



Religion and the European Union

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Abstract

We review a recent literature on cultural differences across euro member states. We point out that this literature fails to address cultural differences between Protestants and Catholics, which are likely a major underlying reason for cross-country differences. We argue that confessional culture explains why Catholic countries tend to have weaker institutions but are more open to economic and political integration. EU policies after the economic crisis looked clumsy and failed to address all concerns, but were viable, caused only a manageable amount of serious backlash and tied in well with Europe's cultural diversity, also providing scope for learning and adaptation.

Keywords: European Union, religion, values, culture.

JEL classification numbers: Z12, F15.

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1 Introduction

The European Union seems to be preferred by Catholics. Among the six original members of the EU's predecessor "European Economic Community," formed in 1957, four were predominantly Catholic and the remaining two had substantial Catholic minorities. European countries with greater Protestant influence seem more reluctant to pass on responsibilities and jurisdiction to European institutions. Protestant Scandinavian EU member countries Sweden and Denmark decided not to initially join the euro. Norwegians voted not to join the EU in a referendum in 1994 and the United Kingdom is likely to leave the EU after a referendum in 2016.

We start by reviewing the recent literature on cultural differences across euro member states, in particular Guiso et al. (2016a), Alesina et al. (2017), and Brunnermeier et al. (2016), and then suggest a complementary interpretation of their findings. While all of these are excellent pieces of research, they largely ignore religious denomination and, thus, fail to explain the origins of the explored cultural differences. Our argument builds on previous work by Arruñada (2009, 2010), analyzing the different social ethics of Catholic and Protestant values, and Chadi and Krapf (2017), showing how Protestant values have differentially affected political attitudes of German citizens with respect to the Euro crisis.

We show that economic outcomes and measures of institutional quality systematically differ across Catholic and Protestant countries in the Euro zone and explore how greater consideration of these differences should help us understand and organize European integration. We argue that religious denomination is a major determinant of the Euro crisis and that a deeper understanding of this relationship is crucial for its resolution. In the long run, and even at current levels of intercountry diversity, the Euro zone can probably become as successful economically as national states that have both Catholic and Protestant populations (e.g. Germany, Netherlands, Switzerland).

Currently, with little coordination of fiscal policies, it appears that Catholic countries have a harder time adjusting to the rules required for joint monetary policy. Europe does not have the luxury of exploring different options to address this problem. Decisions must be based on a limited set of information and future historical judgments will be based on the single decision path finally chosen. However, the hybrid policies adopted in response to the economic crisis may be well-adjusted in two dimensions. First, they are close to the political equilibrium and may therefore be more sustainable than more ambitious technocratic integration plans, which may easily trigger nationalistic backlash. Second, they are also close to median preferences at the citizens' level, especially when considering the mixed cultural composition of some countries such as Germany.

Our interpretation of cultural differences between Catholics and Protestants also differs from the literature that emphasizes elite influence. Rubin (2017), for example, argues

that Catholic and Protestant countries developed differently because of self-serving actions of religious leaders. Nowadays, however, religious leaders are not as influential as they used to be. Yet, Catholics and Protestants are still different and in some dimensions keep diverging. This is, however, not because of the actions of contemporary religious leaders, but because of cultural differences that were shaped by the actions of religious leaders centuries ago.

This chapter is organized as follows. Section 2 critically assesses the recent literature on European integration. Section 3 presents and interprets evidence that the European sovereign debt crisis can be seen as a cultural conflict between Protestants and Catholics. Section 4 argues that a clearer understanding of the link between religious denomination and national identities is key for the road ahead for the EU. Lastly, Section 5 discusses how Europe can benefit from its cultural diversity.

2 Literature review: European integration

A stream of recent works discusses the role of cultural values in European integration, pointing out tensions and ambiguities, such as lack of convergence in values and the strength of national identities. These analyses would benefit from greater consideration of religious factors that are likely a major root of differences in values but also a mitigating force of centrifugal tendencies, including that of nationalism.

Guiso et al. (2016a) study different cultural norms in Euro member countries and develop model in which the desirability of centralization increases in cultural diversity. They present several descriptive statistics that are very similar to statistics in Arruñada (2010). The difference is that where, similarly to Guiso et al. (2003), Arruñada compares Catholics and Protestants within countries, Guiso et al. (2016a) compare countries. For example, whereas Arruñada reports that Catholics are more likely to cover up for friends, Guiso et al. report that, for instance, Greeks are less likely than Germans to call the police, identify criminals or testify against them. If these really are distinctive differences between Northern and Southern Europe, they may, again, be entirely due to differences between Catholics and Orthodox on the one hand, and Protestants on the other hand. Indeed, in a footnote, Guiso et al. (2016a) allude to the possibility that religious denomination and confessional cultures may play a role, but largely ignore the implications.

Asserting that in many areas, there has been divergence rather than convergence, Guiso et al. (2016b) argue that Europe is trapped; it has gone so far that it cannot go back; going further is difficult because of national interests; and the current setting with common monetary policy and national fiscal policies is unsustainable. So, they claim that, inevitably, there will be a catastrophe.

It is true that Europe put itself in a hard position. But, like for a swimmer in the middle

of a strong current, it could be suicidal to swim head on, accelerating political or economic union. Better to “navigate” the current, moving along it, saving energy and focusing all efforts into deviating bit by bit towards the chosen direction. Building effectively on Jean Monnet’s idea of relying on centralization in certain areas, hoping that there would be convergence in other areas, requires choosing carefully what to centralize and when.

This choice must consider institutional and cultural constraints. In our view, Guiso et al. (2016a), underestimate the role of moral hazard that takes place at the level of governments. In Table 2 of their paper, they report survey evidence showing much higher support among Germans for Spain to remain part of the euro zone in July 2011 than for Greece, where moral hazard was a more important factor. Arguably, such moral hazard at the governmental level is caused by poor resolution of the public good problem between citizens and governments.

This interaction between governments and citizens is heavily affected by citizens’ values. Based on arguments about social ethics and compliance with uniform rules laid out in Arruñada (2010) and Chadi and Krapf (2017), we consider culture, or more precisely religious denomination a main driver of moral hazard. For example, both Arruñada as well as Chadi and Krapf show that German Catholics are more likely than German Protestants to consider tax fraud as morally justifiable. In the same direction, they observe greater willingness of Catholics to cover up rule-cheating friends. Overall, Catholics are more protective of their personal relations, including their families, but less willing to contribute to solving public good problems at a community or institutional level. Focusing on country differences hides these differences and precludes attempts to develop institutionally well-suited solutions.

Alesina et al. (2017) argue that cultural divergence within the EU between 1980 and 2009 endangers its future. However, their measure of cultural diversity suffers potential weaknesses. First, divergence disappears when a different metric (cosine distance) is considered (Alesina et al., 2017, footnote 22). Second, some of the variables that they consider for identifying cultural traits (e.g., opinions on abortion) seem relatively unimportant with respect to decisions on European integration whereas they omit others arguably more relevant (e.g. views on immigration and EU-wide distribution).

In any case, more deeply, cultural divergence between countries in (for cultural matters) such short horizons might well be a minor factor compared with deeper and more permanent cultural differences. Alesina et al.’s finding that within-country differences are larger than cross-country differences points in this direction, too. They also sideline the origins of such deeper cultural differences—including religion, which holds potential to explain cultural diversity.

Alesina et al. (2017) do find that between 1980 and 2009 (different waves of EVS), Europeans have become more different in their attitudes towards religiosity. Both, North-

ern Europeans and Southern Europeans, have become more secular. But in the South this trend was much slower and the gap increased. In principle, this divergence may be explained by different trends among Catholics and Protestants. It is well documented that Protestants have been more likely to quit the church than Catholics. It is possible that the gap could have remained constant or even decreased if Alesina et al. had controlled for religious denomination. They show that there was cultural divergence within countries, too. For example in Germany and the Netherlands, which have both had Protestant and Catholic populations for centuries, this within-country divergence may also have been driven by different trends among different religious denominations.

Other aspects of Alesina et al. are in line with a denomination-based interpretation, too. For example, their analysis of cultural clusters suggests that France is an outlier in Europe and most different from the other countries. This may be related to France's distinctive religious history. France is still on paper predominantly Catholic, but was secularized early and profoundly. On the other hand, Germany, which may be a good mirror for Europe as a whole because it has both Protestant and Catholic populations, is closest to the centroid. Differences between France and Germany are also emphasized in Brunnermeier et al. (2016), a recent book that investigates persistent cultural traits behind the Euro crisis.

Brunnermeier et al. (2016) divide the EU into "French" and "German" countries, and emphasize how the predominance of different economic ideas in French and German-type countries may hinder further integration. Whereas the German approach to the Euro crisis is characterized by rules, accountability and structural reforms, the French approach favored discretion, solidarity and Keynesian stimulus. Again, the dichotomy between Germany and France applies only superficially. Chadi and Krapf (2017) show that there is substantial heterogeneity within Germany, which is linked to religious denomination. Alesina et al. (2017) find that within-country heterogeneity exceeds cross-country heterogeneity and suggest that France itself may be an outlier among the Southern European countries that Brunnermeier et al. label as 'French.'

Brunnermeier et al. note that "nothing is written in stone" meaning that cultural attitudes in a country can also change. For example, they argue that Germany was Keynesian and interventionist until WWII, and that German policy making became more rule-based afterwards in order to prevent a reemergence of populism and fascism. While this reasoning is certainly intriguing, it is based on anecdotes and leaves many open questions. Austerity was already popular in Weimar Germany (Galofré-Vilà et al., 2017). And others, such as Fratzscher (2014) and Krugman (1999) trace German's affection for rules back to Kantian philosophy, which stresses legal institutions and, thus, follows Protestant traditions.

Table 1: RELIGIOUS DENOMINATION AND MACRO INDICATORS.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bond yields 12/2011			Public debt 2015		
Share Catholic	-1.649 (8.389)	8.072** (2.669)		-18.638 (39.451)	55.007* (26.427)	
Share Catholic & Orthodox			12.751** (5.231)			85.226** (31.464)
Population & constant	Yes	Yes	Yes	Yes	Yes	Yes
Greece & Cyprus included	Yes	No	Yes	Yes	No	Yes
Observations	14	13	14	16	14	16
R ²	0.0606	0.4707	0.4619	0.0478	0.3048	0.3491

Notes: Data were retrieved from the World Religion Database, the OECD and from World Bank. Long-term bond yields are not available for Cyprus and Malta. Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

3 Christian denominations and the economy of the euro zone

Macroeconomic performance and measures of institutional quality across EU countries are significantly correlated with shares of different religious denominations, which also correlate with different attitudes towards the euro crisis.¹ Table 1 and Figure 1 display correlations between denominational shares and macroeconomic performance.

In the vein of Arruñada (2010), we characterize Catholicism as intermediate between Orthodox Christianity and Protestantism with respect to their views on penance and con-

¹We include all countries that were members of the Euro zone and EU member states in 2010 if the relevant data are available. We retrieved country-specific population shares of religious denominations from the World Religion Database. These shares are defined such that they assume values between 0 and 1. The 16 countries included in our analysis are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain. Monaco, San Marino and the Vatican also used the euro in 2010, but were not EU member states. Where available, we used shares based on wave 4 of the European Values Survey, which took place in 2008/09. The only exception is Italy, for which we used shares based on the Pew Global Attitudes Project 2007. Long-term bond yields in percent were retrieved from the OECD. We use data for December 2011, the last month of the year examined in Chadi and Krapf (2017), but the results are robust to choice of the month for which we use data. Data on public debt were also retrieved from the OECD, but are missing for Cyprus, Estonia, Lithuania and Malta. For these four countries, we filled in numbers published by World Bank. Our measures of institutional quality, “rule of law” and “control over corruption” were retrieved from the World Bank Governance Indicators. We use debt and institutional quality data for 2015, the latest year for which they were available. Debt is measured relative to gross domestic product (GDP) in percent. All indicators of macroeconomic performance and institutional quality are available online from <https://data.oecd.org/interest/long-term-interest-rates.htm>, <http://data.worldbank.org/data-catalog/world-development-indicators> and <http://info.worldbank.org/governance/wgi>. Bond yields were not available for Cyprus and Malta.

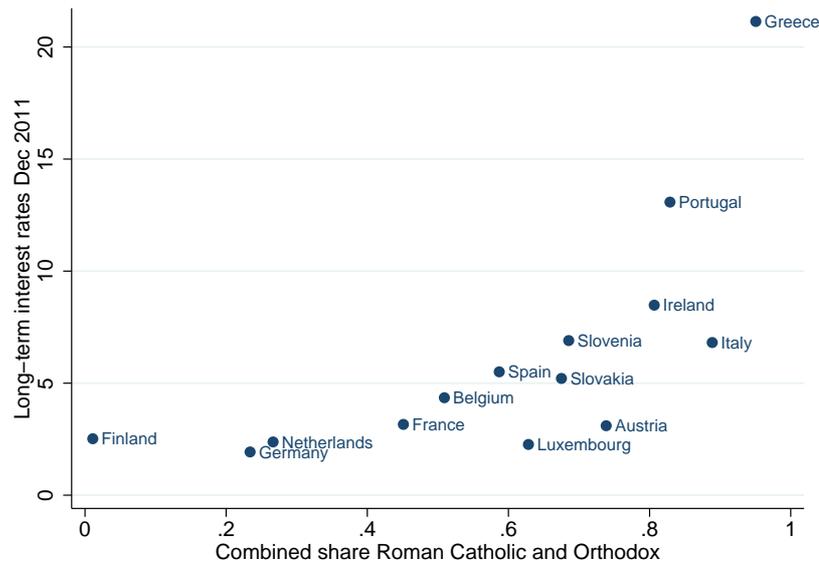


Figure 1: RELIGIOUS DENOMINATION VERSUS DECEMBER 2011 BOND YIELDS.

fession, which, we claim, are fundamental for institutional and economic performance.² We, therefore, provide results for three different regression specifications. First, we include all Euro countries and look at how share of Catholics affects the outcome of interest. Then, we exclude Greece and Cyprus (if data for Cyprus are available), for which the distinction between Protestant and Catholic does not apply, from our analysis. Finally, we display results using the combined shares of Catholics and Orthodox Christians, again for the whole sample. We do not show results for share of Protestants, which are never statistically significant.

As expected, we find positive correlations between share of Catholics among the populations of Euro zone member states and bond yields as well as public debt if we only consider countries that have traditionally been either Protestant or Catholic (see regression specifications (2) and (5) in Table 1). According to our results, an increase in the share of Catholics from 0 to 1 is associated with an increase in long-term interest rates by 8 percentage points and an increase in total public debt by 55 percent of GDP.

The link between religious denomination and the two outcomes under consideration becomes even stronger if we combine the shares of Catholics and Orthodox Christians. Corresponding regression results are displayed in specifications (3) and (6) of Table 1. We also visualize the relationship with bond yields in Figure 1. An increase in the combined share of Catholics and Orthodox Christians from 0 to 1 is then associated with an increase in long-term interest rates by 12.75 percentage points and an increase in total public debt by 85 percent of GDP.

²For details on Christian Orthodox confessional culture, see Ware (1993), pp. 288-90.

Table 2: RELIGIOUS DENOMINATION AND INSTITUTIONAL QUALITY.

	(1)	(2)	(3)	(4)	(5)	(6)
	Rule of law 2015			Control over corruption 2015		
Share Catholic	-4.804 (11.947)	-25.202*** (6.445)		-6.985 (14.895)	-31.897*** (7.918)	
Share Catholic & Orthodox			-28.891*** (6.613)			-35.919*** (8.708)
Population & constant	Yes	Yes	Yes	Yes	Yes	Yes
Greece & Cyprus included	Yes	No	Yes	Yes	No	Yes
Observations	16	14	16	16	14	16
R ²	0.0317	0.4464	0.4805	0.0322	0.4395	0.4611

Notes: Data were retrieved from the World Religion Database, the OECD and from World Bank. Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

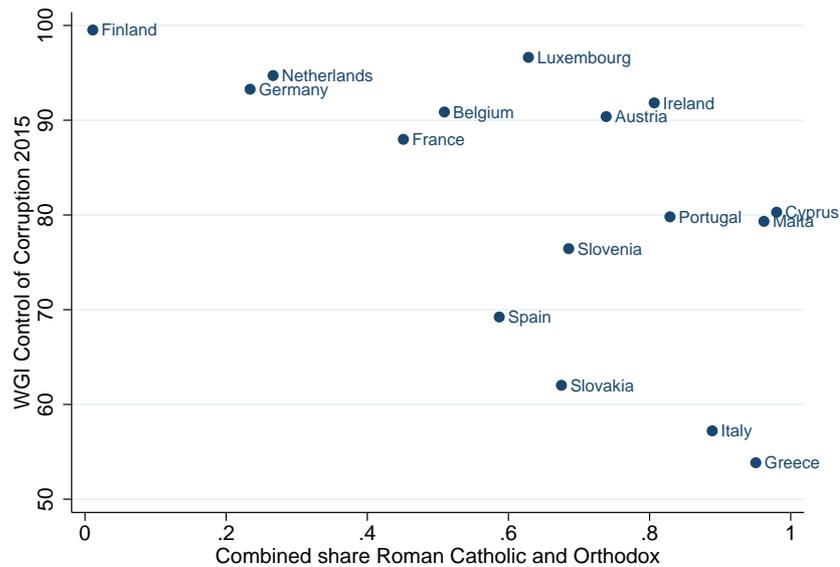


Figure 2: RELIGIOUS DENOMINATION VERSUS CONTROL OVER CORRUPTION IN 2016.

That Catholics view corruption as less of a bad thing has been shown before using micro data, for example in Arruñada (2010). Colvin and McCracken (2017) further corroborate Arruñada’s findings and provide additional evidence that Protestants have higher confidence in the rule of law. Table 2 shows that these differential attitudes translate into cross-country differences. According to the World Bank’s World Governance Indicators, Protestant European countries score better than Catholic countries according to their rule of law measures.

Chadi and Krapf (2017) show that cultural differences between Protestants and Catholics also translate into different attitudes towards the Euro crisis. Members of the German parliament, in particular the ones affiliated with the ruling Christian-conservative party, were more likely to vote against a Greek bailout if they came from more Protestant constituencies. Moreover, concerns about the Euro crisis adversely affected the personal wellbeing of Protestants, while the wellbeing of Catholics and others remained virtually unaffected.

All these outcomes are consistent with arguments based on the different theologies of penance and confession of sins which were the basis for the major split in Christianity. For centuries, auricular confession of sins, discontinued in Protestant areas soon after the Reformation, was maintained in Catholic and Orthodox communities. Thus, Chadi and Krapf (2017) argue that Catholics are more likely to forgive sins (and debt) because of the lenience associated with the ages-old practice of confession of sins, a possibility that is also mentioned in Guiso et al. (2016a). Arruñada (2009, 2010) makes a more subtle argument: Whereas Protestantism is based on uniform moral standards that apply to all individuals and at all times, confession predisposed Catholic (and Orthodox) believers to

adapt moral standards to different circumstances and personalities.

Different confessional cultures have thus emerged, each having different advantages and disadvantages. Crucially, different cultures can only survive if they each offer economic benefits. Catholics tend to accept heterogeneous moral standards that differ across individuals assuming that individuals have different moral capacity. Protestants, on the other hand, apply uniform moral standards that can be easy to follow for some individuals but hard for others. From an organizational point of view, none of the two cultures strictly dominates the other.

But the two cultures may lead to very different institutions shaped by the societies' different moral codes. While Protestant society is built around uniform rules, Catholic society is more socially cohesive, but also more conducive to moral hazard. Given that, in Catholicism, standards can be adapted to circumstances, it may not come as a surprise that Catholic countries tend to be more likely to abandon the Maastricht criteria when they seem inconvenient even though they agree that they may be good in principle. Protestant countries, however, based on their more uniform moral standards, are less likely to make exceptions.

Our theory of confessional cultures explains why a more integrated Europe finds more support among Catholics, whereas Protestants tend to prefer a multi-speed union. Just as Protestantism's uniform moral standards imply that an individual can only be part of a social community if they are able to comply with its moral standards, a country can, following this logic, only be part of a political community if it is able to comply with its economic and political rules.³

4 Religion and national identity

Confessional culture may help explain not only the recent past but also shed some light on the EU's future, in particular about the emerging threat of different forms of nationalism. A unifying theme of populist movements in Europe is their anti-EU stance. Their

³The issue of integrated vs. multi-speed Europe goes back at least to 1994, when Protestant Wolfgang Schäuble, at the time leader of the CDU/CSU parliamentary group in the German Bundestag proposed that there should be a "Two-Speed Europe." This concept would have divided the EU into a more advanced and homogeneous "Core Europe" that progresses more quickly and into periphery countries that might join the core later based on certain criteria. The idea was instantaneously rejected by Catholic German Chancellor and CDU party leader Helmut Kohl. But the creation of the Euro was a first step towards such a multi-speed Europe with Protestant countries United Kingdom, Sweden and Denmark not immediately joining the common currency. A concept for EU reform outlined by President of the European Commission Jean-Claude Juncker, a Catholic, in a speech to the EU parliament on September 13, 2017 reignited this discussion. Among Juncker's proposals was the extension of the Euro area to all members of the EU. The opt-outs of the past may, indeed have been a brake on European integration and bringing all member states closer together may help implement the reforms that are necessary to solve the Euro crisis. Juncker's speech received much applause but also immediately faced opposition, notably from Protestant Dutch and Danish Prime Ministers Mark Rutte and Lars Løkke Rasmussen.

Table 3: RELIGION AND AfD VOTE SHARE IN THE GERMAN FEDERAL ELECTION 2017.

	AfD vote share in percent		
	Germany	except Bavaria	Bavaria
Share Protestant	2.346** (1.110)	5.091*** (1.097)	-5.283*** (1.766)
Other or no religion	-0.527 (2.011)	2.362 (1.883)	-13.110*** (3.758)
Federal state dummies	Yes	Yes	No
GDP pc & unemp & const	Yes	Yes	Yes
Observations	299	253	46
R ²	0.8155	0.8459	0.4040

Notes: Dependent variable is AfD vote share in percent. Shares of denominations between 0 and 1 are from the census 2011, base-line is Catholics. Unit of observation is Germany's 299 electoral districts. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

recent rise is linked to a combination of concerns about the economy and about national sovereignty. It may, however, be no coincidence that economic issues are relatively more serious in the Catholic south, whereas nationalism and sovereignty concerns matter more in the Protestant north. As national identity remains the main obstacle to further European integration (Alesina et al., 2017), weaker Catholic preferences for national identity and sovereignty may play a viable countervailing role.

The Catholic Church's long history of fighting national political powers supports the view that Catholicism is less conducive to the consolidation of both national identities and institutions. Moreover, the church has traditionally performed many functions as a supra-national entity that could serve as substitutes for national institutions and were in some way similar to the ones performed nowadays by the EU. For example, medieval universities, mostly linked to the church, with Latin as a common language enhanced active movement of human capital. The church also served as a court of last resort for many litigations and coordinated 'common-defense' crusades. The Reformation may, to some extent, have been a rebellion against Rome's influence.⁴

Recent research by Cantoni et al. (2017) showed that Catholics were less likely than

⁴Referring to a vast literature on the causes and consequences of the Reformation (Becker et al., 2016), Stark (2014), for example, argues that, nearly without exception, autocrats opted in favor of Lutheranism in places in which the church had the greatest local power. Local princes such as Frederick the Wise of Saxony may have been inclined to support Martin Luther because, according to his teachings, the church should not wield any secular power. Similarly, the Reformation may have failed in countries like Spain because the Spanish kings had already won over Rome and reformed their churches. In the 15th century the Spanish grandparents of Emperor Charles V (Charles I in Spain), King Ferdinand II and Queen Isabella, had been able to deprive Rome of its secular powers in Spain. But he was not able to achieve the same in the Holy Roman Empire.

Protestants to vote for Germany's contemporary right-wing party AfD in state elections after it started espousing more nationalist and anti-immigrant policies in 2015. In Table 3, we consider the AfD's results in the federal election held in September 2017 using the shares of Catholics and Protestants in Germany's constituencies used in Chadi and Krapf (2017). We find that, overall, Protestants are still more likely to vote for the AfD than Catholics.⁵

5 Discussion and outlook

Catholic societies appear more willing to give up national sovereignty in favor of European integration, whereas Protestant countries tend to have national institutions that have higher quality. This suggests an institutions-integration tradeoff that is resolved differently by Catholics and by Protestants. We have developed an argument, according to which these different approaches are in line with different confessional cultures.

But Europe can transform its cultural heterogeneity from a weakness into a strength. Protestant values reduce moral hazard and improvidence and improve public goods provision. Catholic values, on the other hand, balance against exceeding austerity and, possibly, against nationalism.

Whether fiscal centralization is economically beneficial for all involved parties is not immediately obvious. People in Protestant countries fear that fiscal transfers would only flow from the Protestant north to the Catholic south. But the currency union is not prepared to deal with the challenges of the future and may not survive without joint unemployment insurance, a banking union and commonly issued bonds that serve as a cushion against idiosyncratic regional shocks. Without further centralization, Protestant countries would risk forgoing the benefits of integration.

It may, however, be a mistake to rush such reforms too quickly. Many authors, like, e.g., Guiso et al. (2016a) suggest that centralization may not only be optimal from a purely economic but also from a cultural point of view. At least in the medium term, however, ignoring national identities may trigger serious conflicts and a risk of disintegration. Recent policies adopted by the EU may, therefore, have been more appropriate than drastic centralization. These policies also accounted for moral hazard by punishing Greece more severely than Spain. They may not have been fully satisfactory to anyone, but provided a compromise between tough Protestant and lenient Catholic positions. In fact, this compromise may have been representative of median values and therefore most widely accepted in countries like Germany and the Netherlands, which traditionally have a mix of Protestant and Catholic populations.

⁵A possible explanation for the Bavarian paradox is that the influx of asylum seekers via the Balkan route in Lower Bavaria, one of Germany's most Catholic regions, caused a disproportionate surge in AfD votes there.

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