

RELIGIOUS NORMS AND LONG TERM DEVELOPMENT:
INSURANCE, HUMAN CAPITAL AND TECHNOLOGICAL
CHANGE

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Extended Abstract

The paper studies the interactions between religious norms and long-term economic development in an economy with incomplete markets. In the model, individuals invest effort in the formation of human capital. Since they face non-insurable idiosyncratic shocks, the competitive equilibria are characterized by under-investment in human capital and lack of consumption smoothing. We show that either mutual insurance or extra effort provision by all individuals may increase welfare. These allocations, however, cannot emerge in decentralized equilibria because they violate individual incentives. We study how religious norms allows to mitigate these problems. Under the assumption that effort is not observable we show that any implementable norm can either enforce mutual support and charity or extra effort provision but not both at the same time. As a result religious norms allows to sustain second best allocations. The features of the desirable norms depend on the relative importance of pure hazard (luck) and returns to effort which in turn is influenced by technological change. At early stages of development norms sustaining charity and mutual insurance are (constrained) optimal although they reduce effort. Once technology is sufficiently developed, however, society can achieve higher welfare with norms supporting effort provision in excess of the market. We find that this extra investment in effort provides partial insurance by altering factor prices and thereby redistributing income from good to bad states. Therefore both norms provide insurance but through different channels. The discussion of the historical evidence suggests that the first norm appears coherent with the structure of sins and the economic interventions of the Catholic Church. By contrast, the second norm is coherent with the theology and the early policies implemented in the Reformation countries. The model allows to rationalize under which conditions norms of ex-post mutual insurance are preferable from a welfare point of view, and under which conditions norms emphasizing effort provision and self-responsibility are more efficient. The theory delivers predictions on the role of the different religions for mutual support, work norms, human capital acquisition, schooling, technological adoption and for the role (and perception) of luck vs effort. This has potential implications for the design and evolution of institutions, the relative efficiency of markets vs networks and the emergence of welfare states. An extension of the model introduces individual heterogeneity in factor endowments and talent (e.g. feudal landlords, peasants and merchants). We study how costs and benefits of different norms are distributed across groups and the emergence of vested interests. This extension offers a positive theory of long-term development in which religious norms may evolve endogenously thereby creating feedbacks with the process of economic development.