 95)

While a decent amount of room for interpretation and application does exist, these instructions concerning the redistribution of private property are grounded in Islamic beliefs, as provided by the Quran: "...the broad principles of expenditure of these funds as laid down in the Quran...must remain invariant" (Churdhury, 95). The Islamic law of inheritance serves as a form of wealth redistribution at the more micro, individual level. Islamic law teaches that "The primary motive of the law of inheritance is to put a final check on the concentration of material assets in the hands of a few" (Choudhury, 95). The ultimate objective of this wealth redistribution is to promote social justice within Islamic society. This third principle clearly illustrates the prescriptive, Islamic economic goals within the framework of the overarching, descriptive economic laws. (Choudhury)

Islamic economics takes these three theoretical, fundamental principles, and transfers them into four specific, practical applications. The first of these applications is the "Abolition of Riba." According to Choudhury, "Islam categorically disapproves of the existence of interest in all economic transactions" (Choudhury, 99). This practical application clearly illustrates the relationship between the prescriptive and the descriptive. (Choudhury)

Islamic economics does not allow for any form of interest whatsoever, but it cannot say that interest is not an economic phenomenon and rule that functions in the world. All that Islamic economics can really deal with is the prescriptive idea that interest is morally unacceptable. The descriptive fact that interest works in a certain way remains unchanged by the ethical way in which Islamic economists view the phenomenon. It is interesting to note that unless interest did exist as an economic phenomenon in the world, then Islamic economists could not reject it on a moral basis. It must exist apart from their religious beliefs in order to it to be denied on a religious basis. (Choudhury)

The second practical application is the “Institution of Mudarabah.” Mudarabah is a profit-loss sharing system. This system is put in place of a system based on interest, since Islamic economics does not allow for any form of interest:

In the presence of mudarabah the rate of interest is replaced by a positive rate of profit. A positive rate of profit arrests the problem of speculative demand for cash balances, because the ex-ante demand for money capital is reduced to an actual demand and this is based on a pure contractual sharing of profits... (Choudhury, 100)

According to Choudhury, mudarabah can also be a “powerful medium of risk diversification” (Choudhury, 100). Mudarabah actually reinforces the moral, Islamic principle of not engaging in excessive consumption by bringing “about a desired allocation of money capital between consumption and investment activity while encouraging investment in real capital” (Choudhury, 100). Again, Islam’s religious beliefs have an evident impact on the prescriptive element of Islamic economics. (Choudhury)

The third practical application is the “Abolition of Israf.” Israf is “excessive or wasteful consumption, be it of necessities, comforts or luxuries, and of goods or services” (Choudhury, 100). The implementation of mudarabah into the Islamic economy helps to limit the amount of israf. This third principle encourages and promotes the importance of saving, and not engaging in foolish consumption behaviors. Along with the prohibition of israf, Islamic economics encourages “savings in the form of real investment to produce the necessities and comforts of life and more capital goods that increase the productive capacities...” (Choudhury, 101). The economic effects of saving and investing are determined by the same descriptive, economic laws that determine the effects of interest rates. The Islamic economist’s prescriptive opinion is what results in the absence of interest and the prohibition of israf in the Islamic system. (Choudhury)

The fourth and final practical application is the “Institution of Zakah.” Zakah is a “capital tax on accumulated wealth” and “is one of the five immutable pillars of the Islamic faith” (Choudhury, 101). This application deals with the amount of wealth that one accumulates. Islam does not explicitly say that one cannot accumulate a certain level of wealth, but it does clearly say that those who are wealthy have a responsibility to care for those who are less fortunate in terms of wealth accumulation. Islamic teaching specifically defines how a person should spend his wealth. These things include the necessities of living, productive investment, charity, and the benefit of Islam and Muslims. Any wealth that is left over after being spent on these things is liable to zakah. This tax is set at “2.5 percent on all idle wealth, one-tenth to one-twentieth of all agricultural produce, one-fifth of all mineral wealth, and a tax on the entire earning from capital of the nation” (Choudhury, 101). There are many different ways that one can pay zakah. These include support to the poor and needy, for those in bondage or in debt, and many other “noble causes for which money is required” (Choudhury, 101). This institution follows the same trend as the previous three – it tells Muslims *how* they should spend their wealth in a prescriptive fashion.

M. Akram Khan, like Choudhury, provides an in-depth look at the fundamentals of Islamic economics in his article “Islamic Economics: Nature and Need.” Khan states that “Islamic economics aims at the study of human *falah* achieved by organizing the resources of earth on the basis of cooperation and participation” (Khan, 51). *Falah* represents three distinct characteristics of man’s life on earth: survival, freedom from want, and power and honor. The Quran actually uses the term “*falah*” about forty times. Thus, Islamic economics seeks to study man’s survival, freedom from want, and his desire for power and honor. Man acquires *falah* by intentionally allocating his resources based on “cooperation and participation” (Khan).

According to Islamic economics, man's resources on earth are meant to provide livelihood to god's (Allah) creatures. One can either use these resources for himself or he can give them to others to use. The Quran teaches that Allah provides sufficient resources for mankind's use. Muslims believe that scarcity is the result of either imbalanced distribution or lack of proper use of resources. Therefore, scarcity is not a natural feature of the world, but rather a result of man's inadequate use or allocation of his resources. Going back to the idea of the prescriptive and the descriptive, Muslim's cannot deny the overarching descriptive, economic law that mankind has scarce resources at his disposal. They can only argue as to why this scarcity exists. (Khan)

All of the fundamental premises of Islamic economics are defined by shari'ah law, which is just the moral, ethical, religious, etc. law of the Islamic faith. The majority of these laws come straight from the Quran, while some are derived from teachings of the prophet Muhammad: "The [Islamic] economists develop their analysis by employing reason and real life data to the divinely ordained content. Islamic economics cannot be conceived outside this basic framework" (Khan, 52). Islamic economics skirts this line of the descriptive and the prescriptive by beginning with the premise that an "adequate" amount of resources to achieve falah exists in the world. Many schools of economic thought would disagree with this, and argue that the world does not naturally have an adequate amount of resources for man to attain all of his desired ends. In this sense, it seems that Islamic economics, based on Islamic religious teachings, crosses over into the realm of the descriptive, and makes faulty claims concerning the economic rules of this world. (Khan)

This blending of the descriptive and prescriptive can be seen in many other fundamental features of Islamic economics. Khan points out that Islamic economics is highly normative; that

is, it attempts to explain what man *should do* or what *might happen*. This is the same idea of the prescriptive. The opposite of normative economics is positive economics. This is the same idea as the descriptive in that it seeks to say *what happens*; not what someone *should do* or how something *should happen*. Further contributing to its nature of being driven by prescriptive beliefs, Islamic economics is also highly interdisciplinary in that it seeks to integrate the findings of other social sciences into its subject-matter. It is quite evident that religious beliefs play a monumental role in the nature and function of the Islamic economic system. (Khan)

Islamic economics maintains its highly prescriptive nature by clearly defining goals and expectations of how Muslims should act. It denounces the ideas of an individual's goals of maximizing satisfactions and preferences, as well as the idea of man's rational behavior, because these things generally assume that man is inherently selfish. Islam teaches that man is not inherently sinful or selfish, so he would never maximize his individual preferences and satisfactions at the expense of the larger society:

The assumptions of selfishness, greed, and acquisitiveness as instinctive in man are not supported by Qur'anic injunctions. The Qur'an informs that man has been created with an inborn nobility and has been equipped with positive qualities of character. (Khan, 53)

Characteristics like selfishness and greed are a result of the degeneration of man's nature, and man can overcome this degeneration by putting his faith in Allah. The attempt to maximize satisfaction of wants is an endless endeavor. As a solution to this problem, "Islam treats the object of economic activity as 'falah' and not satisfaction of wants" (Khan, 54). Thus, Islamic economics provides specific instruction as to what the goal(s) of economic behavior should be: survival, freedom from want, and power and honor. (Khan)

The Islamic idea of rationality is vastly different from the idea of economic rationality. Rationality in Islamic thought is that which will lead to a positive return in the afterlife. Again,

the Islamic “economic system” is grounded and greatly influenced by Islamic religious ideas. Islam’s view of the nature of man undoubtedly impacts the remedies prescribed by Islamic economics in terms of how man should act, and its view of the world has an impact on the descriptive characteristics in which the system operates. (Khan)

The specific role or job of an Islamic economist reflects the prescriptive trend. The Islamic method of economics is very much interdisciplinary, and its analysis attempts to incorporate many causal, unquantifiable factors:

In Islamic economy, like all Muslims, the economist has a normative role. He is a critic and leader in the society. He cannot be assigned the duty of merely studying a given phenomenon. Instead he critically examines various socio-economic trends in behaviour, predicts possible pitfalls, forecasts future crises and assumes the role of an architect of the society. Part of the responsibility of an Islamic economist is to study the extent of divergence in individual behaviour from the Shair'a h and to suggest policy measures which keep the economic system within the constraints of the Shari'ah. (Khan, 55)

The economist’s role indicates that he may serve as more of a socio-economist than a pure economist. Again, the Islamic economist must deal heavily with the normative, based on Muslim, religious teachings found in the Quran. The Islamic economist also has a seemingly impossible role as the “architect of the society” (Khan, 55). His method of economic analysis seems impossible as he is assigned the task of incorporating all kinds of societal factors into the analysis. This task and the method of economic analysis will be touched on later in this paper. (Khan)

In his article, “Objectives of the Islamic System,” Muhammad Umer Chapra provides insight into some of the specific goals of Islamic economics. He echoes Khan’s notions that Islam does not view man as inherently sinful, and that everything on earth has been created for man’s use. Chapra says that it is virtuous for man to enjoy and indulge in the creation: “Virtue in Islam, therefore, lies not in shunning the bounties of God, but in enjoying them within the

framework of the values for ‘righteous living’ through which Islam seeks to promote human welfare” (Chapra). Islamic economics also says that the very action of using and enjoying the resources that Allah provides is a spiritual activity: “Action in every field of human activity, including the economic, is spiritual provided it is in harmony with the goals and values of Islam” (Chapra). Again, the Islamic economic system is driven by the coinciding, prescriptive religion. (Chapra)

Chapra provides four basic goals of righteous living, according to Islamic teaching. These are the desired ends of a Muslim’s actions (which are based on his beliefs) that lead to economic outcomes. The first (and most relevant) goal is “economic well-being and the moral norms of Islam.” Muslims are encouraged to prosper materially and enjoy the bounties of Allah’s creation in moderation, according to Islamic teachings (excess is evil):

O you who believe! Forbid not the good things which God has made lawful for you and exceed not the limits. Surely, God loves not those who exceed the limits. And eat of the lawful and good that God has given you, and keep your duty to God in whom you believe. (Al-Ma’idah 5:87-88)

Along these same lines of enjoying the resources and aspects of creation at one’s disposal, the Quran states: “Eat and drink of that which God has provided and act not corruptly, making mischief in the world” (Al-Baqarah 2:60). This passage sums up well the goal of pursuing economic wellbeing while living according to Islamic moral norms. The prescriptive idea of living a “moral” life has a huge impact on the individual actions of Muslims. It is these individual actions that lead to the formation of certain economic institutions in Islamic societies. Economic outcomes are the evidence of the success or failure of these economic institutions. (Chapra)

Islam also prohibits the act of begging. Since individuals Muslims are not allowed to beg, Islamic economists seek to create an economic environment that allows those who seek



employment to be able to find it (in order to prevent the need to beg). Again, religious teachings impact the actions of individual Muslims. These actions, which are grounded in religious beliefs, ultimately lead to economic outcomes at the larger macroeconomic level. (Chapra)

Islamic economics serves as a clear example of an economic system that is driven and rooted in prescriptive, religious beliefs. Many economists seek to understand the theoretical relationship between certain beliefs and their economic outcomes by quantifying this relationship. While this form of economic analysis does lead to many unanswered questions and can be rather problematic (these problems will be briefly discussed later in the paper) due to an uncertain and ever-changing world, economists do their best to isolate and quantify this general relationship between religious beliefs and economic outcomes.

One of the more well-known studies concerning the relationship between religion and economic outcomes was performed by Robert J. Barro and Rachel M. McCleary, and reported in their article entitled “Religion and Economic Growth.” The basic goal of their research was to “investigate the effects of church attendance and religious beliefs on economic growth” (Barro, 1). They conclude that, based on detailed research methods, “economic growth responds positively to the extent of religious beliefs, notably those in hell and heaven, but negatively to church attendance” (Barro). Barro and McCleary begin their analysis by noting the importance of including aspects of a nation’s culture into the analysis of economic growth. They go on to say that religion is one key element of a particular culture. They say that “the principle aim in this paper is to fill this gap by analyzing the influences of religious participation and beliefs on a country’s rate of economic progress” (Barro, 1).

Barro and McCleary reference the secularization hypothesis, which says that economic development and religiosity levels are indirectly related: “economic development causes

individuals to become less religious” (Barro, 2). They also note that “economic development does not have a single dimension, but rather involves regular patterns of change in a number of economic, social, and political variables” (Barro, 2). Examples of these varying dimensions of economic development include “rising per capita incomes..., higher levels of education, urbanization, and life expectancy, and lower levels of fertility” (Barro, 2). Barro and McCleary claim that they have enough variation in their observational data that they can distinguish between these different (and organically connected) aspects of economic development. (Barro)

Barro and McCleary introduce a theory that opposes the secularization hypothesis. This theory views religiosity as a competitive market in which religious diversity affects religious competition, which affects the quality of religion, which affect the religious participation in a given culture, society, etc. All of these elements in this chase of causal connections are positively related. They also point out that religious diversity is dependent upon the amount and type of government regulation on the religion market. Thus, an increase in government regulation of the religion market would decrease the religious diversity in that particular society. However, there is a unique exception to this “rule.” Barro and McCleary make the claim that subsidies given to state affiliated churches will increase church attendance levels: “economic reasoning suggests that these subsidies would encourage formal religious activity – hence, the overall impact of a subsidized state church on religious participation could be positive” (Barro, 3). Government involvement in the “religion market” is one of many factors affecting religious participation. Religious participation is individual, human action based on religious and ethical beliefs. It is these kinds of actions that bridge the gap between religious beliefs and economic growth. (Barro)

Barro and McCleary acquired their data from three main sources of international data: the *World Value Survey* (WVS), the *International Social Survey Programme* (ISSP), and the Gallup

Millennium Survey. They perform statistical analysis on fifty-nine countries over a twenty year period from 1981-2001. (Barro)

After performing a detailed statistical analysis, Barro and McCleary find that the net effect of religion on economic performance is negative. Some aspects of economic performance are positively related to religion, but the overall effect of religiosity on economic development is negative: “For example, the measures of religiosity are positively related to education, negatively related to urbanization, and positively related to the presence of children” (Barro, 35-36). They also found that an increase in the level of pluralism leads to an increase in church attendance. It is interesting to note the different effects of the two aspects of religiosity on economic performance. Barro and McCleary conclude that church attendance and economic growth are negatively related, but religious beliefs and economic growth are positively related (holding church attendance constant). They also say that the fear of hell leads to more economic growth than the prospect of heaven. (Barro)

Barro and McCleary find interesting relationships between religion and economic growth, which does provide some insight into the indirect relationship between religious beliefs and economic growth. However, their analysis leaves many questions unanswered, and the nature of their statistical, quantified calculations raises many concerns. One of these concerns is that they seem to say that religious actions and religious beliefs are on the same level. One’s ideas affect what kinds of actions he will take. Therefore, it would be incorrect to assume that one’s actions are just as fundamental as his beliefs. Beliefs precede actions. Another problem with this kind of analysis is that it is impossible to quantify religious beliefs.

Thinking about problems with Barro and McCleary’s analysis leads one to think about the problems of trying to analyze the relationship between religious beliefs and economic

outcomes. One problem is that it is an indirect relationship. Human action is the key to unlocking this relationship. Human action, just like religious belief, is such a broad and complex topic that it is seemingly impossible to quantify. One cannot assign a unit of measurement to either religious belief or human action. In fact, quantifying economic performance is not an easy task either. GDP, the most widely used measure of economic prosperity, is loaded with glitches and inaccuracies.

Many other problems arise when investigating the complex relationship between religion and economics. With so much uncertainty and constant change in the world, it is difficult to isolate this relationship. So many other unavoidable factors come in to play that it is impossible (with our limited resources and knowledge) to fully isolate, analyze, quantify, and logically explain this complex and dynamic indirect relationship between religious beliefs and economic growth. In a certain sense, trying to isolate and analyze this relationship is similar to a central planner trying to successfully allocate production structures and goods for a complex, dynamic economy. Such a pursuit will undoubtedly end in failure.

The market has proven to be the best solution to the economic questions of efficient allocation, uncertainty, limited knowledge, etc. If left alone, the market will sort out all of these issues. Man does not need to try to control it or manipulate it. In fact, doing so will only create more problems. Just like markets, the complex interworking of the relationship between religion and economics is impossible to understand in its entirety, but will undoubtedly work itself out. While one may be able to catch a glimpse or a slight understanding of how it all works, it is impossible to fully grasp and organize.

While much uncertainty exists concerning the relationship between religious beliefs and economic outcomes, one thing is certain – human beings do have beliefs that affect their actions,

and these actions directly affect economic outcomes in a society. Another certainty is that the descriptive, economic laws of this world do not change. They are constant. Islamic economists have been given the task of incorporating religious and social factors into a coherent economic system. This is relatively easy in the sense that the vast majority of these factors come directly from the Quran. Islamic economics is soaked with prescriptive, religious teachings and beliefs. This does not change the fact that they must play within the descriptive rules of the game.

These economic rules are not a barrier or some kind of opposition, but rather serve as a guide. They will provide direction and instruction about how to achieve economic prosperity. They indicate what types of actions, policies, and institutions will lead to economic growth. The best prescription for economic growth is to abide by these descriptive, value-free economic laws. The indirect relationship between religious beliefs and economic growth is linked by human action. These actions can either follow economic laws or they can disregard them. With this in mind, one can conclude that certain beliefs are conducive to actions that lead to economic growth. However, the debate as to what beliefs lead to economic growth will not end until the Creator of economic laws returns to this earth.

## Works Cited

- Barro, Robert J., and Rachel M. McCleary. "Religion and Economic Growth." (2003): n. pag. *National Bureau of Economic Research*. Web. 15 Nov. 2012.  
<[http://www.nber.org/papers/w9682.pdf?new\\_window=1](http://www.nber.org/papers/w9682.pdf?new_window=1)>.
- Chapra, Muhammad U. "Objectives of the Islamic System." *Objectives of the Islamic Economic System*. N.p., n.d. Web. 15 Nov. 2012.
- Choudhury, Masudul Alam. "Principles of Islamic Economics." *Middle Easter Studies* 1st ser. 19 (1983): 93-103. *Jstor.org*. Taylor & Francis, Ltd. Web. 23 Oct. 2012.
- "Economic Growth." *Wiki.mises.org*. Ludwig Von Mises Institute, n.d. Web. 11 Dec. 2012.  
<[http://wiki.mises.org/wiki/Economic\\_growth](http://wiki.mises.org/wiki/Economic_growth)>.
- "Economics." *Merriam-Webster.com*. Merriam-Webster Dictionary, n.d. Web. 11 Dec. 2012.
- Hendrickson, Mark W. "Misesian Economics and the Bible." *Acton Institute: Religion & Liberty* 7.6 (n.d.): n. pag. Web. 11 Dec. 2012.
- Khan, M. A. "Islamic Economics: Nature and Need." *Iefpedia.com*. N.p., n.d. Web. 15 Nov. 2012.
- Kuran, Timur. "Islam and Underdevelopment: An Old Puzzle Revisited." *Public.econ.duke.edu*. N.p., n.d. Web. 15 Nov. 2012.
- "Religion." *Merriam-Webster.com*. Merriam-Webster Dictionary, n.d. Web. 11 Dec. 2012.