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From Ideology to Economy: How Confucianism and the Protestant Ethic Molded Cultural Norms, Institutions, and Divergent Paths in Imperial China and Early Modern Europe

Ziruo Lin

International History, London School of Economics and Political Science, London, United Kingdom
z.lin47@lse.ac.uk

Abstract. This essay compares the influence of Confucianism in China and the Protestant ethic in Europe on both formal and informal institutions, examining their role in shaping divergent economic trajectories. Drawing on historical and institutional analysis, this essay integrates insights from economic history, sociology, and political theory. The findings contribute to debates on the cultural origins of the Great Divergence and offer broader insights into how culture interacts with governance structures and economic incentives over the long run. Understanding these historical dynamics is valuable not only for explaining the Great Divergence but also for interpreting contemporary patterns of development, governance, and social trust. In an era where policymakers and international organizations grapple with institutional reform, corruption, and cultural barriers to economic growth, the study highlights the importance of aligning institutional design with prevailing social norms to foster sustainable, inclusive development.

Keywords: Confucianism, the Protestant Ethic, Ideology, Economy

1. Introduction

From the early modern era, China and Europe took increasingly divergent economic paths, leading to Europe's industrial dominance alongside China's unique trajectory of stability rooted in agrarian governance—developments that set the stage for the Great Divergence. This essay investigates how Confucianism in China and the Protestant ethic in Europe shaped cultural norms and institutional structures, influencing their economic trajectories. It considers both formal institutions (laws, constitutions, bureaucracies) and informal institutions (norms, traditions, cultural practices) [1]. In China, the Confucian moral framework reinforced kinship-based governance and moral hierarchy, embedding stability and agrarian priorities in state and society. In Europe, particularly in Calvinist and Puritan regions, the Protestant ethic fostered disciplined labor, individual responsibility, and trust-based commerce, supporting legal-rational bureaucracies and market reforms. Through the lens of scholars including Max Weber, Kent Deng, and Philip Huang, the essay shows how cultural ideologies shaped economic organization, governance, and societal values, contributing to the economic divergence. At the same time, it addresses criticisms of cultural determinism and considers additional influences, including geography, resources, and political competition. Overall,

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while Confucianism and the Protestant ethic played formative roles, examining them alongside these other factors reveals the complex interplay of culture and broader forces in shaping institutions and economies, offering insights for contemporary scholarship.

2. The shaping of China's informal institutions by confucianism and its economic impact

In China, Confucianism shaped informal institutions by promoting clan-based institutions that valued family loyalty and moral duty more than legal enforcement. These institutions, built on kinship networks and clan solidarity, established social cooperation and economic coordination driven by personal relationships and hierarchy, rather than impersonal market or state systems. Confucianism affirmed the “five ethical relationships” that centered duties to one’s kin and moral obligations that underpin in-group harmony [2]. The formal mechanism was relatively weak, especially regarding its influence at the local level. As a result, as Greif and Tabellini observe, “clans were the predominant form of kinship organizations in late imperial China,” [3] shaping social and economic life. Within these clans, cooperation was sustained by intrinsic motivations, moral obligations to one’s kin, and concern for family reputation, rather than by formal legal enforcement. So, clan organizations assumed formal roles, providing education, welfare, religious rituals, and local dispute resolution. Key to this system was the ancestral hall, which served as an administrative hub and the huiguan, guild-like associations facilitating social and economic coordination [3]. By reinforcing order within tight kinship networks, this informal structure fostered stability but substituted legality and formal governance with kin-based rule, ultimately constraining China’s economic development. Melanie Xue’s research shows that regions with strong clan-focused folk narratives often have weaker economic outcomes, highlighting an inverse link between kinship intensity and economic performance [4]. Clans strongly discouraged ties with non-kin, nearly 95% advised caution in dealing with outsiders, limiting most economic activity to kin-based networks built on personal trust [4]. Cooperation beyond the clan faced high transaction costs and low trust, hindering long-distance trade and large-scale commerce. Clan norms also reinforced a rigid hierarchy that marginalized merchants, placing them below “scholars, farmers, artisans, and merchants”, thereby suppressing investment and commercial development. Thus, Confucianism’s kinship-centered informal institutions fostered cohesion while also shaping China’s capacity for large-scale, market-driven economic growth.

3. The reshaping of Europe's informal institutions by the protestant ethic and its economic impetus

In contrast, the Protestant ethic reshaped Europe’s informal institutions by framing hard work and self-discipline as moral obligations. It fostered social and economic coordination grounded in trust, literacy, and impersonal market relations rather than kinship ties. As Max Weber argued, Protestantism introduced the concept of a personal "calling" and the Calvinist idea of predestination [5]. This created a deep "salvation anxiety" among believers. To prove they were among the "elect," believers channeled their energy into constant, diligent work and frugality [5]. The pursuit of profit and reinvesting earnings became virtuous signs of godliness, while idleness was condemned. Protestant leaders even sanctified secular work, making commerce a part of a devout life. This mindset, rooted in Max Weber's ideas, promoted frugality, diligence, and constant labor [5]. Furthermore, the Reformation's emphasis on mass literacy so that believers could read the Bible fostered education and rational inquiry. This combination of values cultivated a culture of personal responsibility and widespread social trust. This informal institution significantly influenced Europe's

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economic development [6]. Unlike China, where clans influenced levels of trust in non-kin and shaped the role of merchants, European merchants saw business as an extension of their religious virtues. They applied their faith's emphasis on integrity and honor to contracts, making them more likely to uphold agreements [6]. As a result, enterprising merchants and innovators gained social respectability. Europe's cities grew large and populous, aided by trade and migration. By 1300, Western Europe's urbanization rate had reached about 10%, nearly three times China's enduring 3–4% rate. These norms collectively lowered transaction costs and legitimized entrepreneurship, creating a strong cultural foundation for the rise of capitalism in Europe. Overall, Confucianism in China fostered kin-based cohesion and installed social stability but limited market growth, while the Protestant ethic in Europe encouraged impersonal trust and commerce, laying foundations for the Great Divergence.

4. Constraints of China's formal institutions on economic development

Furthermore, China's formal institutions shaped its social and economic order through the imperial education system, state monopolies, and a lack of attention to commerce, which ultimately influenced the trajectory of economic development. The state-administered curriculum centered exclusively on the Confucian classics, privileging rote memorization, hierarchical obedience, and moral instruction over practical scientific or technical training [7]. Under Confucian values such as "zūnshī," (respect for teachers) and "qiānxùn," (humility), students were discouraged from questioning authority or displaying individual assertiveness, thereby reinforcing a rigid social hierarchy [8]. Consequently, as suggested by Kent Deng, China's education system played a significant role in shaping the formation of a skilled workforce necessary for industrialization and modern economic growth. It emphasized conformity over innovation, limiting economic diversification and technological advancement compared to the practical, skill-oriented apprenticeships common in European factory systems [8]. Economically, the Qing dynasty, like its Han predecessors, maintained state monopolies on strategic commodities such as salt and iron (a practice rooted in the ancient "Discourses on Salt and Iron"), excluding private merchants from these lucrative sectors [9]. Beyond these monopolies, the Qing rarely intervened in markets and invested little in formal commercial law or an independent judiciary, both vital for economic expansion [9]. Instead, it relied on customary rules and clan organisations to regulate commerce. As Phillip Huang notes, kinship networks handled economic coordination, while formal institutions played only a "relatively minor role in the commercial economy," prioritizing dynastic stability [9]. The Qing focused on maintaining social harmony and public works like irrigation and famine prevention. Although it strengthened regime security and agrarian productivity, it did not promote market growth or innovation. Thus, the Qing state's Confucian-oriented institutions exerted an influence on the advancement of innovation, shaped the development of market institutions, and ultimately played a role in guiding the course of China's transition toward modern economic growth.

5. Transformations of Europe's formal institutions under the protestant ethic and accelerated economic development

In comparison, Europe's formal institutions were transformed under the influence of the Protestant ethic, fostering merit-based bureaucracies, widespread education, and robust commercial laws that accelerated economic development. Calvinist and Puritan regions fostered "legal–rational" bureaucracies, where office-holding based on merit replaced feudal privilege [6]. Protestant values legitimized a new form of leadership based on competence and virtue, rather than one rooted in

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inherited power. This shift meant a person's worth was determined by their hard work and moral character, not by their birthright. Meanwhile, Protestant emphasis on scripture and literacy led states to pioneer mass education, with some of the world's first compulsory schooling laws appearing [10]. By the mid-17th century, countries like the Netherlands and England had literacy rates above 50% [11]. This was supported by state schools and protected property rights, which created a more skilled and legally informed populace. Petty, Montesquieu, and Keats observed that Protestantism was closely tied to Europe's emerging commercial–legal order, with religious ideals shaping economic law [12]. Calvinist notions of honest calling encouraged the codification and enforcement of contracts and property rights, creating a stable and predictable legal environment for commerce. In England, after 1688, Protestant elites in Parliament drove key institutional innovations [12]. They solidified parliamentary control over finances, chartered the Bank of England to manage public debt. Courts emerged with secure tenure for judges, embedding rule-of-law norms that protected investors and merchants [12]. In brief,, China's imperial institutions upheld Confucian hierarchy and moral education over market law, leaving commerce to kinship networks, while European Protestants built merit-based bureaucracies, public schools, and joint-stock banks. These reforms, reinforced by a culture of hard work and thrift, fostered what Weber called the "spirit of capitalism," paving the way for Europe's industrialization and the eventual Great Divergence.

While influential, arguments centered on Confucianism and the Protestant ethic are not without criticism. Many scholars suggest that other factors, rather than just these belief systems, were also responsible for the Great Divergence. First, previous arguments risk over-cultural determinism, as critics argue frameworks like Weber's oversimplify complex history by focusing too heavily on religious ideas and neglecting economic or geographic factors. Second, they often overlook regional variations. For example, Protestantism was not uniform across Europe, and commercial activities in regions of China, like the Yangzi Delta, challenge the notion of a universally anti-commercial Confucian culture [13].

An alternative or complementary explanation points to geographical and resource factors. As Jared Diamond argues, "geography is the ultimate cause behind Europe's political fragmentation and China's long-term unity." [14]. Europe's mountainous terrain and irregular coastline influenced the frequency and scale of invasions while also fostering the emergence of smaller states that focused on defending their narrow land connections In contrast, China's vast, cohesive landmass and smooth coastline facilitated centralized rule, entrenching absolutism by enabling a single authority to maintain control. Consequently, Europe's fragmented geography spurred a competitive environment conducive to innovation, while China's centralized structure fostered institutional constraints, leading to divergent economic outcomes [14]. Specifically, a competitive "market for ideas" emerged in Europe. As Mokyr suggests, its polycentrism allowed ideas to flourish, as entrepreneurs, innovators, and dissenters could escape repression by relocating to a more tolerant neighboring state. Conversely, China's centralized empire shaped the expression of dissenting thought through mechanisms such as controlled elite selection via the civil service exam and what Jami describes as the "continued imperial monopoly of 'science as action,'" influencing the course of institutional reform and technological diffusion. Furthermore, as historian Kenneth Pomeranz suggests, Europe, particularly Britain, gained an advantage from its readily accessible coal deposits. This energy breakthrough allowed Europe to overcome an "ecological bottleneck" and to become "a necessary condition for the industrial revolution." [15]. In contrast, China's major population centers were far from its coal supplies, leading to resource pressure and economic decline as its population grew. This point is concisely captured by Sidney Pollard's famous remark that "the map of the British Industrial Revolution is simply the map of the coalfields." [16]. These criticisms and alternative

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explanations suggest that the Great Divergence was not a result of a single cause, but rather a complex interplay between cultural beliefs, geographic advantages, and institutional structures.

6. Conclusion

In conclusion, this report has argued that the contrasting belief systems of Confucianism and the Protestant ethic were key drivers, shaping both informal and formal institutions that led to divergent economic paths for China and Europe. In China, Confucianism fostered kin-based governance that, while ensuring social stability, ultimately shaped the development of impersonal trust and large-scale commerce. Conversely, the Protestant ethic in Europe created a culture of discipline, trust, and individual responsibility, which supported legal-rational bureaucracies and market institutions crucial for capitalist development. However, a complete explanation of the Great Divergence must also acknowledge the critical role of other contributing factors. As critics suggest, an overemphasis on culture can simplify a multi-faceted historical reality. Geographical advantages, such as Europe's accessible coal deposits and fragmented political landscape, provided a competitive environment for innovation that China's unified empire lacked. Therefore, while cultural beliefs deeply influenced the institutional frameworks of both regions, the impact of these beliefs was shaped by such external factors as geography and politics, with variations in the degree of this influence. The Great Divergence was the product of an interplay between cultural values, institutional structures, and geographical advantages, each shaping this pivotal moment in history.

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