

Some New Economics of Religion

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Why Religion?

- Religion plays an important role in the lives of many Americans.
 - Over two-thirds of Americans belong to a church or other religious organization
 - Two-fifths of Americans attend church in a typical week, and 95% profess belief in “the existence of God or a universal spirit”
 - Giving to religious causes accounts for more than two-thirds of individual charitable contributions.
 - Religiosity is not confined to particular income groups, racial groups, or locations in the U.S.: religious adherence and participation is widespread among all demographic groups.

Why Religion?

- Moreover, evidence from sociology, psychology, and medicine overwhelmingly document the positive impacts of religiosity
- Those few studies by economists have also found that religiosity, and in particular religious participation, is strongly associated with positive outcomes such as reduced frequency of socially deviant activities among youth.
- Huge correlation between religious participation and self-reported well-being
- But just that – a correlation, not a cause – or is it?

My Contributions

- I consider three questions
 - Can one find evidence for a causal effect of religiosity on outcomes?
 - Are giving to church and going to church substitutes or complements?
 - To what extent does government spending crowd out charitable spending by churches?

Is Religion Good for You?

- Correlations suggest yes – but is this effect causal, or are folks who are happier/more successful just more likely to be religious for other reasons?
- To address this question, rely on literature from sociology of religion: religious participation rises with share of neighbors that share your religion
- Allows me to draw comparison: Catholics in Boston vs. Lutherans in Boston – relative to Catholics in MN vs. Lutherans in MN.
- By doing so, can control for both differences between Catholics & Lutherans, and between Boston and MN
- **Key:** Not just comparing areas – comparing groups within areas

Is Religion Good for You?

- Problem: Religious info is self-reported
- Suppose that folks who are more religious are more likely to report their religion in survey
- Then we will find that where there are more folks of a given religion, there is more religiosity – but this is spurious

Is Religion Good for You?

- Solution: Use ethnic mix of the area
- Religions cross ethnic boundaries in essentially random ways
- Consider Italian living near Swedes vs. Poles – only thing that differs is their religion
- So make a measure of “co-religionist density” – share of area that consists of ethnic groups, other than your own, that share your religion
- By excluding own ethnic group, avoid other effects of being near your ethnic group

Is Religion Good for You?

- Effects of religious density on religious participation – use GSS
- Use index of participation – each unit is a doubling of participation frequency
- Find that 10% rise in co-religionist density leads to 8.5% rise in religious attendance

Is Religion Good for You?

- Effects of religious density on economic outcomes – use 1990 census
- Model outcomes as function of co-religionist density – once again, controlling for effects of ethnicity and location
- Striking findings of positive effects on outcomes:
 - 10% increase in religious density leads to 0.91% increase in income

Is Religion Good for You?

- Interpretation: this is the effect of increased religiosity
- 10% increase in co-religionist density leads to roughly 10% rise in attendance
- So this says that 10% rise in attendance leads to 0.9% rise in income
- Projecting: doubling frequency of attendance leads to 9% higher incomes

Is Religion Good for You?

- Other findings: doubling of attendance leads to:
 - 0.5 more years of education
 - Less high school dropout, more college
 - 16% reduction in odds of welfare receipt
 - 4.4% increase in odds of marriage (with compensating fall in divorce)
- This may not all be attendance – effects of religiosity more generally

Is Religion Good for You?

Problems with this Approach:

1) Do more religious areas have better outcomes for other reasons

NO: Recall that this controls for any general differences across areas

2) Are there other effects of co-religionist density?

NO: Results hold up even if only use co-religionists from other parts of world

No effect on any other type of civic participation

Is Religion Good for You?

- Clear evidence that more religiosity is associated with better outcomes
- But channel is unclear
 - One possibility is that individuals in an area become more religious, and outcomes improve
 - Another possibility is that individuals with good outcomes move to be near others of their religion

Test: consider movers – if no effect on movers, suggests that channel is the first one

This is in fact the case – all effect is based on place of birth, not place of residence, for those who move

Is Religion Good for You?

- Unresolved question: **Mechanisms**
 - Benefits of spirituality?
 - Religion as insurance?
 - Social capital?
 - Religious education?

Pay or Pray?

- If religious participation matters, then we need to think about what determines participation
- One potential determinant: religious giving
- Are giving and going substitutes or complements?
- In cross-section, clearly complements – those who are more religious do more of both
- But what matters for policy is causal relationship – what happens to participation if we induce more giving?

Pay or Pray?

- Test: need something that affects giving, that doesn't independently affect going
- Answer: tax subsidy to charitable giving
- As the tax code subsidizes giving to charity, does that increase religious giving? And what does that do to religious participation?

Pay or Pray?

- Effect on religious giving: use Consumer Expenditure Survey
- Measure for each individual the tax benefit to an additional \$1000 of religious giving
- Model religious giving as a function of this tax subsidy, controlling for individual characteristics such as income
- Find that each percentage point decrease in tax price of giving raises religious giving by \$2 – elasticity of -0.48
- Overall giving more price sensitive – elasticity of -0.89

Pay or Pray?

- Next, measure effect of charitable tax subsidy on religious participation in the GSS
- Find a strong *positive* effect of tax price on religious participation – lowering the tax price by 1 percentage point decreases attendance by 2% - elasticity of 0.44
- Implies elasticity of going with respect to giving of -0.92 – strong substitutes
- Robust to variety of specification checks – including no effect on other civic participation

Pay or Pray?

- Implication: government policy to subsidize charitable giving may have unintended offsetting effects on religious participation
- This is possible negative externality that offsets positive externality of increased giving

Government Crowd-Out of Faith Based Charity

- Final project: assess extent to which government provision of public services reduces religious provision
- Joint work with Dan Hungerman
- Major issue motivating interest in faith-based provision of public services
- Olasky: great society simply crowded out more effective private charitable functions
- Is this true?

Government Crowd-Out of Faith Based Charity

- Churches used to play a much more important role in provision of social services
- 1926: churches spent \$150 million, state and local governments (no feds) only \$60 million
- But church spending fell at the time of the New Deal
- By end of New Deal, government was spending 10 times as much as churches
- Was there a causal relationship?

Government Crowd-Out of Faith Based Charity

- Problem: New Deal was during depression, which may have independently affected church charity
- Address this through two insights:
 - Can get data for six major Christian denominations on charitable spending by state and year
 - New Deal spending varied by state and year for political reasons - so can assess effect by comparing political power across areas

Government Crowd-Out of Faith Based Charity

Collect data from 1929-1939 for each state for 6
major denominations (rank in 1926 in parens)

Congregational-Christian Churches (11)

Lutheran Church-Missouri Synod (10)

Northern Baptist Convention (8)

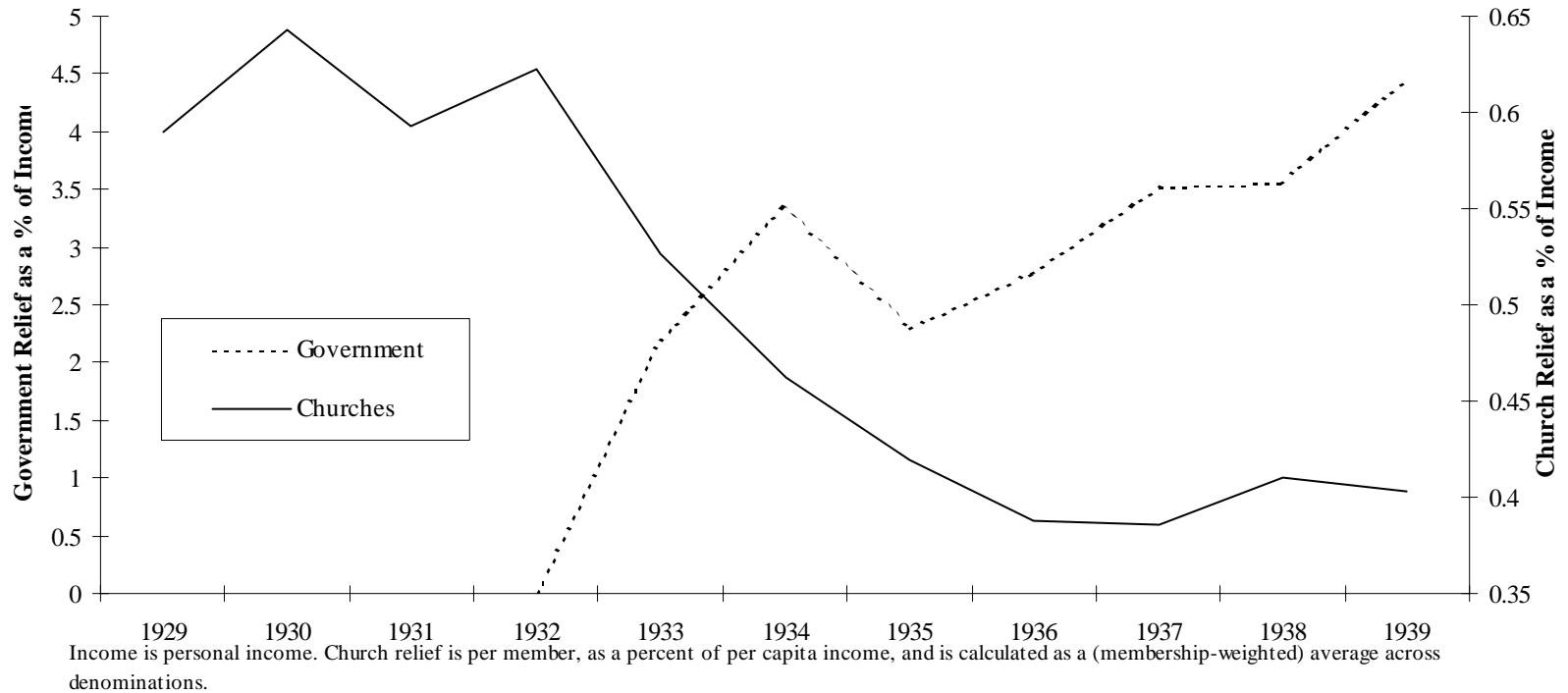
Presbyterian Church in the United States (15)

Presbyterian Church in the USA (5)

Southern Baptist Churches (3)

Government Crowd-Out of Faith Based Charity

Figure 1: Government and Church Relief during the Great Depression



Government Crowd-Out of Faith Based Charity

- But is this relationship causal? Does it just reflect other features of recession?
- Test: use variation in New Deal spending due to political factors
- New Deal spending levels & allocation determined by a game between Harry Hopkins & Appropriations committee
- The bigger they made his pie, the bigger their slices were

Government Crowd-Out of Faith Based Charity

- Best example: James Buchanon of Texas
- Head of committee in 1937
- Got lots of goodies from FDR – including nation's first Social Security office
- Heart attack during 1937
- Next year: Texas' allocation of New Deal spending fell by 15%!
- Our empirical strategy: ask whether places with politicians with rising tenure on appropriations committee saw rise in ND spending and fall in church charity

Government Crowd-Out of Faith Based Charity

- Answer: yes to both
- Each month of appropriations committee tenure leads to 1.2 more cents in ND spending per capita
 - Politics explains 10% of ND spending distribution
- Also led to lower church charity
- Implication: each dollar of ND spending reduced church charitable spending by 3 cents

Government Crowd-Out of Faith Based Charity

- Is this big or small?
- Relative to ND dollars, it is small (3%)
- But church spending was only 10% as large as ND dollars
- So relative to church spending, this was large (30%) – can explain *all* of decline in church charitable spending during the ND
- So crowdout is a real consideration – but may not be important overall offset to public spending, if this episode is any guide

Economics of Religion

- These studies are hopefully just the tip of the iceberg
- Many interesting questions, both following up on these studies and doing new work
- Exciting ongoing work in macroeconomics (Robert Barro)
- Exciting ongoing work on religious institutions (Iannaccone, Berman)