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Weber revisited: The protestant ethic and the spirit of nationalism

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Weber Revisited: The Protestant Ethic and the Spirit of Nationalism

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Discussion Paper No. 199

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Weber Revisited: The Protestant Ethic and the Spirit of Nationalism

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Abstract

We revisit Max Weber's hypothesis on the role of Protestantism for economic development. We show that nationalism is crucial to both, the interpretation of Weber's Protestant Ethic and empirical tests thereof. For late 19th century Prussia we reject Weber's suggestion that Protestantism mattered due to an "ascetic compulsion to save". Moreover, we find that income levels, savings, and literacy rates differed between Germans and Poles, not between Protestants and Catholics using pooled OLS and IV regressions as well as IV mediation analysis. We suggest that this result is due to anti-Polish discrimination.

JEL Classification: N13, N33, O16, Z12

Keywords: Max Weber, Protestantism, Nationalism

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1 Introduction

Economists increasingly acknowledge the role of “culture” for economic development, related to a new, broader approach in economics to human behaviour and decision making. One of the most influential ideas today stems from Max Weber's work more than one century ago. Weber (1904, 1905) famously hypothesized that a specific Protestant work ethic fostered modern economic development due to a “compulsion to save”. He motivated this with some statistical evidence on differences between Protestants and Catholics in Baden around 1900 and used anecdotal evidence to suggest a much more general relationship.

In this paper, we revisit Weber's hypothesis and the evidence on it for 19th century Germany. We argue that the “common interpretation” (Delacroix and Nielsen, 2001) of Weber has mostly missed his own argument on saving behaviour as the key mechanism. Moreover, it missed Weber's nationalist and anti-Polish bias. Weber wrote in a context where religious differences (between Catholics and Protestants) overlapped with ethno-national differences (between Poles and Germans), and he was well aware of this. Max Weber was a passionate German nationalist, and his writing, including the “Protestant Ethic” (PE), should also be understood as a contribution to political education of the German public (Barbalet, 2008). In fact, the (PE) should be seen as much as an “intervention into German political concerns than an account of the emergence of capitalism” (Scott, 2009, p.903). We show empirically that we need to modify the so-called “common interpretation” twofold: with a focus on savings as a mechanism by which religion might have affected economic outcomes and by controlling for differences between ethnic groups as a possibly crucial confounding factor.

Prussia in the 19th century provides us with rich variation for a new test of Weber's PE. Starting with basic descriptive evidence we show that income levels, savings and literacy rates across Prussia after 1870 are more strongly correlated with differences between ethnic groups than with those between religious denominations. Simple OLS regressions suggest that ethnicity is likely to be a crucial factor to explain the large variation in outcome variables across the German Empire.

To provide causal evidence on the role of culture for development, we follow Acemoglu (2009) and distinguish between proximate and fundamental causes of economic growth. We focus on savings and literacy rates as possible proximate causes of growth, and on religion capturing aspects of culture as potential fundamental cause of growth. We then use an IV-approach and mediation analysis to test for causality.

Weber's original text motivates us to revisit in a first step the evidence on the underlying mechanism. Weber suggested that Protestantism might have led to an “accumulation of capital through ascetic compulsion to save” (Weber, 1905, p.191). This idea has recently been formalized by Alaoui and Sandroni (2018). To test for this more directly, we use a recent data-set from Lehmann-Hasemeyer and Wahl (2017) on savings per capita and the number of saving banks for all Prussian counties, available for the years 1875, 1882, 1888, 1898 and 1904. To test for a causal effect of Protestantism on savings we use an IV based on the idiosyncratic part of religious denominations as of 1624, following Spenkuch (2017). We find no significant effect of Protestantism. This finding is robust to variations in the sample, alternative specifications, the inclusion of income per capita as a regressor, and a distinction between Lutherans and Reformed Protestants.

Next, we test for the idea that Protestantism mattered not due to a change in attitudes towards work and consumption, but because it fostered literacy as argued by Becker and Woessmann (2009). We first provide new descriptive evidence from a historical cross-table on literacy rates among Catholics and Protestants at the county-level as of 1871. We show that literacy rates among Protestants are somewhat higher than those among Catholics in provinces with a substantial Polish population share. If we focus on the German population alone, the difference in literacy rates between Catholics and Protestants becomes negligible. Second, we test for a causal effect of religion on literacy, using again the IV-approach by Spenkuch (2017). We find that Protestantism had no significant effect. The coefficient on ethnic differences is much larger and statistically and economically significant. In a third step, we conduct a mediation analysis to distinguish between a direct effect of Protestantism on income differences and an indirect effect via literacy rates. We find that literacy rates, instrumented as before, can only explain about 20% of the total effect which is, however, insignificant.

This leaves us with a new puzzle. Apparently, religious differences help very little to understand the large variation in terms of economic development across 19th century Imperial Germany, respectively Prussia. A naive interpretation of Weber's PE can therefore be clearly refuted in our context. Also the more sophisticated interpretation of a role of Protestantism via literacy rates finds no support in the data. We note that this does not rule out that ascetic Protestantism had causal effects centuries before, which indirectly may have affected Catholics and indeed Secularization. An alternative interpretation could place Weber's argument in the context of technological change or test for altogether different mechanisms how the protestant Reformation might have caused economic development (Cantoni et al 2018). But our findings suggest that differences in religion between Catholics and Protestants (encompassing Lutherans) had little persistence, hence they cannot be considered to be "fundamentals" without further qualification. Instead, our evidence highlights the enormous differences between ethnic groups (Germans and Poles) that existed around 1900 in Prussia, dwarfing any differences between Protestants and Catholics. This new result is in line with most of the historical literature on the German Empire, which stresses rising national tensions and abating religious conflict after the end of the *Kulturkampf* (Wehler, 2006).

In the last part of our paper, we analyze why ethnic differences mattered for economic outcomes. On the one hand, the German majority increasingly discriminated against the Polish minority in terms of language and education policy, but also when it came to access to public offices and policies of anti-Polish land redistribution. On the other hand, Poles might have reacted to this with attempts to create substitutes, such as education outside of state schools or the emergence of land and credit cooperatives. We provide qualitative evidence that the German majority indeed discriminated against the Polish minority, notably using nationalistic education policy. We also show that Poles were strongly under-represented in public offices and among academic occupations, such as doctors.

Our paper contributes to several strands of research. First, we add to the growing literature on the role of culture, and specifically religion for economic development. One part of the literature has focused on theoretical arguments, how culture can affect preferences, behaviour and outcomes, including Bénabou and Tirole (2004, 2006, 2011), Tabellini (2008), Doepke and Zilibotti (2008), and Alaoui and Sandroni (2018). To some extent this literature can be seen as an attempt to rationalize the behavioural consequences of cultural attitudes, such as Weber's proposition that ascetic Protestantism leads to increased savings and wealth accumulation. Another part of that literature seeks to test for the role of culture for economic development empirically, see Iannaccone (1998), Barro and McCleary (2003),

Becker and Woessmann (2009), Cantoni (2015), Spenkuch (2017), and Becker et al. (2016) for a review. Our first contribution is a focus on savings behaviour as a mechanism that links Protestantism and economic development. This mechanism is of importance as it is at the core of Weber's Protestant Ethic (PE) and also central to much of the recent theoretical literature, including Alaoui and Sandroni (2018). We can clearly reject this hypothesis for late 19th century Prussia. Another contribution is that we reconsider a prominent alternative hypothesis, suggested by Becker and Woessmann (2009): that Protestantism mattered for development via literacy rates. Again, we can reject this hypothesis in our context. Instead we show that findings in the previous literature missed to take ethnic differences into account.

Next, we show that nationalism and ethnic conflict is key for both, an understanding of Weber's PE and an understanding of differences in terms of economic development. The former is well known in the sociological and historical literature on Weber and the PE (e.g. Mommsen 2004, Zimmerman 2006, and Barbalet 2008); but has been largely ignored in the economic literature on the topic. Our contribution here is to remind economists about the context in which Weber was writing and to show empirically that ethnic differences are indeed a crucial confounding factor. While our data is for Germany in the late 19th century, we think that religious and ethnic differences may be more systematically related. Our findings suggest that the previous literature may have overestimated the role of religion by failing to take ethnic differences into account. Finally, we contribute to the literature on the long-run economic development of Germany (Broadberry and Burhop, 2007; Grant, 2005; Wolf, 2009; Hornung, 2015). We document that the German Empire was characterized by fragmentation between religious groups, between different ethnic groups, territories with different historical legacies, a growing rural-urban divide and growing economic inequality. The economic development of Germany prior to World War I was to some extent shaped by these lines of fragmentation (see for e.g. Wolf 2009). Recently, Cinnirella and Schueler (2018) have shown that fragmentation along ethnolinguistic lines mattered for education policies. Our empirical results suggest that they mattered more generally for differences in economic development, and that discrimination and resistance against it help to explain this.

The rest of the paper is organized as follows. In section 2 we briefly review Weber's essay on the Protestant Ethic and the "common interpretation" of it that has served as a workhorse for much of the recent work on the subject. Section 3 provides historical background on economic development across late 19th century Germany. In section 4 we state our main hypotheses and discuss our empirical strategy to test for causality. Section 5 contains our main results on income, savings and literacy rates as well as several robustness checks. In section 6 we discuss how discriminatory policies might account for the observed role of ethnic differences, before we conclude in section 7.

2 Weber's Protestant Ethic and the "Common Interpretation"

Weber's work "The Protestant Ethic and the Spirit of Capitalism" (PE) is a founding text for sociology and continues to be widely discussed, also in neighboring disciplines such as history and economics. The text was first published in two parts in 1904 and 1905 and immediately received much attention, praise and critique. In 1920 Weber published a revised version that incorporated some of the earlier discussion and is the basis for all following debates as well as translations (Lehmann and Roth, 1995). The interpretation of the "Protestant Ethic" has changed over time, which is to some extent due to the complexity but also ambiguity of Weber's arguments (MacKinnon, 1995). We cannot even superficially

review the entire discussion, but focus instead on some aspects, which have been taken up in the more recent empirical (and mostly economic) literature.

A convenient starting point is the “common interpretation” of Weber's hypothesis as formulated by Delacroix and Nielsen (2001, p.511) and Nolan and Lenski (2014) which is central for the recent empirical literature on the subject. Given the vast literature on the “Protestant Ethic” and its appropriate exegesis, these authors condensed a simplified, yet testable summary as follows: 1) The Protestant Reformation fostered new attitudes, 2) The new attitudes (the “Protestant Ethic”) affected behaviours, and 3) The new attitudes and behaviours favoured economic development and contributed to Industrialization around the world. It is this interpretation of Weber's PE, which has been recently tested and discussed in the economics literature.

The “common interpretation” remains unspecific about the possible mechanism that might lead from a change in attitude to a change in behaviour and finally economic development. This is due to the fact that Weber himself was eager to provide many caveats. At the beginning of his essay, he pointed out that there might be an issue of reverse causation, namely that it were the richer parts of the Empire, notably rich cities that first adopted Protestant ideas in the 16th century. He also suggested that a higher income of Protestants around the time of his writing could result from various historical factors and in turn contribute to observed differences in economic behaviour. Towards the end of his essay he suggested that a thorough analysis would have to examine how a Protestant work ethic may have affected the organisation of societies and their political institutions as well as the formation of modern science and technology, among other things. But at the heart of his essay stand clear statements about one particular underlying mechanism. In Weber's view, the formation of a new attitude (ascetic Protestantism) leads to a change in behaviour, namely a limitation of consumption and increased economic activity, so that “the inevitable practical result is obvious: accumulation of capital through ascetic compulsion to save” (Weber, 1905, p.191).²

Influential empirical contributions include Delacroix and Nielsen (2001), Barro and McCleary (2003), Becker and Woessmann (2009), Cantoni (2015), and Spenkuch (2017). Delacroix and Nielsen (2001) explore the correlation between cross-country evidence on measures of the share of Catholics and Protestants on various indicators for economic development, including measures of wealth, savings bank deposits per capita, extent of the railroad network and others. Overall, they find only limited empirical support for the “common interpretation”. Barro and McCleary (2003) use a global cross-country data-set to test for a relationship between religious beliefs, church attendance and economic outcomes. They employ panel-data estimation and find that religious beliefs matter, notably belief in hell, after controlling for church attendance and taking reverse causation into account. Becker and Woessmann (2009) use data on Prussian counties from the late 19th century, the time when Weber was writing, and find a causal link from Protestantism to economic development. However, they argue that this can be fully explained by higher literacy rates among Protestants rather than any effect of religious attitudes. Cantoni (2015) uses panel data on city growth as indicator for economic development across the Holy Roman Empire for the centuries 1300 to 1900 and finds no effects of differences in confessions. Spenkuch (2017) uses microdata from the SOEP on Germany today to test

² In the translation by Talcott Parsons see Weber (1930, p.172). In line with this reasoning, Dohmen et al. (2018) find a strong reduced form relation between patience and economic development using a large global data-set on time preferences of individuals.

for differences between Protestants and Catholics in terms of their attitudes, behaviour and outcomes. He finds some evidence suggesting that Protestants work longer hours due to different work-ethic as captured in specific survey questions.

Why does the “common interpretation” and most of the empirical work on it neglect Weber's own and very sharp distinction between Lutheranism and ascetic Protestantism such as Calvinism? Weber stressed the role of “calling”, which is the religious and irrational underpinning of the “Protestant ethic”. Weber argued that for Luther this concept of calling remained traditionalistic while for Calvinists it implied a restless striving for worldly success. It “was impossible for Luther to establish a new or in any way fundamental connection between worldly activity and religious principles” (Weber 1905, p.76, Weber 1930, p.85). Or further “Thus the mere idea of the calling in the Lutheran sense is at best of questionable importance for the problem in which we are interested” (Weber 1905, Weber 1930, p.86). As shown in Graf (1995, p.41ff.), Weber argued here against the contemporary mainstream view defined by the theologian Albrecht Ritschl and his students, who regarded Lutheranism as the cornerstone of the new German nation state. However, while both considered Catholics as traditionalists and culturally inferior, for Weber Lutheranism represented a “deficient form of Protestant religiosity, closer to the level of traditionalist Catholic conduct than to the ethical activity of the Calvinists” (Graf, 1995, p.45). Yet, this common failure to distinguish between Lutheranism and other Protestant denominations in the empirical literature is in part due Weber's own use of evidence in the “Protestant Ethic”: on the very first page of the PE Weber motivates his work with statistical data on differences in school attendance between Catholics and Protestants in Baden, drawn from his student Martin Offenbacher (1901). Apart from some statistical errors that actually exaggerate these differences (Becker, 1997), the data does not allow to distinguish between Lutherans and other Protestants. Hence, Weber himself placed his argument in the context of apparently striking differences between Catholics and Protestants - only to elaborate further on the dynamic nature of ascetic Protestantism and implicitly stressing the backwardness of Catholicism.

The “common interpretation” rests on the assumption that Weber's text should be seen as a study in the origins of modern capitalism and economic development. But much of the recent literature on Weber stresses the contemporary context in which he wrote, notably the political dimension of his writings and the place of the “Protestant Ethic” in relation to his earlier work. Wolfgang Mommsen (2004, p.38), editor of the collected writings of Max Weber, stated that his inaugural lecture (IL), given at the University of Freiburg in 1895, was the most important document of the political Max Weber until World War I, which is relevant in this context. Under the title “The National State and Economic Policy” (original “Der Nationalstaat und die Volkswirtschaftspolitik”), Weber states that he wants to clarify “the role of physical and psychological racial differences between nationalities in the economic struggle for existence” (Weber, 1895, p.545). His example are the differences in the Prussian province of West Prussia between Poles and Germans. Quoting statistical evidence, he suggests that while Polish peasants live on less fertile ground, they are less prone to out-migrate than German peasants in response to the recent agricultural crisis, resulting in “economic displacement” of Germans by Poles. His hypothesis is that this is rooted in different attitudes between the two nationalities, specifically the “lower requirements about the standard of living [...], which the Slavic race has by its nature or acquired over its past” (Weber, 1895, p.551). Hence, already ten years before the PE, in his IL in 1895 Weber argued that different attitudes can lead to different behaviour (in this case migration), and outcomes (the displacement of Germans by Poles). Crucially, he demands that economic policy ought to stop this, because “our state is a national state” (Weber, 1895, p.558). According to Ernst Tröltzsch,

“die nationale Kraft und Größe” (“the national power and greatness”, own translation) was the only “Wertgott” whom Weber unconditionally worshiped (Troeltsch, 1922, p.161). Based on the example of national conflict between Poles and Germans in the East, for Weber the (Lutheran) Prussian Junkers have failed to provide political leadership. He concluded that the German bourgeoisie is in urgent need of a political education (Weber, 1895, p.570-73). Weber maintained his anti-Polish nationalism until the end of his life. In 1899 he resigned from the nationalist Pan-German league because he believed the organization had given in to the interests of agrarian capitalists allowing the influx of cheap Polish migrants instead of fighting the Polish threat (Zimmerman, 2006, p.64). While Weber turned into a critic of German colonialism later in his life, still in 1918 he agitated during a lecture against Polish officials who would dare to enter the contested city of Danzig, and proposed they should be shot (Zimmerman 2006, p.64). Barbalet (2001) drew a line from the arguments Weber made in his IL to the Protestant Ethic. He suggested that in the “Protestant Ethic” of 1904/05 Weber took up this challenge first formulated in his Freiburg lecture and provided a solution to the problem of political education: to face the threat to the German nation, in particular the threat of Polonization, Weber argued that the Lutheran German elites need a new calling, and ascetic Protestantism could provide it.

This reading of Weber's PE is more than a historical footnote, because it affects our priors. It is unclear whether we should expect to find any substantial differences between Protestants and Catholics across 19th century Germany in terms of indicators for economic development. For one, Protestantism in Germany and notably in Prussia, was dominated by Lutheranism, while Calvinism and other ascetic Protestant denominations always constituted a small minority in Germany (with some local exceptions). With the Prussian Union of Churches in 1817 any existing differences may have become blurred over time. Instead, it is likely that differences and conflicts between (mostly Catholic) Poles and (Catholic or Protestant) Germans have mattered as Weber himself suggested in his earlier writings. Possibly, they mattered a lot more than any differences between Catholics and Protestants.

3 Economic Development and Political Tensions in Imperial Germany

The German Empire at the time of the first publication of Weber's PE in 1904 and 1905 was characterised by a dynamically growing economy together with increasing social and political tensions. Between 1850 and 1910 Germany developed from a backward economy into Europe's industrial core. The share of agriculture in total employment declined from 54.6 percent in 1849/58 to 45.5 percent in 1885/89 and 35.1 percent in 1910/13 (Hoffmann, 1965, p.35). Industrial production soared, labour productivity in manufacturing was at par or even higher than in the United Kingdom (Broadberry and Burhop, 2007), and GDP per capita in constant prices roughly doubled between 1871 and 1913 (Bolt and von Zanden, 2014). Also, Germany experienced rapid population growth. While at its foundation in 1871 the German Empire had about the same population as France, it surpassed its neighbor by over 50 percent in 1913. This growing population flooded into the cities, which experienced explosive growth rates - by 1910 about 60 percent of all Germans lived in cities, over 20 percent in cities with more than 100,000 inhabitants (Statistisches Reichsamts, 1934). Urbanization was further accelerated by the crisis of agriculture, which suffered from international competition and the attraction of industrializing regions. Especially the grain producing regions in the East experienced substantial population losses between 1850 and 1913 (Grant, 2005).

While this was accompanied by a remarkable modernization and professionalization of state bureaucracy, the politics and culture of the German Empire continued to be dominated by tradition,

centered around the old nobility and the churches (Wehler, 2006). The war against France in 1870/71 had led to the formation of a new political entity - the German Empire - which was highly heterogeneous, given its rather small size. The Empire consisted of 25 federal states as well as Alsace-Lorraine with special federal status. Among these 25 federal states, there were four Kingdoms, 6 Grand Duchies, 5 Duchies, 7 Principalities and three free cities, all with their own dynasties, respectively city patriciates. The Prussian state had a leading position, representing about 60 percent of the entire population. The King of Prussia was in personal union the German Emperor; the Prussian Prime Minister was also chancellor of the Empire. Also Prussia itself was heterogeneous, split between dynamic cities such as Berlin and backward agrarian regions, old Prussian territories such as Brandenburg and new ones recently conquered after the Napoleonic Wars such as the Rhineland (1815), Hannover (1866) or Schleswig-Holstein (1866). And most importantly, Prussia experienced conflicts between Catholics and Protestants, and between Germans, Poles, and other national minorities.

Hence, after the formation of the Empire in early 1871, its character as a nation state remained contested and Prussia as the largest and most influential state was the central arena for these public debates. The first line of conflict opened between the Prussian state on one side and the Catholic church and catholic organizations on the other, the *Kulturkampf*. Triggered by the conflict around the dogma of papal infallibility announced in July 1870 under Pope Pius IX and efforts by the Church to discipline her critics, the Catholic section in the Prussian Ministry of Culture was dissolved in July 1871 and merged with the Protestant section. In December 1871 the Pulpit Law was passed to curb political agitation from Catholic priests. While the conflict between the Catholic Church and state authorities was a European phenomenon at the time, the dispute was especially intense in the German Empire. Since 1870 there existed a Catholic political party (the *Zentrum*), which was well organized and had a very stable electorate of around 20 percent, concentrated in the Rhineland, Hesse and Bavaria. In Alsace-Lorraine and the eastern Provinces of Prussia this conflict overlapped with resistance of national minorities against German nationalism, because these minorities were overwhelmingly Catholic. From the Polish perspective this *Kulturkampf* was considered first and foremost an attack on Polish identity (Trzeciakowski, 1970). Here the conflict between state and church was fierce (for example the Catholic archbishop of Gniezno and Poznan Ledochowski was imprisoned 1874-76) and it coincided with first steps of repression against the Polish language in primary and secondary schools after 1871 (Knabe, 2000).

The situation changed with Bismarck's political turn in 1878/79, which ended the *Kulturkampf*, but opened new lines of conflict against Socialists and national minorities accompanied by rising anti-semitism and protectionism. In 1878 the Reichstag passed the Anti-Socialist Laws in an attempt to curb the political influence of socialist organizations. 1879 marked the shift towards a protectionist tariff regime, spreading from Germany to other parts of Europe. More generally, the decades between 1880 and the First World War were characterised by swelling German nationalist sentiments, reflected for example in the growth of nationalist *Kriegervereine* (veteran organizations). Their membership increased from 71900 (below 1 percent of the male population) in 1873 to 2.8 million in 1913 (above 8 percent of the male population), more than all trade unions in the Empire (Kersting, 2017). Especially the Poles in the East of Prussia were considered as a threat to the German state and faced harsh oppression. The *Geschäftssprachengesetz* of 1876 and the *Gerichtsverfassungsgesetz* of 1877 prohibited the use of Polish in administration and the judiciary (Wehler, 2006). Under Prussia's new minister for education Gustav von Gossler, from 1881 onwards there was a wave of new anti-polish

measures in an attempt to stifle the use of Polish language in schools and to reduce the number of Polish teachers. For example, in 1886 a new law was passed to facilitate the replacement of Polish by German teachers (Lamberti, 1989, p.119). As a result, also many Catholic schools in the Polish provinces were soon dominated by German, and most often Protestant German teachers. In 1887 an order was issued to end the instruction of Polish language in elementary schools. After years of discussion, in 1901 the Prussian state attempted to eliminate the Polish language also from religious education, which immediately triggered a first local school strike in the city of Wrzesnia in 1901. It was followed by a much larger strike in 1906. The Prussian state responded with disciplinary measures and the strike was finally broken, but the tensions about language policy and indeed national identity of Poles and Germans did not abate.

Also in the 1880s the Prussian state attempted to “germanize” the eastern provinces more directly via a policy of land redistribution. In 1886 the Prussian Settlement Commission was installed and started to buy land in order to distribute it to German settlers. After some initial success, the commission failed to buy Polish land and instead produced quite effective Polish countermeasures, including the foundation of the *Bank Ziemski* (Land Bank) and the *Spolka Rolnikow Parcelacyjna* (Parceling Society) in 1894 (Jezierski and Leszczynska, 2003). More generally, during the 1880s the Poles in Prussia developed a dense network of social, economic and cultural organizations with the explicit goal to resist “Germanization” and to maintain and foster their own Polish national identity. A cornerstone was the Polish cooperative movement (Lorenz, 2006).

Hence, late 19th century Germany was indeed characterized by fundamental conflicts between religious denominations and nationalities, which intensified after the formation of the German Empire in 1871 and in waves thereafter. To what extent were these conflicts reflected in economic outcomes at the time? Wolf (2009) has shown that language differences mattered much more than religious differences as a barrier to internal trade flows within the Empire between 1885 and 1913. In the next sections we will analyze whether language and religious denominations were systematically related to different levels of economic development, whether this can be interpreted as causal and what might be the mechanisms underneath.

4 Hypothesis, Data and Empirical Strategy

In our empirical analysis, we focus on differences in terms of income levels, literacy rates and savings as indicators for economic development across Prussian counties and over time. Specifically, we aim to test the following three hypotheses:

H1: Protestantism had a causal effect on saving behavior (and income).

H2: Alternatively, Protestantism had a causal effect on literacy rates (and income).

H3: Ethnic differences are an omitted variable in the “common interpretation”.

We distinguish between proximate and fundamental causes of economic growth (Acemoglu, 2009). Proximate causes include differences in technology, physical capital (as reflected in savings) and human capital (as reflected in literacy rates), fundamental causes include geographical factors (e.g. coal resources), institutions (e.g. property rights) and culture (e.g. a specific work ethic).

To test our first hypothesis, we investigate the causal effect of Protestantism on savings as a specific proximate cause for development that in turn may have affected long-run growth and income levels. To do so, we use regional data on *Sparkassen* (savings-banks) provided by Lehmann-Hasemeyer and Wahl (2017). The first savings-bank was founded in 1778 in Hamburg intended to serve the benefit of “poor, industrious persons of both sexes, working as servants, day laborers, manual workers, seafarers etc.”, in order to give them the opportunity to save money (von Knebel Doeberitz, 1907, p.2). Savings banks combined the functions of deposit banks and credit institutions, whereby they were meant to fulfill their purpose as an institution for the prevention of poverty. In contrast to social insurance provided by the state, saving is left to the free choice of the individual. Thus, data on the deposits in savings-banks allow us to observe the savings behavior of medium to lower income groups, who were encouraged to save so they could pay for unforeseen expenses but as well re-invest the money in their agricultural or craft business, thereby contributing to a better standard of living in the long term (Trende 1957, p.129).³

While capital accumulation in agricultural and commercial credit cooperatives was needed to ensure the supply of credits to the members of the cooperatives, fostering savings was an end in itself for the savings banks (Trende 1957), corresponding to Weber’s emphasis on the importance of savings for economic development. Due to their specific purpose and the focus on broader parts of the population as their customers, we argue that savings-banks are an appropriate institution to study regional differences in savings within Prussia. Additionally, the so-called *Regionalprinzip* (regional principle), according to which it was not possible to open an account if one did not live in that region, ensures that the savings-deposits reflect the propensity to save of a county (Lehmann-Hasemeyer & Wahl 2017).

Figures A.1 and A.2 in the Appendix show the geographic distribution on the savings per capita in 1880 and 1905, which sharply increase during this time. In most regions, except for the eastern provinces, savings per capita are above 100 *Mark* in 1905. Moreover, almost every county had at least one saving bank.

Can differences in religious denomination possibly account for these differences in savings? Figure A.3 shows the geographic distribution of Protestantism in Prussia as of 1900, and suggests that there might indeed be some relation. The data on savings is available for the years 1875, 1882, 1888, 1898, and 1904. We link this data with the closest available census to calculate savings per capita. We estimate the following specification:

$$Sav_{it} = \alpha_1 + \beta_1 Prot_{it} + X_{it}'\gamma_1 + \varepsilon_{1it} \quad (1)$$

where Sav_{it} indicates savings per capita in county i and year t , $Prot_{it}$ the share of Protestants, X_{it} time varying control variables including urban population, number of saving banks, household size and

³ We note that our data might imply some bias if higher incomes from entrepreneurial and industrial activity would systematically differ between Protestants and Catholics. While this would require further research, the available evidence suggests that there was no such bias in the Prussian data before 1914. First, the share of income millionaires in the population was not correlated with Protestantism in 1912 (Martin, 1912). Second, using the Prussian tax statistics we find that the share of capital income in total income of a district was not correlated with Protestantism between 1893 and 1910 (Bartels et al, 2019).

share of other religions beside Catholics and Protestants.⁴ We prefer pooled OLS regressions because of the lack of time variation in our main independent variable, the share of Protestants. We refer to Table B.1 in the Appendix for further information on our data. To control for income per capita, we combine sector-level employment statistics for each county with sector-level national wage data. To account for variations in sector-level wages across counties, we weight our income variable with county level data for wages of day laborers. Descriptive statistics are provided in Table A.1 in the Appendix.

In order to estimate the effect of Protestantism on economic outcomes, we need an instrument to isolate exogenous variation in the share of Protestants in 19th century Prussia. The possibility of reversed causality, omitted variables or both is addressed by following Spenkuch (2017) in using religious denomination as of 1624, the “normal year” for the Peace of Westphalia. All signatories of the peace treaty of 1648 agreed to accept the confessional situation as it prevailed in 1624, in particular not to force subjects to change their faith along with the faith of their ruler thereafter (Kampmann 2008, p.176ff). The exogeneity assumption hereby requires the rulers’ choices at the beginning of the 17th century to be uncorrelated with economic conditions in 19th century Prussia. The idea of the instrument is to isolate the idiosyncratic part of the ruler’s choice to become Protestant in 1624 by regressing *Protestant in 1624* on predictors thereof, identified by Cantoni (2012) (latitude, contribution to Reichsmatrikel, distance to Wittenberg) and Rubin (2014) (existence of printing press). We use the residual of that regression as our instrumental variable. Note that this IV leads to exclusion of counties that were not part of the Holy Roman Empire.⁵ Note that distance to Wittenberg is used for the construction of our IV, because distance to the powerful state of Saxony may have played a role in strategic neighborhood interactions (Cantoni 2012, p. 517-18). In comparison, Becker and Woessmann (2009) use distance to Wittenberg directly as instrumental variable for religious denomination. A look at the maps (figure A3 and A4) strongly suggests that any distance-based instruments are likely to violate the exclusion restriction, given that differences in ethnicity have a strong east-west gradient.⁶ This problem is limited if we use the residual of the religious denominations in 1624 as our instrument variable.⁷ Hence, we estimate the following two-stage least squares model:

$$\begin{aligned} Prot_{it} &= \alpha_2 + \beta_2 ResidualProtestant1624_i + X_{it}'\gamma_2 + \varepsilon_{2it} \\ Sav_{it} &= \alpha_3 + \beta_3 \widehat{Prot}_{it} + X_{it}'\gamma_3 + \varepsilon_{3it} \end{aligned} \quad (2)$$

⁴ In order to differentiate between different Protestant denominations, we use census data from 1871 (Königlich Statistisches Bureau, 1875) which includes information on Protestant Reformist and other Protestants. Note, that less than 1% of the Prussian Population were Reformists.

⁵ Hence, with our instrument we exclude counties in the eastern districts Bromberg, Danzig, Gumbinnen, Königsberg, Köslin, Marienwerder, Posen as well as some counties in the northern district Schleswig-Holstein.

⁶ Distance to Wittenberg is negatively correlated with the share of German speaking population (-0.35). The correlation is almost identical in magnitude with the correlation between distance to Wittenberg and share of Protestants (-0.37). In addition, of the 50 counties furthest from Wittenberg 44 are in the eastern provinces and only 6 are in the southwest of Prussia. In contrast, our preferred IV is only weakly correlated with the share of German speaking population (0.07).

⁷ We have formally tested whether a violation of the exclusion restriction would affect our results, following Conley et al. (2012). The test indicates that distance to Wittenberg is sensitive to a violation of the exclusion restriction, but our approach is much more robust. We follow Karadja and Prawitz (2019) in our way of discussing the test by Conley et al. (2012). If we allow a direct negative standardized effect of distance to Wittenberg on literacy of -0.05, the coefficient for Protestantism becomes insignificant. Note that the standardized reduced form effect of distance to Wittenberg is around -0.37. Thus, if we allow for only slight violations of the exclusion restriction, the result already turns insignificant. If we rely on our preferred instrument, this is not the case. Here, we can allow for a direct effect of more than half of the standardized reduced form effect (0.06) and still find significant effects. See Appendix C for an extended discussion on the choice of the two IV variables.

In a next step, we test for the effect of Protestantism on literacy rates, as suggested by Becker and Woessmann (2009). In contrast to our data for savings, literacy rates are only available for one cross-section in 1871, hence we run the following specification

$$Lit_i = \alpha_4 + \beta_4 Prot_i + X_i' \gamma_4 + \varepsilon_{4i} \quad (3)$$

where Lit_i is the share of literates in a county's population aged 10 or older, $Prot_i$ is the share of Protestants in the county and X_i is a set of demographic control variables also used in Becker and Woessmann (2009).⁸

$$\begin{aligned} Prot_i &= \alpha_5 + \beta_5 ResidualProtestant1624_i + X_i' \gamma_5 + \varepsilon_{5i} \\ Lit_i &= \alpha_6 + \beta_6 \widehat{Prot}_i + X_i' \gamma_6 + \varepsilon_{6i} \end{aligned} \quad (4)$$

Moreover, we use a cross table on literacy by religion, which was provided by Königlich Statistisches Bureau (1875) and digitalized by Galloway (2007). This shows directly that the difference in literacy rates between Protestants and Catholics is nearly exclusively a phenomenon of the Eastern provinces.⁹

Third, we test for the role of ethnic differences. We include the share of people whose mother tongue is German as indicator for ethnic differences. Figure A.4 in the Appendix shows the geographic distribution of the share of people with German as their mother tongue. Minorities were mainly concentrated in the eastern provinces as well as in the northern part close to the Danish border. In addition, there is also a smaller Polish minority in the Ruhr area, the so called *Ruhrpolen* (Ruhr Poles). Note, that this variable is available for the full sample only from 1890 onwards. In 1890, German was the mother tongue of 87.8% of the population in Prussia, Polish for 9.6% and other languages (e.g. Danish) for 2.6%. We will use this information for all years and assume that it does not vary over time.¹⁰ Comparing Figure A.3 and A.4 shows some correlation between religious denomination and ethnic group, especially in the eastern part of Prussia. However, there is considerable variation in terms of religious denomination in the ethnically homogeneous western parts of Prussia, i.e. in the Rhine Province.

Similar to religion, ethnic differences might also be endogenous. In order to circumvent this problem, we will show our results including and excluding the eastern provinces East and West Prussia, Poznan, and Silesia. This also has the advantage that we avoid possible multicollinearity between religious denomination and ethnic groups in the eastern regions, which makes it difficult to disentangle the effect between the two variables. The remaining parts of Germany show very large variation in terms of religious denomination with quite small ethnic minorities, which should be sufficient to identify an effect of Protestantism on economic outcomes.

A specific problem would arise with regard to our data from savings banks, if the Polish minority would consider these banks as German institutions and prefer to deposit their savings elsewhere. Note that there is no evidence for institutional barriers for the Polish minority to get access to the savings banks

⁸ Please note that there is no indication that the census was biased towards German speaking. The question in the census asked whether people aged 10 or older were able to read and speak. It did not specifically ask about the ability to speak German (Bureau des Ministeriums des Innern, 1871).

⁹ Unfortunately, data on literacy by ethnic nationality is not available.

¹⁰ For a large sub-sample, data is available for 1867. Comparing the data from 1867 and 1890 shows no major deviations. Thus, it seems plausible to use the data from 1890 for 1875.

(Trende 1957, p.93). Still, there has been a contemporary discussion on this and Polish credit cooperatives competed for Polish savings with growing success, especially after the turn of the century (Bernhard 1907, p.244, see also Guinnane 2001). This would obviously bias our results towards finding an effect of ethnic differences on saving, because we would underestimate savings from the Polish community. To deal with this we collected data on the deposits of Polish credit cooperatives at the county level as of 1905 for two provinces (West Prussia and Poznan). Given that the vast majority of Polish savings were deposited at Polish credit cooperatives as argued by Bernhard (1907, p.404), the addition of savings deposits at Polish credit cooperatives to savings deposits at saving banks should correct for such a potential bias. Note that including saving deposits at Polish credit cooperatives matters for total savings in West Prussia and Poznan, e.g. for Poznan this addition leads to an increase in total savings per capita from 73 RM to 84 RM.

5 Results

5.1 Testing the “Common Interpretation”: OLS

Let us start with some simple correlations between the share of Protestants and the share of Germans with income, savings and literacy rates. For this, we run plain OLS regressions with labour income per capita (1875-1905), savings per capita (1875-1905), income per capita measured by income tax statistics (1871) as well as literacy rates (1871) as outcome variables. Table A.2 in the Appendix provides some first suggestive evidence on our three hypotheses. Protestantism does not seem to be strongly correlated neither with savings per capita nor with labour income per capita. There is a correlation between Protestantism and literacy rates, but a much stronger one between the share of German speakers and literacy rates (see Table A.2 panel 4 column 2). And more generally we find that the standardized coefficient on the share of German speakers is larger for all outcomes than the one on the share of Protestants. But correlation is not causation, so we need to turn to an IV analysis.

5.2 Causal Effects on Savings

To get as close as possible to the thrust of Weber's ideas, we first test for savings behaviour as a mechanism for the “common interpretation”. Table 1 provides details on the relationship between savings per capita and religion from pooled OLS and 2SLS regressions. The results do not support the hypothesis according to which Protestants have a higher savings per capita than Catholics due to a specific work ethic and ascetic lifestyle. This “non-result” holds independent of whether we include counties in eastern districts or not (columns 1 and 2) and whether we control for labour income per capita (columns 3 and 4). As expected, labour income per capita is positively correlated with savings per capita. In additional regressions (reported in the Appendix in Table A.3) we allow for heterogeneous effects for reformed and other Protestants. We do not find support for the idea that reformed Protestants have higher savings per capita or higher saving rates. If anything, reformed Protestants seem to have lower savings per capita. We conclude that we have to reject hypothesis H1, based on our evidence for Prussia after 1871. At the time of Weber’s writing, there is no evidence that Protestants would have saved more than Catholics.

Our reading of Weber’s PE suggests that we should not be surprised by this. Given the context of rising nationalism and ethnic tensions especially between Germans and Poles we might wonder instead if there were substantial differences in saving behavior between ethnic groups. A problem here is that our data from savings banks might systematically underestimate Polish savings, if Poles indeed started

to prefer Polish credit cooperatives for their saving deposits as argued above. However, it is noteworthy that we do not find any significant relationship between savings and Protestantism in Table 1 (column 1), even though there might be a bias against savings by Poles, which were predominantly Catholic. A direct way to correct for such a bias is to collect data on saving deposits from Polish credit cooperatives, which we could find for 1905. In Table A4 in the Appendix we rerun our regression from Table 1 with a control for the share of German speakers (columns 1 and 2). We see that ethnic differences are strongly correlated with saving behavior, while religious differences are not. If we add saving deposits from Polish credit cooperatives to our dependent variable this result remains virtually unchanged (columns 3, 4, and 5 in Table A4). The coefficient on German speakers declines slightly, but stays large and significant. It seems unlikely that this is due to a Polish bias against saving banks. In any case, our results suggest that ethnic differences mattered quite strongly for economic outcomes (H3).

5.3 Causal Effects on Literacy Rates

While there is no evidence for late 19th century Prussia, that Protestants had higher savings per capita, it could still be that Protestantism mattered for economic development via some other mechanism, such as literacy rates as argued by Becker and Woessmann (2009).

As a first step to test our alternative hypothesis H2, we analyze a cross-table, which includes information on literacy by religion as of 1871. In Figure 1 we plot the share of Protestants and the share of Protestant literates in literates. Each dot represents one county. The intuition is the following: a dot right to the 45-degree line indicates that Protestants are over-proportionally literate in this county. Panel (a) in Figure 1 shows that there is some evidence that Protestants indeed are over-proportionally literate. However, most counties in which Protestants are over-proportionally literate are located in the eastern part of Prussia with a large Polish speaking population as seen in Panel (b) Figure 1. In counties excluding the eastern provinces, the relationship between Protestant literates and Protestants follows very closely a 45-degree line as shown in Panel (c) in Figure 1. Another way to illustrate this is to show the difference in the share of Protestant literates in literates and share of Protestants on a map: Figure 2 shows that the counties with overproportional literacy of Protestants are exclusively in the Eastern part of Prussia.¹¹ Overall, the difference is 1.05 percentage points. Once we exclude the Eastern Provinces, this difference declines to 0.14 percentage points.

Table 2 shows the results from an IV approach to the problem. The findings are very much in line with the evidence from figures 1 and 2. We find no significant positive effect in columns 1 to 3. In column 3, we see that the effect of the share of German speakers is large and highly significant. An increase in the share of population with German as their mother tongue by one percentage is associated with an increase in literacy by 0.2 percentage points. Given the size of this effect, ethnic differences clearly should be a control variable for the “common interpretation”, notably for 19th century Germany.¹²

¹¹ There are only a few counties in the rest of Prussia, where this difference amounts to more than 1 percentage points. This is the case for the counties Moers, Rees, Gladbach, and Wiedenbrück. Note that even this difference is economically insignificant.

¹² We compare our results with the ones from Becker and Woessmann (2009) in Appendix C.

5.4 Causal effect on Income via literacy: Mediation Analysis

As last step of our empirical analysis, we investigate whether Protestantism affects economic outcomes with literacy as mediating variable. We do not pursue a similar exercise for savings, as we do not find any statistically significant effect of Protestantism on savings per capita. We rely on a new approach for a causal mediation analysis put forward by Dippel et al. (2018) and use STATA code by Dippel et al. (2019). This methodology allows us to calculate the share of the total effect of Protestantism on economic outcomes that can be attributed to higher literacy among Protestants. The results in Table 3 reveal only weak support for literacy as mediating variable as this variable explains only a small share of the total effect (which is insignificant) in columns 1 and 2. Taken together, our results lead us to reject the idea that Protestantism had a causal effect on development via saving behavior (H1), but also the alternative hypothesis that Protestantism mattered via literacy rates (H2). For Prussia in the late 19th century Protestantism was weakly related to economic outcomes. Instead, we find quite strong support for the hypothesis that ethnic differences mattered and are an omitted variable in the “common interpretation” (H3).

6 Why do ethnic differences matter?

Our finding on the role of ethnic differences for economic outcomes begs for some explanation. We think it unlikely that ethnicity captures any deep differences in attitudes between Germans, Poles and other ethnic groups (as indeed argued by Weber in his IL 1895). Instead, we suggest that the effects result from the interaction between Germans and Poles. In particular, we consider the role of discrimination against the Polish minority by the German majority and Polish institution building as a reaction against this discrimination.

As described in Section 3 on the historical context of our study, tensions between nationalities increased within the German Empire after its foundation. One - or rather *the* major aspect of these tensions was discrimination against the large Polish minority concerning education policy. The Prussian government had pursued discriminatory policies against the Poles already before 1870, especially restrictive language policies after 1848 (Gessinger, 1991, p.118ff). After 1870 the German government provided monetary incentives (so called *Ostmarkenzulage*) for German teachers to work in the eastern provinces, which attracted especially more nationalist teachers with a mission in “Germanizing” the East (Lamberti, 1989). Anecdotal evidence suggests that this had striking effects. For example, in Poznan, the largest Polish city in the Empire, the most prestigious Catholic grammar school (St Mary Magdalene School) had 24 Polish teachers in 1870, but only 3 in 1890 and 2 in 1912 (Molik, 1998, p.22). Another result of this discriminatory policy was that the expenses per pupil were lower in the eastern provinces (Lamberti, 1989). Regions in Prussia with a higher linguistic polarization, i.e. especially the eastern provinces, tended to spend less for the decentralized education system (Cinnirella and Schueler, 2016). Moreover, there is evidence that schools in the eastern provinces with a higher share of German speaking pupils were preferred in terms of resources (Lamberti, 1989). Another important aspect of this is higher education. In spite of decades of discussion around the subject, which started already in 1815 and intensified again after 1871, there was no university in these provinces, in contrast to the Austrian partition of Poland (with the universities of Krakow and Lwow, founded 1364 and 1661, respectively), and the Russian partition (with the university Warsaw, opened in 1815, closed in 1869). Polish speakers had to attend a university in one of the German provinces and study in German. According to Schutte (2008), the German reluctance to open a university in the Polish provinces was due to the fear of the German majority that better education might equip the Polish minority with

more effective tools for resistance against discrimination and own state-building. The opening of a Royal Academy in Poznan 1903 that served some limited functions of a university (in German language) was accompanied by a heated debate. It was only in 1919, after Poland was re-established as a state, that the Academy was turned into a full university, which could cater for the need of the Polish society.

This discrimination in terms of education policy had probably direct effects on educational attainment and human capital formation. Insofar as this discrimination started already before 1871, for example in the realm of language policy and higher education, it might help to explain the differences in literacy rates around 1871 (see the discussion in Knabe 2000, p.162ff). Such discrimination would also have effects on earnings and incomes, but not necessarily on savings rates unless it affected savings stronger than incomes. As suggested by the literature on financial literacy, this is indeed likely to be the case (Lusardi and Mitchell, 2011), but it would require a separate investigation.

Additionally, the existence of increasing national segregation in the labor market helps to explain the difference in economic outcomes. The occupational distribution can be used as an indicator for the status of different groups in a society as shown by Hsieh et al. (2013) for the US. These authors also show that frictions in the labour markets, which can be due to discrimination, can lead to a systematic misallocation of talent with far-reaching implications for economic development. According to Hagen (1981), there were striking differences in the occupational structure between Germans and Poles. The ratio between Germans and Poles for different occupations in the province Poznan was for medical doctors 3 to 1, veterinarians 8 to 1, apothecaries 3 to 1, lawyers and notaries 4 to 1 and employees in railway and postal offices 19 to 1. Given that the share of Polish people in Poznan was about 50%, these statistics show a very clear national divide in the labor market. The contemporary statistician Max Broesike (1909) provides further evidence for a sharp segregation between Poles and Germans in the labor market in the province Silesia: Poles were underrepresented in the industry sector and especially in public services. Instead, Poles were concentrated in the agricultural sector. Already from the 1860s onward were the higher ranks in the public administration of Ostelbien nearly exclusively dominated by Germans (Molik, 1998). Among all academic professions, medical doctors were the most attractive for the Polish minority, also due to the relative independence from state intervention. The number of Polish doctors in the province of Poznan increased between 1872 and 1912 in absolute terms but also relative to the number of German doctors (Molik, 1998). But the differences remained striking. Table A.6 in the Appendix provides detailed evidence on doctors for each district in the province Poznan for 1907 and shows sharp differences between the share of Polish doctors and the share of Polish speaking population. To summarize, this evidence suggests that observed large differences in economic outcomes between Germans and Poles were affected by anti-Polish discrimination. Discriminatory education policy mattered directly, but also indirectly via occupational structures and related channels.

7 Conclusion

We revisited the evidence for Max Weber's Protestant Ethic in the context in which he was writing: The German Empire before 1914. To speak with Robert Margo, this is an example why "putting the context front and center is the essence of economic history, its fundamental contribution to economics per se" (Margo 2017 p. 37). We showed that a misinterpretation of this context can easily lead to missing the main factors in the evidence, including mistaken econometric specifications. Our main argument is that the "common interpretation" of Weber's Protestant Ethic has largely missed his own

focus on saving behavior and his anti-Polish nationalism. First, we test Weber's suggestion that Protestantism mattered due to an "ascetic compulsion to save". Using data for late 19th century Prussia we can clearly reject this hypothesis. Neither in simple OLS nor in IV regressions, nor for subsamples do we find that Protestants saved more than Catholics. However, there is evidence that saving behavior differed between Germans and Poles. Next, we test the alternative hypothesis that Protestantism mattered via differences in literacy rates. We show that such differences were negligible for the German Provinces of Prussia and mattered only in the East, in regions with a large Polish minority. A mediation analysis shows that literacy had very little explanatory power for variation in income. More generally we show that economic outcomes in late 19th century Prussia differed much more between ethnic groups than between religious groups.

This new empirical evidence is in line with the bulk of the historical literature, which stresses the increasing role of national conflict between Germans and national minorities towards the end of the 19th century, while tensions between Protestants and Catholics were abating after the end of the *Kulturkampf*. The German authorities used their power, in the realm of education policy and elsewhere, which were increasingly geared against the Polish minority. We provided some evidence that Poles suffered from discrimination in education policies and in the labour markets. We also showed that the successful emergence of Polish parallel structures, such as Polish credit cooperatives used as substitutes for savings banks, are relevant in our context. On another level, we find that this is in line with a critical reading of Weber's PE, which should be understood in its historical context. Weber himself was an ardent German nationalist, and it would be naive to consider the Protestant Ethic only as an attempt to explain the origins of capitalism. It is certainly a founding text for sociology and cultural economics. But beyond this, it should be understood as a political intervention that aimed to provide the German political class with a "calling". On a final note, we do not want to dismiss a more abstract interpretation of Weber's writing from the perspective of empirical economics. This can be stimulating and generate valuable insights. But our evidence cautions that the "common interpretation" of Weber's PE should take nationalism and ethnic differences into account, be it in the context of 19th century Germany or elsewhere.

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Appendix

A: Tables and Figures

Table B.1: Sources

Variable	Description	Years	Source
<i>Religion</i>			
Protestants	Share Protestants	1875, 1880, 1890, 1900, 1905	Galloway (2007)
Other religions	Share other religions, i.e. non-Catholic and non-Protestant	1875, 1880, 1890, 1900, 1905	Galloway (2007)
Reformed Protestants	Share reformed Protestants	1871	Königlich Statistisches Bureau (1875)
Literacy by Religion		1871	Galloway (2007)
<i>Savings</i>			
Number of savings- banks	Number of savings- bank	1875, 1882, 1888, 1898, 1904	Lehmann-Hasemeyer and Wahl (2017)
Deposits in savings- banks	Amount of deposits at savings-banks	1875, 1882, 1888, 1898, 1904	Lehmann-Hasemeyer and Wahl (2017)
Deposits in Polish credit cooperatives	Amount of deposits (equity and borrowed capital) at Polish credit cooperatives	1907	Politische Abteilung des königlichen Polizeipräsidiums in Posen (1909)
<i>Instrumental Variable</i>			
Ecclesiastical status	1 if data of Cantoni (2012) indicate that a prince-bishop or another clergyman ruled over the area		Spenkuch (2017) and Spenkuch and Tillmann (2018)
Reichsmatrikel	Contribution to the Imperial War Tax	1521	
Protestant in 1624	1 if the prince who reigned over the corresponding area in 1624 decided to choose Protestantism over Catholicism	1624	Zeumer (1913) Spenkuch (2017) and Schindling and Ziegler (1989, 1992, 1993a, 1993b, 1995, 1996)
Printing Press	1 if data of Rubin (2014) indicate that at least one of the cities in a given county had a printing press at the beginning of the sixteenth century.		Spenkuch (2017)
Latitude	Based on the coordinates of a counties' centroid		

Distance to Wittenberg	Distance to the city of Wittenberg		Own calculations using QGIS
			Own calculations using QGIS
<i>Ethnic Nationality</i>			
Mother tongue German	Share mother tongue German	1867 (partially), 1890	Galloway (2007), Belzyt (1998)
<i>Further Controls</i>			
Labor income per capita	Estimated by multiplying sector employment and wage data	1882, 1895, 1907	Kaiserliches Statistisches Amt (1884, 1897, 1910), Hoffmann (1965), iPEHD (2014)
Average household size	Households divided by population	1875, 1880, 1890, 1900, 1905	Galloway (2007)
Urban population	Share urban population	1875, 1880, 1890, 1900, 1905	Galloway (2007)
Potential working population	Share men above 14	1875, 1880, 1890, 1900, 1905	Galloway (2007)
Polish doctors	List of all doctors in the province Poznan	1905	Verband der Ärzte Deutschlands (1908)

The well-known paper by Becker and Woessmann (2009) – further BW - serves as an important reference point for our work. Therefore, we compare our findings with their main results along several dimensions.

First, we compare our main results from the cross-table and the 2SLS regression with the main findings from the IV-regression by BW. Using the cross-table, we find that Protestants are on average only slightly over-proportionally literate (one percentage point for the complete sample and 0.15 percentage points once we exclude the eastern provinces).¹³ In our IV specification (Table 2), we find no significant effect of literacy. Moreover, our results from the cross-table show that the difference in literacy by religion is much bigger for regions in the East where the Polish minority lived. These findings stand in contrast to the results from BW (2009, p.558): “In fact, the point estimate is significantly higher, with a difference in literacy of 18.9 percentage points between an all-Protestant and an all-Catholic county.” We replicate this finding, using distance to Wittenberg as an instrument, in column 1 in Table A.5 in the Appendix.¹⁴ Thus, there seems to be a striking difference between, on the one hand, the relationship between Protestantism and literacy what BW measure, and, on the other hand, comparing literacy by religion based on the cross-table and our 2SLS results. Comparing Table A.5 column 5 with Table 2 column 3, we see that the discrepancy in the second stage results stem from the use of different IVs. These different results need an explanation. One possibility is that the instrumental variable used by BW may violate the exclusion restriction because the IV is highly correlated with German share as discussed in section 4 in the text. Hence, BW probably overestimate the effect of Protestantism on literacy due to their choice of instrument. Distance to Wittenberg does not isolate the effect of Protestantism because it captures both, the effect of Protestantism and that of ethnicity. Instead, the IV based on the idiosyncratic part of a rulers’ choice to become Protestant in the 17th century is less likely to suffer from such a violation of the exclusion restriction. We have also tested for this formally following Conley et al (2012) and Karadja and Prawitz (2019), see the relevant footnote in section 4. In the context of abating religious tensions and growing ethnic conflict at the end of the 19th century, this is crucial.

Second, we provide a mediation analysis on literacy rates, income and Protestantism. Becker and Woessmann (2009) show that higher income tax per capita for Protestant regions is due to higher literacy as crucial mediating factor. We replicate this finding by relying on the IV mediation analysis put forward by Dippel et al. (2018). If we use the IV from Becker and Woessmann (2009) in column 3 in Table 3, we find that indeed about 90% of the overall effect of Protestantism on income tax per capita is due to literacy. If instead we use our preferred IV as described above the results change: income tax per capita is no longer significantly related to Protestantism and literacy is no longer a crucial mediating factor (columns 1 and 2 in Table 3). This is an example that the context can be essential for econometrics: because the geography of ethnic differences overlaps with that of religious differences, a simple distance-based instrument is likely to violate the exclusion restriction.

¹³ Note that Becker and Woessmann (2009, p.549) mention the cross-table but do not provide an analysis based on this cross-table.

¹⁴ If we exclude the provinces in the East and restrict our sample to the former parts of the HRE, this effect goes down to 7.5 percentage points with distance to Wittenberg as IV (column 4 in Table A.5).

Tables and Figures

Table 1: Savings per capita, 1875-1905

	(1)	(2)	(3)	(4)
Panel 1: OLS	Dep. Var. Savings per Capita			
Share Protestants	0.012 (0.311)	0.022 (0.422)	0.033 (0.321)	0.065 (0.425)
Income per Capita			0.350*** (0.054)	0.316*** (0.063)
R^2	0.280	0.245	0.351	0.308
Panel 2: Second Stage	Dep. Var. Savings per Capita			
Share Protestants	-0.034 (0.417)	-0.029 (0.806)	-0.057 (0.453)	-0.064 (0.850)
Income per Capita			0.342*** (0.060)	0.297** (0.077)
Panel 3: First Stage	Dep. Var. Protestantism			
Residual Decision 1624	0.429*** (8.763)	0.288*** (5.786)	0.432*** (8.501)	0.294*** (5.458)
Income per Capita			-0.109 (0.019)	-0.162* (0.017)
Including Eastern Provinces	Y	N	Y	N
Further Controls	Y	Y	Y	Y
F-Statistic Excluded Instruments	96.85	168.74	91.50	143.70
N	1830	1355	1830	1355
R^2	0.583	0.733	0.584	0.733

Note: Standardized beta coefficients. Standard errors in parentheses. Robust standard errors clustered at the province level. Eastern provinces include East and West Prussia, Poznan, and Silesia. Further Controls include number of saving banks, share working men above 14, share urban population, average household size, share other religions, dummy for counties w/o saving bank. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Sources: See Table B.1.

Table 2: Effect of Protestantism on Literacy, 1871

	(1)	(2)	(3)
<hr/>			
Panel 1: OLS	Dep. Var. Literacy		
Share Protestants	0.057*** (0.009)	0.033** (0.013)	0.040*** (0.012)
Share German Speaking			0.213*** (0.036)
R^2	0.601	0.429	0.729
<hr/>			
Panel 2: Second Stage	Dep. Var. Literacy		
Share Protestants	0.030 (0.018)	0.031 (0.017)	0.020 (0.015)
Share German Speaking			0.221*** (0.036)
<hr/>			
Panel 3: First Stage	Dep. Var. Protestantism		
Residual Decision 1624	46.088*** (4.227)	43.094*** (3.277)	45.369*** (2.866)
Share German Speaking			0.327** (0.144)
<hr/>			
Including Eastern Provinces	Y	N	Y
Further controls	Y	Y	Y
F-Statistic excluded instruments	287.93	244.34	280.33
N	378	280	378
R^2	0.610	0.735	0.618

Note: Standard errors in parentheses. Robust standard errors clustered at the province level. Eastern provinces include East and West Prussia, Poznan, and Silesia. Further controls: see Becker and Woessmann (2009, Table 3). * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Sources: See Table B.1 as well as Becker and Woessmann (2009).

Table 3: Literacy as Mediator, 1871

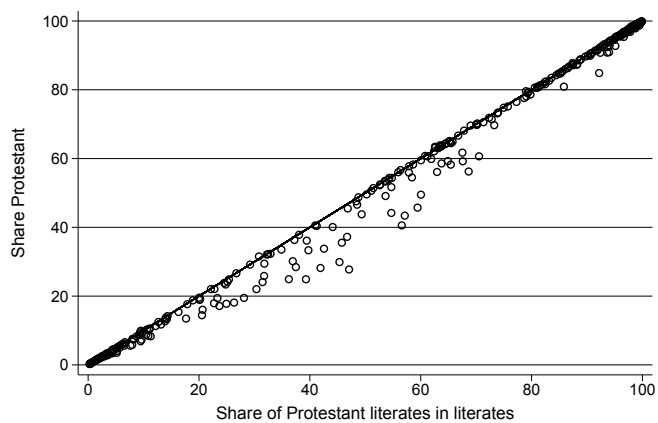
	(1)	(2)	(3)	(4)	(5)
	Dep. Var. Income Tax per Capita				
Total effect	-0.199 (0.201)	-0.315 (0.330)	0.835*** (0.272)	-0.246 (0.189)	0.842*** (0.278)
Direct effect	0.187* (0.103)	0.184 (0.143)	0.083 (0.083)	0.272* (0.152)	0.144 (0.088)
Indirect effect (literacy)	-0.039 (0.104)	-0.500 (0.434)	0.752*** (0.291)	-0.517* (0.303)	0.698*** (0.270)
Mediator explains	19.87%	158.42%	90.09%	210.57%	82.93%
Further controls	Y	Y	Y	Y	Y
Only HRE	Y	Y	N	N	Y
Including eastern provinces	Y	N	Y	N	Y
IV	Residual Decision		Distance to Wittenberg		
N	356	261	426	284	356

Note: Standard errors in parentheses. Eastern provinces include East and West Prussia, Poznan, and Silesia. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Further controls: see Becker & Woessmann (2009, Table 3). Method: mediation analysis with IV (Dippel et al 2018). For the computation we rely on the Stata package *ivmediate* provided by Dippel et al (2019).

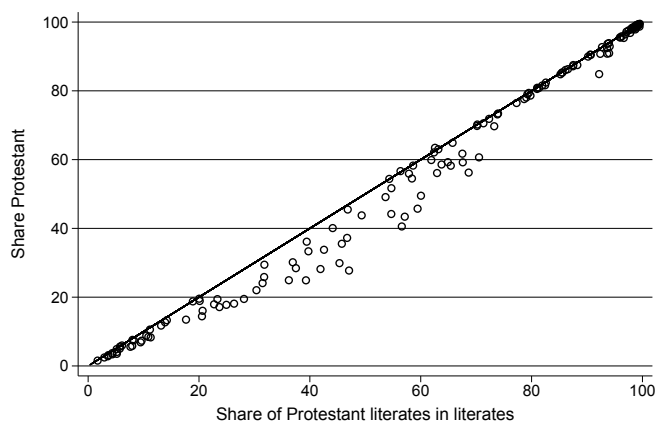
Sources: See Table B.1 as well as Becker and Woessmann (2009).

Figure 1: Literacy and Protestantism, 1871

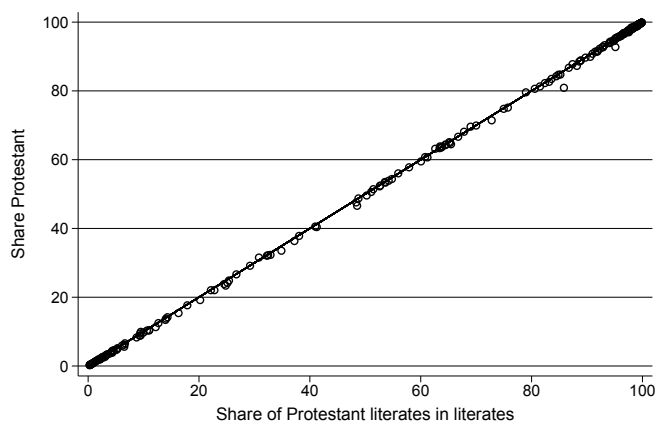
(a) All Counties



(b) Eastern Provinces

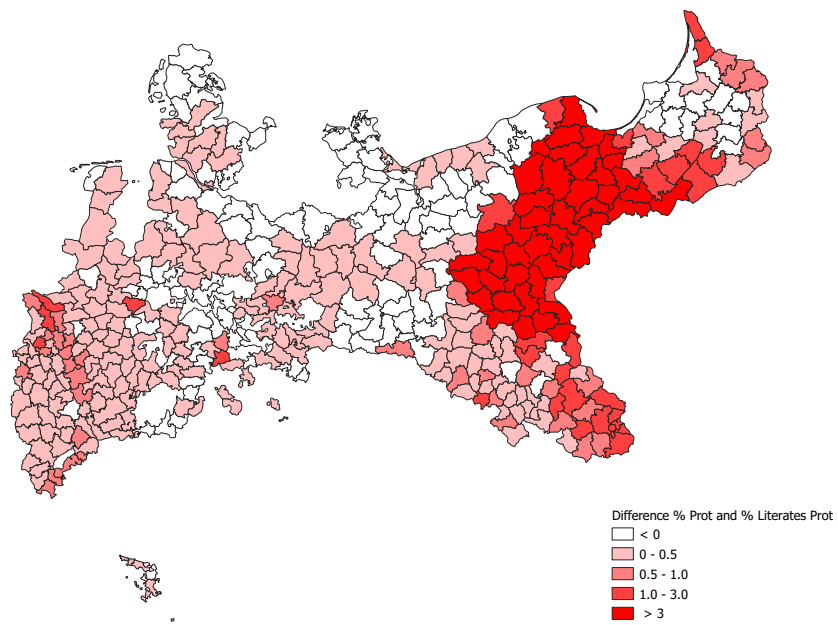


(c) Western Provinces



Sources: See Table B.1

Figure 2: Difference % Lit Prot among Prot and % Prot, 1871



Sources: See Table B.1

A Tables and Figures

Table A.1: Descriptive Statistics

	1875	1880	1890	1900	1905
<i>Savings</i>					
Savings per Capita	42.34 (59.83)	64.77 (83.40)	94.63 (105.9)	153.0 (147.8)	206.1 (179.5)
Savings per Capita, & Polish Credit Cooperatives					207.0 (179.0)
Number Saving Banks	2.306 (2.589)	2.795 (2.887)	3.136 (3.163)	3.592 (3.702)	3.601 (3.151)
<i>Religion</i>					
Share Protestants	64.61 (37.71)	64.46 (37.59)	64.03 (37.31)	63.72 (36.90)	63.44 (36.57)
Share Other Religions	1.327 (1.301)	1.329 (1.234)	1.184 (1.090)	1.091 (0.998)	1.060 (0.971)
<i>Nation</i>					
Share German Speaking	87.83 (24.62)	87.83 (24.62)	87.83 (24.62)	87.90 (24.18)	87.90 (24.18)
<i>Further Controls</i>					
Income per Capita	313.5 (107.1)	313.5 (107.1)	421.5 (134.9)	529.5 (167.0)	583.5 (183.9)
Share Urban Population	26.96 (18.33)	27.86 (18.43)	29.23 (19.22)	31.11 (19.76)	32.12 (19.98)
Share Men Above 14	65.97 (3.611)	65.57 (3.242)	64.78 (2.989)	64.69 (3.529)	65.03 (3.667)
Average Household Size	4.741 (0.342)	4.790 (0.349)	4.734 (0.382)	4.700 (0.422)	4.702 (0.448)
N	434	434	434	434	434

Note: Standard deviation in parentheses. Due to lack of data on employment statistics prior to 1882, we assume the same values for 1875 as for 1882. Our results do not change if we exclude 1875 from our analysis.

Sources: See Table B.1.

Table A.2: German Share, Protestantism and Economic Outcomes

	(1)	(2)
Panel 1: Savings per Capita, 1875-1905		
Share Protestants	0.042 (0.589)	0.021 (0.810)
Share German Speaking		0.095 (0.102)
Further Controls	Y	Y
N	2170	2170
R^2	0.287	0.293
Panel 2: Labor Income per Capita, 1875-1905		
Share Protestants	-0.054 (0.516)	-0.077 (0.343)
Share German Speaking		0.112* (0.082)
Further Controls	Y	Y
N	2170	2170
R^2	0.370	0.379
Panel 3: Income Tax Revenue per Capita, 1871		
Share Protestants	0.170* (0.064)	0.129 (0.175)
Share German Speaking		0.244 (0.128)
Further Controls	Y	Y
N	426	426
R^2	0.332	0.336
Panel 4: Literacy, 1871		
Share Protestants	0.0992*** (0.000)	0.0615*** (0.000)
Share German Speaking		0.221*** (0.000)
Further Controls	Y	Y
N	452	452
R^2	0.737	0.831

Note: In Panel 1 and 2 standardized beta coefficients. Standard errors in parentheses. Robust standard errors clustered at the province level. Further controls include in Panel 1 and 2: number of saving banks, share working men above 14, share urban population, average household size, share other religions, dummy for counties w/o saving bank. Further controls include in Panel 3 and 4: See Becker and Woessmann (2009, Table 3). * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.
Sources: See Table B.1.

Table A.3: Lutherans and Reformed Protestants

	(1)	(2)
Panel 1: Dep. Var. Savings per Capita, 1875-1905		
Share Protestants	0.060 (0.495)	
Share Reformed Protestants		-0.052** (0.012)
Share Lutherans		0.022 (0.851)
Further Controls	Y	Y
N	2170	2170
R^2	0.359	0.306
Panel 2: Dep. Var. Literacy, 1871		
Share Protestants	0.0992*** (0.000)	
Share Reformed Protestants		0.140* (0.087)
Share Lutherans		0.0983*** (0.000)
Further Controls	Y	Y
N	452	452
R^2	0.737	0.737

Note: In Panel 1 Standardized beta coefficients. Standard errors in parentheses. Robust standard errors clustered at the province level. Further controls include in Panel 1: number of saving banks, share working men above 14, share urban population, average household size, share other religions, dummy for counties w/o saving bank. Further controls include in Panel 2: See Becker and Woessmann (2009, Table 3). * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Sources: See Table B.1 as well as Becker & Woessmann (2009).

Table A.4: Savings per Capita including Polish credit cooperatives, 1905

	(1)	(2)	(3)	(4)	(5)
Panel 1: OLS	Dep. Var. Savings p.c.		+ Pol. credit coop.		
Share Protestants	0.067 (0.446)	0.069 (0.444)	0.067 (0.447)	0.069 (0.444)	0.081 (0.622)
Share German Speaking	0.121** (0.504)	0.116** (0.598)	0.121** (0.503)	0.116** (0.597)	0.112*** (0.737)
Income per Capita		0.033 (0.097)		0.032 (0.097)	-0.052 (0.092)
R^2	0.291	0.292	0.288	0.289	0.246
Panel 2: Second Stage	Dep. Var. Savings p.c.		+ Pol. credit coop.		
Share Protestants	-0.011 (0.587)	-0.013 (0.570)	-0.012 (0.588)	-0.014 (0.571)	-0.070 (1.034)
Share German Speaking	0.129** (0.520)	0.126** (0.641)	0.128** (0.519)	0.125** (0.639)	0.128*** (1.026)
Income per Capita		0.023 (0.105)		0.023 (0.105)	-0.080 (0.120)
Panel 3: First Stage	Dep. Var. Protestantism				
Residual Decision 1624	0.407*** (9.972)	0.414*** (9.338)	0.407*** (9.972)	0.414*** (9.338)	0.262*** (6.974)
Share German Speaking	0.065 (0.241)	0.087 (0.219)	0.065 (0.241)	0.087 (0.219)	0.063 (0.347)
Income per Capita		-0.148 (0.032)		-0.148 (0.032)	-0.223 (0.030)
R^2	0.605	0.607	0.605	0.607	0.424
Including Silesia and Eastern Prussia	Y	Y	Y	Y	N
Further Controls	Y	Y	Y	Y	Y
F-Statistic Weak Instruments	82.534	86.210	82.534	86.210	28.313
N	366	366	366	366	281

Note: Standardized beta coefficients. Standard errors in parentheses. Robust standard errors clustered at the province level. Further Controls include number of saving banks, share working men above 14, share urban population, average household size, share other religions, dummy for counties w/o saving bank. * p<0.1, ** p<0.05, *** p<0.01. In columns (1) and (2) we include savings per capita from saving-banks, in columns (3) to (5) we add deposits from Polish credit cooperatives.

Sources: See Table B.1.

Table A.5: Effect of Protestantism on Literacy, 1871

	(1)	(2)	(3)	(4)	(5)
Panel 1: OLS		Dep. Var. Literacy			
Share Protestants	0.099*** (0.010)	0.062*** (0.008)	0.057*** (0.009)	0.033*** (0.007)	0.040*** (0.007)
Share German Speaking		0.221*** (0.014)			0.215*** (0.016)
R^2	0.737	0.831	0.601	0.429	0.729
Panel 2: Second Stage		Dep. Var. Literacy			
Share Protestants	0.189*** (0.028)	0.149*** (0.026)	0.184*** (0.024)	0.075*** (0.014)	0.146*** (0.021)
Share German Speaking		0.178*** (0.020)			0.175*** (0.022)
Panel 3: First Stage		Dep. Var. Protestantism			
Distance to Wittenberg in km	-0.095*** (0.011)	-0.086*** (0.011)	-0.113*** (0.012)	-0.140*** (0.015)	-0.109*** (0.012)
Share German Speaking		0.404*** (0.073)			0.169 (0.105)
Excluding Eastern Provinces	N	N	N	Y	N
Only Holy Roman Empire	N	N	Y	Y	Y
Further Controls	Y	Y	Y	Y	Y
F-Stat Excluded Instruments	74.19	64.21	96.89	90.56	85.87
N	452	452	381	283	381
R^2	0.419	0.457	0.450	0.622	0.454

Note: Standard errors in parentheses. IV: Distance to Wittenberg. Eastern provinces include East and West Prussia, Poznan, and Silesia. Further controls include: See Becker and Woessmann (2009, Table 3). * p<0.1, ** p<0.05, *** p<0.01.

Sources: See Table B.1 as well as Becker & Woessmann (2009).

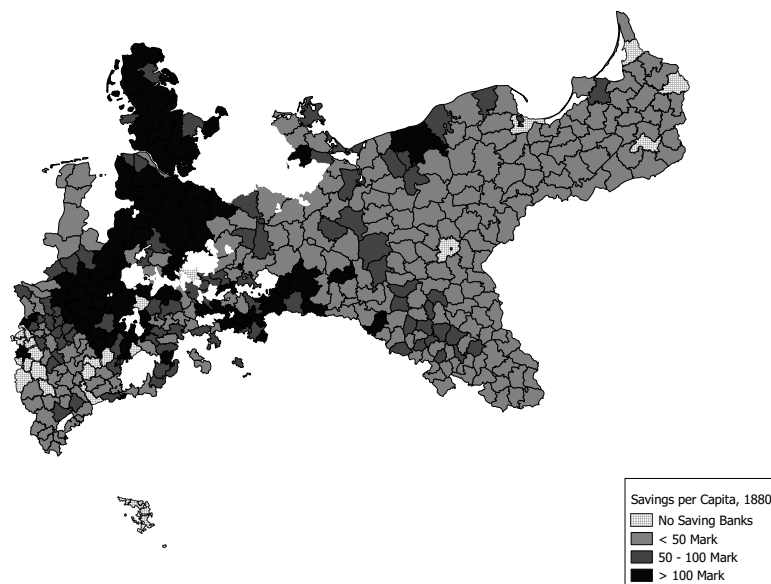
Table A.6: Polish Doctors in the Province Poznan, 1907

District	Share Polish Doctors	Share Mother-tongue Polish
District Poznan		
Wreschen	0.44	0.78
Pleschen, Jarotschin	0.29	0.79
Schroda	0.13	0.84
Schrimm	0.33	0.78
Kosten, Schmiegel	0.50	0.83
Graetz	0.29	0.65
Neutomischel	0.25	0.65
Posen (Stadt)	0.38	0.47
Posen (Land)	0.28	0.70
Obornik	0.40	0.58
Samter	0.30	0.70
Birnbaum, Schwerin	0.27	0.31
Meseritz	0.20	0.20
Bomst	0.30	0.47
Fraustadt, Lissa	0.23	0.31
Gostyn, Rawitsch	0.36	0.68
Koschmin, Krotoschin	0.43	0.70
Adelnau, Ostrowo	0.44	0.81
Kempen, Schildberg	0.36	0.85
District Bromberg		
Czarnikau, Filehne	0.06	0.27
Kolmar	0.30	0.17
Wirsitz	0.25	0.46
Bromberg	0.10	0.28
Schubin, Znin	0.36	0.63
Hohensalza, Strelno	0.35	0.68
Mogilno	0.30	0.68
Gnesen, Witkowo	0.39	0.68
Wongrowitz	0.38	0.71

Note: We identify Polish doctors via their last name. Every person with “ski” or “cz” or “zki” or “sz” or “tz” or “yz” or “zc” or “ow” or “wy” or “zy” in his lastname is classified as Polish doctor.

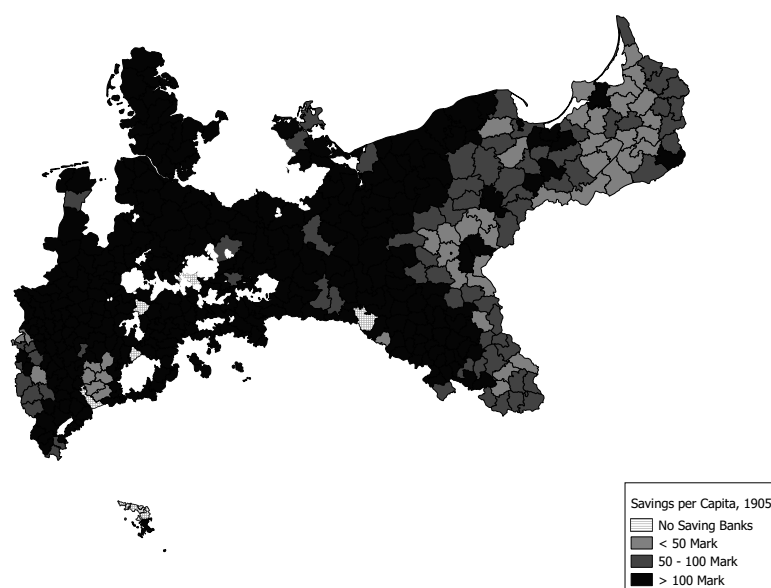
Sources: See Table B.1.

Figure A.1: Savings per Capita, 1880



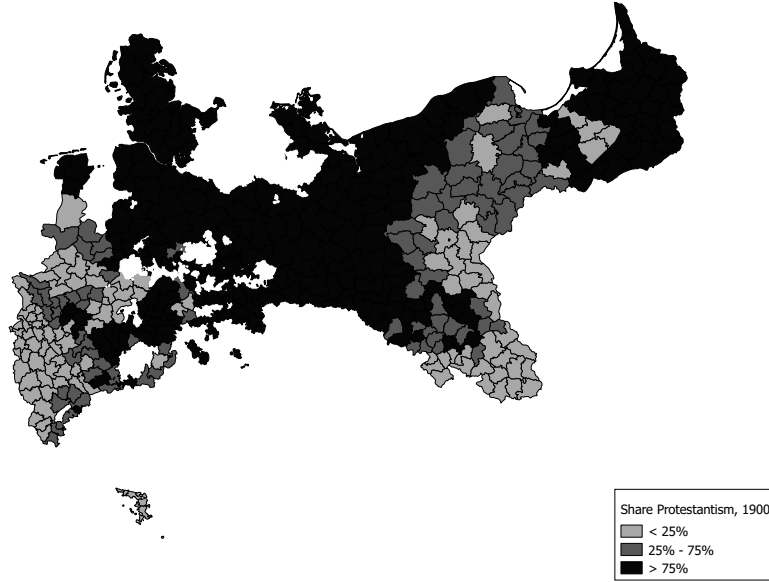
Sources: See Table B.1.

Figure A.2: Savings per Capita, 1905



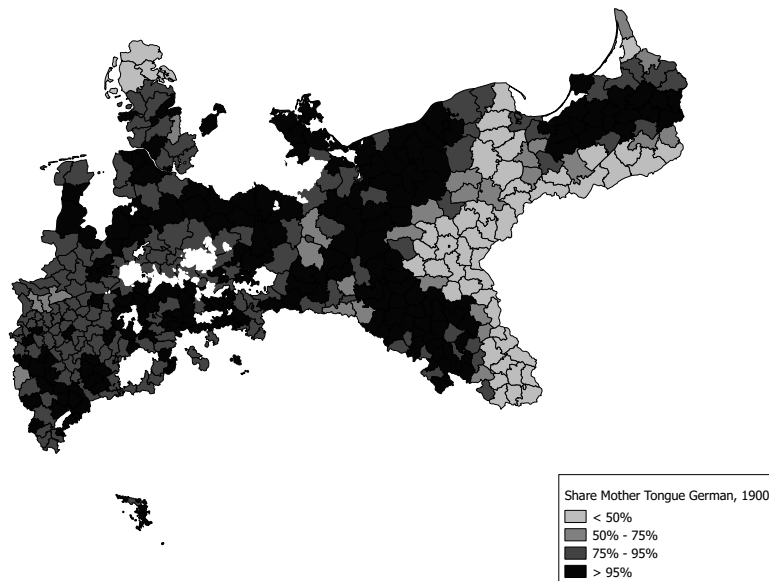
Sources: See Table B.1.

Figure A.3: Protestantism, 1900



Sources: See Table B.1.

Figure A.4: Mother Tongue German, 1890



Sources: See Table B.1.