

## CHAPTER 2

# Economy

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To the horror of some and the surprise of nearly everyone, a new body of religious research roams our journals and conventions. Born of neglected data and rejected theory, the body is variously known as economics of religion, the rational choice approach, the religious economies model, and “the new paradigm.” By any name, however, it has animated research on secularization, pluralism, church growth, religious extremism, rational choice, and more. And by any measure, it continues to grow and gain attention. A field that scarcely existed before 1990 can now claim hundreds of papers, scores of contributors, centers at major universities, a yearly conference, a new association, a major grant initiative, and an official AEA subject code.<sup>1</sup> The field also can claim a host of critics, the most strident of whom decry rational choice as the “the malign influence of a small clique” and a theory in need of a “stake through the vampire’s chest.”<sup>2</sup> Faced with diverse applications and divergent assessments, our challenge is to scan the whole while not getting lost among the parts.

Contemporary research on religion and economics can be sorted into three major lines of inquiry. The first explores economic *theories* of religion. The second studies the economic *consequences* of religion. Adam Smith’s critique of state-supported religion exemplifies the former; Max Weber’s protestant ethic thesis, the latter. Together these two lines constitute *the economics of religion*. This essay focuses on economic theories of religion—in part because it is what I know best, but also because the literature on religion’s economic consequences is so vast.

*Religious economics* forms a third line of inquiry. Despite its size and scope, this literature is too far removed from mainstream sociology or economics to warrant inclusion in this essay. Religious economics seeks to evaluate economic action in the light of sacred precepts. The subject is as old as religion itself, for one can preach little of consequence while ignoring property, production, and exchange. The main monotheistic faiths have inspired especially large bodies of economic doctrine and debate. With the help of economists and philosophers, contemporary clerics keep this topic alive, debating the merits of private property, income inequality, tax laws, deficit spending, monetary policy, income redistribution, workers rights, interest rates, banking laws, entrepreneurship, government regulation, international trade, debt relief, unionization, entitlement programs, and much more. Among

the many fine introductions to this literature are books by Oslington (2004) and Gay (1991), review articles by Siddiqi (1981) and Waterman (1987), and essays in the journal of *Markets and Morality* (<http://www.acton.org>).

This essay is a work of informed opinion. Although seeking to avoid bias, I do not claim disinterest or neutrality when it comes to the economics of religion. My “revealed preference” for formal models and rational choice theory is a matter of record. Nor is this my first attempt to grapple with the field as a whole. Given the ease with which readers can access my past work via on-line sources such as ATLA, JSTOR, and *EconomicsofReligion.com*, I shall neglect many contributions that predate my 1998 *Introduction to the Economics of Religion* (Iannaccone, 1998). I shall likewise skim the criticisms addressed in Iannaccone (1995b) and gloss the assumptions and applications described in Iannaccone (1997). The present goal is to extend, rather than merely update, these earlier works. Faced with a sprawling field that no longer admits a chapter-sized review, I have economized—focusing on topics that strike me as “best bets” for current and future research, while relegating the broader literature to an on-line appendix (accessible through *EconomicsofReligion.com*).

## ECONOMIC THEORIES OF RELIGION

Despite the extraordinary foundation laid by Adam Smith in 1776, economic theories of religion languished from the 1770s through the 1970s. In *The Wealth of Nations*, Smith (1981 [1776], pp. 788–814) had argued that self-interest motivates clergy just as it does secular producers; that market forces constrain churches just as they constrain secular firms; and that the benefits of competition, the burdens of monopoly, and the hazards of government regulation are as real for religion as for any other sector of the economy. Along the way, he also developed a theory of sectarianism, a theory of religious violence and civility, and a general theory of church and state.

In 1950 and again in 1968, the great economist Kenneth Boulding (1970, p. 188) noted the “curious” fact that “no economist since Adam Smith seems to have dealt at any length with the economics of religion.” For two centuries, Smith’s observations represented “almost everything that economists, *qua* economists, . . . said on this subject.” As Boulding recognized, this neglect hurt the social sciences twice over.<sup>3</sup> Economists lost a provocative “nonmarket” application that broadens the field and encourages cross-disciplinary research. And religious scholars lost a paradigm that complements, and sometimes contradicts, the alternative perspectives of sociology, psychology, history, theology, and anthropology.

Economists finally returned to the study of religion in the 1970s, inspired by Gary Becker’s pathbreaking work on the family. The first papers modeled church attendance and contributions as a special form of household production—one that involved tradeoffs between time and money inputs, secular versus religious outputs, and present versus afterlife utility (Azzi & Ehrenberg, 1975; Ehrenberg, 1977). Extensions to this model soon added preference formation and human capital, thereby broadening its application to childhood socialization, age effects, conversion, intermarriage, and family interactions (Iannaccone, 1984; Neuman, 1986; Iannaccone, 1990; Lehrer & Chiswick, 1993). Around the same time, several sociologists of religion began mining old data sources with new theories of rational exchange and market competition (Stark & Bainbridge, 1980, 1985, 1987; Finke & Stark, 1988, 1992). By the 1990s, these economic and sociological streams of scholarship together included studies of sectarianism, denominational vitality, religious extremism, doctrinal

innovation, church and state, religious markets, non-Western faiths, religious history, and more.

In the mid-1990s, it was easy to classify contributions to this literature based on their primary level of analysis—individual, group, or population. The classification system worked well because each level tended to emphasize a distinct set of economic concepts. At the individual level, theories of household production and human capital helped explain demographic determinants of religiosity and typical patterns of attendance, contributions, intermarriage, and conversion. At the group level, the neoclassical theory of firm (and the theory of economic “clubs”) helped explain the contrasting features of exclusive sects and mainstream churches. And at the level of populations, theories of competition versus monopoly challenged traditional models of secularization, while emphasizing the benefits of free and competitive religious markets.

Although the three-level scheme retains some value, many recent contributions defy simple classification. I shall therefore focus on ideas and issues rather than levels of aggregation.

## Choice and Rationality

Nearly all economic theories employ the twin assumptions of *rational choice* and *stable preferences*. Within such theories, each individual is assumed to evaluate the costs and benefits of all potential activities and then act so as to maximize net benefits relative to his or her ultimate preferences. In the realm of religion, this means choosing which religion, if any, to accept and how extensively to participate in it. These optimal choices need not be permanent. Indeed, the theory is well suited for explaining differences in the level or content of religious activity—both over time and across individuals. The stable preference assumption means, however, that explanations rarely rely on varied tastes, norms, or beliefs. A good economic story explains behavior in terms of optimal responses to varying circumstances—such as prices, incomes, skills, experiences, technologies, or resource constraints.

I speak of economic *stories* to underscore the importance of intuition, judgment, and aesthetic criteria in economic scholarship—a fact amply documented by McCloskey (1994, 1998). After decades of mathematical modeling and empirical estimation we have good reason to doubt that economic science will ever succeed by the standards of physics. David Friedman (1996, p. xi) thus describes “good” economics as “a blend of theory, intuition, real world puzzles, and ingenious, if sometimes bizarre, solutions.” (And David should know, for he is the son of Nobel Laureate Milton Friedman, a great economist in his own right, and a Ph.D. physicist to boot!) Economists of religion must be especially sensitive to the limitations of formal theory and statistical computation, lest they crank out claims that are irrelevant or absurd.

For sociologists of religion the challenge is essentially the reverse. Sociological training not only emphasizes the limitations described earlier, it also instills distaste for formal theory and economic reasoning—partly because the founders of sociology defined their domain and methods as correctives to the omissions of economics and partly because economists continue to threaten sociology’s academic turf and resources (Wrong, 1961, p. 190; Swedberg, 1990, p. 8–18).<sup>4</sup> Toss in the influence of Max Weber (1963), who made “rationality” central to his work but applied it in ways foreign to most contemporary economists, and you have a recipe for miscommunication.

As I see it, scholars have pursued the debate over rationality far past the point of diminishing returns. For my own part, I have chosen (rationally, I hope) to emphasize rationality's "status as a simplifying *assumption*" (Iannaccone, 1997, p. 26). I can (and do) assert its usefulness without for a moment believing that people always act logically, efficiently, or in accordance with their own self-interest. For those wishing to read the full debate over rational choice theories of religion, I recommend Bruce (1993), Chaves (1995), Demerath (1995), Ellison (1995), Iannaccone (1995b, 1995c), and Young (1997). But I also recommend devoting one's *own* scholarly energies elsewhere. The twin assumptions of rationality and preference stability are false but useful. Not much else matters.

## Production and Substitution

The simplest models of religious behavior (such as those of Azzi and Ehrenberg 1975; Iannaccone 1990) ignore interpersonal interactions and market equilibrium, focusing instead on the behavior of individuals. These models view religion as just one of the many commodities available to consumers, and they thereby explain patterns of religious participation as the result of commodity choice and production. Of course, most religious commodities are neither tangible goods like cars and computers nor commercial services like haircuts and banking. Rather, they are "household commodities" as defined by Becker (1976)—valued goods and services that families and individuals produce for their own consumption. Household commodities may be as concrete as meals and laundry or as abstract as relaxation and love.

Although we cannot directly observe most religious commodities, we can observe the inputs used to produce them. The principal time and money inputs—attendance and contributions—are routinely measured by sociological researchers. More specialized studies provide detailed information on time (such as time devoted to religious services, private prayer and worship, religious charity, and many other religious activities) and money (such as expenditures for special attire, transportation, religious books and paraphernalia, sacrificial offerings, and contributions used to finance staff, services, and charitable activities of religious organizations).

Attention to input *substitution*, as opposed to mere inputs, distinguishes the household production models from their sociological counterparts.<sup>5</sup> Virtually all productive activities, whether household or commercial, concrete or abstract, require both time and money inputs. But the ratio of these inputs can often be varied. Meals can be cooked at home or purchased in restaurants; lawns can be watered by hand or by automated sprinklers; trips can be taken by car or by plane; and children can be cared for by parents or preschools. In every case, people with higher values of time will tend to substitute time-saving, money-intensive forms of production for money-saving, time-intensive forms. Hence, high-wage households are more likely to dine out, install sprinklers, travel by air, and send their children to preschools.

People with high monetary values of time will tend to engage in time-saving, money-intensive forms of religion. Their *ratio* of contributions to attendance will be relatively high. People with low monetary values of time will adopt more time-intensive practices and contribute relatively less money. These predictions have no precedent within traditional, noneconomic models of religious but are strongly confirmed both by survey statistics and case studies. Early studies of substitution between contributions and attendance include Ehrenberg (1977), Sullivan (1985), and Iannaccone (1990). Recent work by Hungerman

(2003) and Gruber (2004) give more attention to statistical problems of endogeneity, but all studies confirm the tendency to substitute between money and time.

Although surveys fail to show *how* people substitute money for time, direct observation indicates that richer congregations opt for a variety of time-saving, money-intensive practices. These include shorter services, more reliance on professional staff, more elaborate and costly facilities, fewer volunteer workers, and more purchased goods, such as catered meals in place of potlucks.

Both in theory and in fact, substitution encourages different denominations to adopt different in methods of organization and worship. Relatively rich members can be quite stingy about spending time on religion. Hence, even a very well-endowed Episcopalian or Presbyterian congregation with plenty of (bequeathed) money to cover its salaries and operating expenses may find itself hard-pressed to recruit volunteers for its choir, youth programs, committees, and many other traditional programs. For the so-called Protestant “mainline,” prosperity has proved a mixed blessing.

Other economic trends have forced adaptation in all denominations, and none more so than the growth of women’s wages and workforce participation. As women have moved into the labor force and overall family earnings have grown, congregations have had to purchase many services formerly supplied by volunteers. The pattern is illustrated by Luidens and Nemeth’s (1994) study of expenditure trends in Presbyterian and Reform denominations. Although real per-capita giving increased dramatically in both denominations (from around \$200 per person in the 1940s to nearly \$800 in the 1990s), nearly all the added money went to fund local congregational expenses. According to Luidens and Nemeth (1994, p. 119), “heightened demand for specialized services and professionally-staffed programs” has squeezed out increased funding at all other denominational levels. Substitution strikes again.

In studies too numerous to list, scholars have explored other implications of production and substitution. (For an especially striking example, see Carmel Chiswick’s [1995] work on American Jewish adaptations to economic success, which range from reduced rates of individual observance to the establishment of an entirely new branch of Judaism—Reform—designed to minimize the cost of religious observance in a prosperous and pluralistic environment.) Suffice to say, substitution and production remain good candidates for great research, especially where economic conditions have changed rapidly.

## Religious Capital

Sociologists have often criticized economic models for their “undersocialized” view of human action. James Coleman (1988, p. 97) introduced the concept of “social capital” to rescue rational choice theory from this deficiency. Around the same time, I introduced the concept of “religious capital” to rescue religious production from the same shortcomings (Iannaccone, 1984, 1990). Each concept took its inspiration from the economic theory of human capital (Schultz, 1961; Becker, 1964), but each extended the standard theory by emphasizing *relationships and social networks* rather than purely individual capacities.

As I have used the term, “religious capital” denotes the accumulated stock of skills, sensitivities, and relationships that alter a person’s (real or perceived) benefits from subsequent religious activity. The concept can readily subsume a variety of other terms, including habits, preferences, spiritual capital, social capital, and social networks. Sometimes it helps

to distinguish between different types of religious capital, such as that which is specific to a particular religious tradition or embedded in relationships. (see, for example, Stark & Finke, 2000). But most capital-oriented distinctions prove largely semantic and unproductive. (In that list, I would definitely include debates contrasting “religious” versus “spiritual” capital, or “preference change” versus “capital formation.”) Whatever the terminology, capital has several key features. The first is that past experience alters the value of current religious activities, and thereby affects rates of religious participation. The second is that most religious experience is “context specific”—relevant only to a specific relationship, congregation, location, denomination, or religious tradition. This means that capital also shapes patterns of religious affiliation.<sup>6</sup> Yet another feature of capital is its tendency to depreciate, and to initially rise but eventually fall over the life cycle.

Capital models yield numerous predictions concerning denominational mobility, religious intermarriage, the timing of conversions, the influence of religious upbringing, the impact of mixed-faith marriage, the age-profile of religiosity, and much more (Iannaccone, 1990). For example, insofar as people accumulate religious capital over time, increased age will lead to increased religious participation. The similarities between religious capital and professional capital lead us to predict that most conversions and religious mobility will, like career choices and job mobility, occur at relatively young ages. Rates of intergenerational mobility are especially low within distinctive religious traditions, as most children accumulate their religious capital in a (home and church) context determined by their parents. Switching will be most prevalent between relatively similar denominations (which allow the switchers to conserve on the value of their previous religious investments). Similar patterns will characterize religious intermarriage. Moreover, the complementarities inherent in shared-faith marriages will lead to higher rates of religious participation, lower rates of divorce, higher fertility, and many other outcomes associated with greater marital compatibility (Lehrer & Chiswick, 1993; Lehrer, 1999; Waite & Lehrer, 2003).

The great strength of religious capital is its capacity to integrate existing generalizations and observations while also suggesting new generalizations and new avenues for research. Survey data and case studies provide strong support for most capital-based predictions. Iannaccone (1990) remains a good introduction to religious capital theory, predictions, and data. The empirical studies of Sherkat and his associates provide further confirmation, and illustrate the manner in which religious capital may be reconceived as preferences, habits, and social constraints (Ellison and Sherkat 1995; Sherkat and Wilson 1995; Sherkat 1997).

## Social Capital

It is but a small step from human capital to social capital. So small, in fact, that both theorists and empiricists have trouble distinguishing the two. By any definition, however, religion plays a major role in the formation and maintenance of relationships, social networks, and shared norms. Empirical studies find that nearly half of all associational memberships, personal philanthropy, and volunteering in the United States are church-related, leading Robert Putnam (2000) to conclude that “[f]aith communities . . . are arguably the single most important repository of social capital in America.”

Religion is, however, all but ignored in the immense contemporary literature on social capital. See, for example, the literature reviews by Dasgupta (1999) Portes (1998) and Sobel (2002). One can scarcely imagine a better “market opportunity” for high-impact research (made all the more timely and marketable thanks to the Templeton Foundation’s recent

“Spiritual Capital” research initiative). The opportunities are further magnified by the links from social capital to other lively areas of economic and sociological research on “social multipliers,” “threshold effects,” and “social networks.” See Becker (2000), Granovetter (1978), and Kuran (1995) for ideas and applications that deserve more attention in the study of religion.

## Belief and Uncertainty

Capital also helps us study religious beliefs. Modeling beliefs as a combination of personal and social capital is straightforward, and it conveniently captures the fact that people tend to believe what they have been taught, what they have previously espoused, and what those around them believe. As with other forms of capital, belief-related capital and belief-related actions are closely related: beliefs shape actions by altering their perceived costs and benefits, and current actions shape *future* beliefs. Studies along these lines are few, but I would expect many more as researchers adapt insights from the relatively new economic literature on preference formation and “rational addiction” (Becker, 1996). The models become more complex, but also more rich and interesting, when we add social effects (Schelling, 1978; Kuran, 1995).

How do we explain the *content* of religious beliefs? Existing economic models provide very little guidance at this point, nor does contemporary sociology. Sociologists of religion still cite the grand theories of Marx, Weber, Durkheim, and other 19th-century luminaries, but when accounting for specific beliefs they almost fall back on individual rationality (“Person X embraces belief Y in order to feel better”) or collective rationality (“Society X embraces belief Y in order to function better”).

Some will argue that the answer lies in psychology. With titles such as *Religion Explained* and *Darwin’s Cathedral*, one gets the impression that evolutionary psychologists Pascal Boyer (2001) and David Wilson (2002) have all but wrapped up the search for God. But I expect most sociologists will come away disappointed, convinced that little has been explained and no great edifice raised. Current work in cognitive, behavioral, and experimental psychology strike me as equally limited. Despite some valuable ideas, none yields anything approaching a general theory of religious belief.

Rational choice offers another approach, one that harkens back to the much maligned “rationalistic positivism” of Edward Tylor, Herbert Spencer, and James Frazer. These and other 19th-century scholars viewed religion as a product of the flawed but basically rational attempts of “primitive” peoples to understand the world and their place in it. *A Theory of Religion*, by Rodney Stark and William Bainbridge (1987) shows that this approach remains powerful, particularly when married to 20th-century field studies, historical findings, and survey research. (As became apparent from the moment anthropologists began doing serious field work early in the 20th century, the source material used by Tyler and others was shot full of factual errors concerning “primitive” societies.) Stark and Finke (2000, chapter 4) offer a similar but streamlined theory in *Acts of Faith*. My own more economic approach is outlined in Iannaccone (1999) and detailed in a forthcoming book.<sup>7</sup>

All three contemporary theories of rational religious belief share some compelling features. They begin with just a few assumptions about human nature and the human condition—in essence scarcity, rationality, and the capacity to conceive of supernatural beings or forces. From these, they derive a universal demand for supernaturalism and a universal distinction between magic and religion. (By definition, “magic” emphasizes the

control of supernatural forces, whereas “religion” emphasizes interactions with supernatural beings.) Specialized suppliers arise naturally in both realms, and the theory predicts that markets for magic operate quite differently from markets for religion. In particular, only the latter can sustain long-term relationships, high levels of commitment, and moral communities. The theories thus derive Durkheim’s famous dictum that “there is no church of magic.”

The theories, however, do not end with Durkheim. They also explain why “moral communities” are so difficult to maintain, even for religions, and why they typically demand exclusivity and sacrifice. Absent these costly constraints, rational consumers will patronize many different suppliers, investing so to speak in diversified *portfolios* of supernatural commodities. This last observation is strongly affirmed by historical and cross-cultural evidence, but it is far from obvious for people raised in the exclusive religious traditions of the monotheistic West. The demand for diversified religion is natural, however, given the tremendous uncertainty that surrounds most religious claims. Even a child can appreciate the wisdom of not putting all your eggs in one basket.

*Uncertainty* offers yet another “market opportunity” for contemporary research. Not since Peter Berger’s (1969) work on “plausibility structures” have sociologists of religion given much attention to this central feature of faith. As I sought to demonstrate in “Risk, Rationality, and Religious Portfolios” (Iannaccone, 1995a), uncertainty is not just understudied, it is also a theme well suited to rational choice theory.

## Churches as “Clubs”

If people are both rational and risk-averse, how can exclusive religions survive? Why does not every worshipper assemble a “portfolio” of beliefs, practices, and churches? The modern theory of church and sect provides an answer. Congregations are sustained by collective production.<sup>8</sup> Except for a few full-time religious professionals and a handful of benchwarmers, most members contribute both to production and consumption of these religious commodities. Highly effective congregations require highly committed members, not mere customers. In this respect, effective congregations are more like families than firms.

The problem is that “shirking,” “defection,” and “free-riding” tend to overwhelm collective action in large groups, and sometimes even in small families. Paying people to do their job well fails to solve the problem, because members’ “jobs” can neither be defined nor observed with precision, and because payments reward motivations that are the opposite commitment. But free-rider problems *can* be mitigated by seemingly gratuitous costs—the sacrifice and stigma characteristic of deviant religious group. Examples of such costs include: distinctive diet, dress, or sexual conduct; physical separation from mainstream society; painful or costly rites; rules that limit social contact with nonmembers; and prohibitions restricting normal economic or recreational activities. Sacrifice and stigmas drive away people who lack commitment while also boosting levels of involvement among those who remain (for what else is there to do?). The net effect is a “good deal” for committed members. Moreover, the resulting congregations manifest a long series of distinctive characteristics that empirical researchers have long associated with “sectarian” religious groups. For more on the modern theory of church and sect, see Iannaccone (1988, 1992).

We have thus solved the problem of risk, rationality, and religious portfolios in an unexpected but highly informative way. The demand for diversification does not undermine



every call for sacrifice, commitment, or community. People can be induced to commit themselves to a single church, but only if that church can offer rewards that more than make up the increased risk and inconvenience associated with exclusivity. The strategy depends entirely on the collective character of religious rewards. Analogous strategies do not work in standard markets, because exclusivity does not enhance the production of standard (noncollective) goods and services.

The sacrifice and stigma model has received wide acceptance, in part because it fits so much survey data and so many case studies. Despite some lingering debate over the extent of free rider problems in mainline churches or the actual level of costs imposed by contemporary conservative churches, the basic model remains the natural starting point for studies of high cost groups. It works well not only with the religious groups routinely called sects, cults, and fundamentalisms but also with communes, gangs, radical militias, and even many terrorist organizations. See for example, Berman (2000, 2003 ) and Iannaccone (2005).

### Churches as Firms

Whereas “club” models focus attention on the collective side of religious production, firm models draw attention to the differing roles of clergy and laypeople. Never mind that most churches are membership organizations, hence more like clubs than firms. The theory of the firm is too well developed and too useful to ignore. Like Weber’s “ideal types,” religious firms would be worth analyzing even if none actually existed. Both neoclassical theory and new institutional economics provide fresh insight into the doctrine, structure, and practices of the idealized religious “firm.”

Note also that many religious organizations do operate as legal firms, and many more look surprisingly firmlike. This should come as no surprise because even the highly abstract theories of religion described above predict the existence of different market segments. The segments include: exclusive “sects” that operate like clubs; inclusive “churches” sustained by a core of professionals; and markets for “magic” organized around simple exchanges between practitioners and clients.

Rodney Stark and William Bainbridge (1985, pp. 171–188) have thus emphasized the role individual entrepreneurship plays in the formation of new religions. Miller (2002) applies insights from strategic management to analyze political strategies and alliances among denominations. Finke and Stark (1992) trace the explosive growth of Methodist and Baptist churches in 19th-century America to superior marketing, organization, and clergy incentives. And Schmidtchen and Mayer (1997), Zech (2002), and Terkun (2004) are among the many scholars to apply franchise models to the study of churches and denominations.

To date, the most ambitious work analyzing churches as firms is Robert Ekelund et al.’s (1996) book on the political economy of the medieval Catholic church. Following Adam Smith’s (1981 [1776], p. 797) classic observation that “the clergy of every established church constitute a great incorporation,” Ekelund et al. explain numerous features of medieval Catholicism in terms of its monopoly status. They view the Church as a monopolistic “multidivisional” firm characterized by a central office that controls overall financial allocations and conducts strategic, long-range planning, but allows its (usually regional) divisions a high degree of autonomy in day-to-day operations. Drawing on standard theories of monopoly, rent-seeking, and transaction costs, they offer economic explanations for interest rate restrictions, marriage laws, the crusades, the organization of monasteries, indulgences, and the doctrines of heaven, hell, and purgatory.

Work on churches as firms continues to grow rapidly, in part because firms are easier to model than clubs, but also because the theory of the firm is so rich in predictions and data.

## Markets and Monopoly

If individual denominations function as religious firms, then they collectively constitute a *religious market*. Recognizing this, Adam Smith (1981 [1776], p. 788–814) argued that established religions face the same incentive problems that plague other state-sponsored monopolies.<sup>9</sup> No other economic insight has generated as much discussion and debate within the sociology of religion. Sadly, however, the discussion and debate have tended to collapse down to a single issue: the consequences of American-style religious pluralism. When today's sociologists speak of "religious economies" or "the market model" they almost always mean claims concerning pluralism's capacity to reverse religious decline. This is unfortunate, for it submerges numerous insights and avenues for research beneath simplistic slogans and flawed methods. It also misrepresents what economics really teaches about market structure.

Before turning to these problems, note that the core elements of religious market theory have utterly won the day. Almost everyone now accepts the notion that religion in America constitutes a vast competitive market, overflowing with "products" that range from New Age paraphernalia to orthodox liturgies. Scholars likewise accept that market success requires entrepreneurship, innovation, and sensitivity to the demands of consumers. As a result, themes that rarely surfaced prior to Finke and Stark's *Churching of America* (1992) now parade as common sense in books and articles with titles such as "Selling God" (Moore, 1994), "Shopping for Faith" (Cimino, 1998), and "Healing in the Spiritual Marketplace" (Bowman, 1999).<sup>10</sup> Even the harshest critics of rational choice theory (such as Bruce, 1999), emphasize the centrality of religious choice in today's world.

The market model is certain to remain popular for years to come for the simple reason that it works. The most informative studies, however, will remain those that closely study how markets actually work. Successful "business strategies" vary across time, place, and people. Hence, good market-oriented research must carefully address numerous issues, including product attributes, marketing strategies, incentive structures, exchange relationships, consumer characteristics, and so forth. Andrew Chestnut's (2003) study of "pneuma-centric" religion in Latin America illustrates this point by showing how specific religions offer distinctive products that directly address the health and family oriented concerns of poor and middle-class women. In a similar manner, Anthony Gill (1998) compares Catholicism across Latin America and finds that the Church is much more likely to side with the poor (as opposed to the rich and politically powerful) in countries where Protestant growth threatens the Church's historic monopoly.

I take a much less positive view of the literature on "pluralistic" versus "monopolistic" markets. A tremendous amount of effort has been expended (and mostly wasted) running regressions that relate measures of pluralism to measures of religious vitality. Voas, Olson, and Crockette (2002) have correctly emphasized that major statistical problems plague these studies. The main problem, however, runs far deeper. There has never been much reason to infer monopoly power from absence of pluralism in 20th-century America—no matter how one measures religious pluralism—because barriers to entry have always been low. Good economists know not to confuse market concentration with monopoly power, and they also know not to equate monopoly power with inefficiency.

Share-based measures of market concentration (including the standard diversity index favored by the religious researchers) provide no direct information about barriers to entry.<sup>11</sup> Barrier size depends on technological, legal, and regulatory factors. Market concentration is at best a weak and indirect indicator of these. The relevant market is also difficult to define, as illustrated by the debate over whether religious market concentration is best measured at the level of communities, regions, or nations. The modern theory of industrial organization thus emphasizes market *power* rather than market *share*, especially in the case of so-called contestable markets (which by definition lack major barriers to entry).<sup>12</sup>

The notion of “lazy monopolists” is likewise problematic, and not just because a firm must often work quite hard to acquire and maintain monopoly status. The classic monopoly firm gains super-normal profits by charging relatively *high prices* and selling relatively *low quantities*, but it sacrifices profits if it operates inefficiently, reduces product quality, or ignores consumer preferences. It is not monopoly but, rather, *government regulation* that routinely gives rise to inefficiency. This was precisely Adam Smith’s point when he critiqued the “established” churches of his day. A church that derives special status from law and government has little reason to “waste” resources on the captive customers it supposedly serves, but it has every reason to lavish attention on its legal and political constituencies. So it was that Smith (1981 [1776], p. 789–790) condemned the established (Protestant) churches of Northern Europe for “having given themselves up to indolence,” while simultaneously claiming that “in the church of Rome, the industry and zeal of the inferior [i.e., lower rank] clergy is kept more alive by the powerful motive of self-interest, than perhaps in any established Protestant church.”

As I see it, statistical studies of pluralism versus vitality long ago passed the point of diminishing returns, and not even mathematically heroic efforts along the lines of Montgomery (2003) are likely to reenergize them. Modern economic theory strongly suggests a higher payoff to research that more directly observes market power, competition, effort, innovation, efficiency, and so forth. Barriers to entry deserve emphasis, and case studies may prove especially enlightening. A decade of statistical debate has obscured the fact that the religious economies model has always drawn its sharpest insights from historical work—whether that of Adam Smith or that of Finke and Stark (1992).

## Pluralism and Secularization

Beneath the frequently spurious statistics on pluralism and religiosity lie fundamental questions about religious change. Most arguments about “rational choice” or “religious economies” are veiled battles over secularization. The proxy war arose in part because contemporary secularization theorists (especially Berger, 1969) saw pluralism as a major factor undermining religious plausibility in the modern world.<sup>13</sup> In contrast, economically oriented scholars stressed pluralism’s link to competition, which promotes market vitality.

The competing claims are, however, less contradictory than they initially appear. The former emphasizes trends—the presumed tendency for pluralism to corrode religious plausibility *over* time. The latter emphasizes levels—the tendency for (pluralistic) competition to increase religious participation at any *given* time. In principle both could be true or both false. Pluralism could raise equilibrium levels of religiosity in any given period yet still promote long-run decline. One might even invoke rational choice and social capital to model the process whereby pluralism eventually undercuts religious plausibility. In short,

although religiosity may indeed be higher in a competitive market than in an otherwise identical state-regulated market, that differential tells us relatively little about long-run trends in *either* market.

By contrast, this ambiguity does little to reinstate secularization. The secularization thesis has never been a simple statement about trends but rather a theory of modernization—and in particular a theory about why modernization inevitably and irreversibly undercuts religion. As Berger and Luckmann (1995, p. 36–37) have themselves emphasized, this thesis receives very little support outside of Western Europe.<sup>14</sup>

## Trends—Past and Future

Although numerous mistakes and misunderstandings have marred debates over secularization and pluralism, religious trends deserve continued study. Quite apart from their intrinsic interest and their relevance for the future, we need more and better trend research to determine how religion relates to other social and economic factors. This relationship lies at the heart of debates over the economic *consequences* of religion.

Studies of religious trends suffer from disproportionate attention to a small body of data—namely, survey studies of American church attendance from the 1950s through the present. Here again, the marginal product of additional studies is low—whether they extend the time series to the latest General Social Survey or subject the data to the latest time series technique. The prospects look better for comparative studies, especially if tied with less standard forms of data collection, such as the analysis of retrospective data (Iannaccone, 2002) or detailed collections of comparative-historical data Woodberry (2004). To speak meaningfully of trends, we especially need data on the character, as opposed to mere quantity, of religious observance over time—a subject not readily assessed by standard surveys, but potentially measurable through numerous forms of content analysis.

## The Economic Consequences of Religion

Although not the first study of religion's economic consequences, Max Weber's (2002) *Protestant Ethic* certainly remains the most influential. And thanks to Weber this literature is too large—and its core ideas too well known by sociologists—to permit any meaningful review.<sup>15</sup> In the spirit of *The One Minute Manager* (Blanchard and Johnson 1982), I shall therefore limit myself to a few observations. For more on the economic consequences of religion, see the online appendix to this chapter and Iannaccone (1998).

The economic and social impact of religion is a subject both endlessly fascinating and genuinely important. Despite the volume of past and current work, however, there is nothing approaching consensus concerning the impact of Protestantism, Christianity, monotheism, or religion in general. After leaving the field to sociologists and political scientists, economists have reentered (e.g. Guiso 2002; Barro and McCleary 2003; Kuran 2004) and there is much more to come. One hopes that researchers can resist the temptation simply to add religiosity variables to standard (and already problematic) statistical models of economic growth. As development economists have learned, such methods yield many publications but few real advances in understanding. By contrast, attention to religion is both welcome and overdue. Attempts to promote development in poor and postcommunist

countries strongly affirm the importance of norms and moral precepts—and religion appears to be source and sustainer of many such “cultural” factors.<sup>16</sup> Communism is the most striking example of an economically and socially destructive religion, albeit a religion without deities. In this sense, the most compelling evidence for Weber-like theories may be negative—some widely embraced systems of belief *do* halt progress and destroy civilization.

Evidence of religion’s social and economic impact is stronger at the level of individuals, families, and communities. Numerous empirical studies suggest that religious belief and participation do influence numerous outcomes: mental health, physical health, sexual conduct, substance use, crime, education, work, political orientation, family behavior, fertility, rates of marriage, divorce, and cohabitation, and much more. (Interestingly, economic attitudes are one of the few outcomes often *not* related to religion.) Keep in mind, however, that problems of spurious correlation remain, despite careful attempts to eliminate them, and that nearly all the data are contemporary and American. We need *much* more information about different religions in different settings, and we cannot possibly obtain it from American-based estimates of socioeconomic status (SES) and denominational effects. To illustrate how great the need may be, consider that nearly all religions advocate specific rules of sexual conduct, although by no means the same rules nor with equal success. Whether some religions persuade more people to avoid sexual promiscuity, let alone other forms of opportunistic behavior, is literally a matter of life and death. AIDS alone causes millions of deaths each year, continues to spread rapidly, and threatens to radically reduce health, longevity, and economic well-being of poor people and poor nations throughout the world.

## CONCLUDING REMARKS

The economics of religion has animated research on secularization, pluralism, church growth, religious extremism, rational choice, the social consequences of religion, and more. For the social-scientific study of religion—a field long on data but short on theory—these recent contributions are no small thing. In the late 1980s, Wuthnow (1988: 500) lamented that sociology of religion “has grown more rapidly in inductive empirical research and in sub-specializations than it has in attempts to identify theoretically integrative concepts. . . . The problem is not one of lively disagreement over serious intellectual disputes but an absence of unifying constructs.” Around the same time, Stark and Bainbridge (1987, p. 11) complained that “there has been little theorizing about religion since the turn of the century” despite “an amazing variety of new and well-tested facts.”

If nothing else, the economic invasion has shaken things up. Rational choice is a unifying construct *par excellence*. Proponents invoke the economic paradigm to explain empirical regularities, resolve old questions, and integrate previously distinct predictions. Other researchers remain unconvinced, and so much so that critiquing rational-choice has become its own little industry. “Lively disagreements over serious intellectual disputes” have thus been standard fare since the early 1990s. The debates have generated some light and much heat—welcome developments given the tendency for social science to leave religion out in the cold.

As economic theory has entered the study of religion so also have economic researchers. This, too, is a welcome development, especially if it promotes cross-disciplinary exchange.

Economists may be the world's most forceful advocates of free and open trade, but they rarely sample and almost never buy the output of other social sciences. Without the data, case studies, and generalizations that lie beyond the shores of economics, rational choice theory easily can drift toward emptiness or absurdity.

We need more intellectual exchange, but perhaps less work on a few tired topics. Regression studies of religious pluralism versus religious vitality may have passed the point of diminishing returns, as has the standard debate over secularization. The rate of return is equally low for most statistical studies of widely available survey data. The standard research questions remain important, but many standard techniques have ceased to inform. Just as economic approaches have enriched our stock of theories, so we need to augment our stocks of data and methods.

With one foot in economic history and one in sociology, Max Weber sought to answer great questions about religion more than a century ago. Subsequent generations of sociologist aimed lower, and economists aimed not at all. Perhaps the 21st century will at last find answers to some of those great questions thanks to a fruitful fusion of both fields.

## NOTES

1. For a fairly complete list of papers and contributors, see <http://www.EconomicofReligion.com>. The same Web site describes the Association for the Study of Religion, Economics, and Culture and includes past programs for the association's annual conference. The new university centers include Harvard's Center for the Study of Religion, Political Economy, and Society; George Mason University's Consortium for the Economic Study of Religion; and the Economics and Religion Research Group in Australia. The major research initiative was launched by the Templeton Foundation, and the American Economic Association subject code for research on religion is Z12.
2. These statements come from the introduction to Steve Bruce's (1999) *Choice and Religion: A Critique of Rational Choice Theory*. For similar sentiments and rhetoric, see Yamne (1997) and Hadaway and Marler (1996). Other critiques include Robertson (1992), Demerath (1995), Marwell (1996), Chaves (1995), and Neitz and Mueser (1997).
3. It does, however, seem likely that Smith's theory of sects influenced Weber, especially the notion that sect membership enhanced a person's reputation and business prospects. Although *The Protestant Sects* and the *Spirit of Capitalism* fails to cite Smith, *The Wealth of Nations* was required reading for all 19th-century students of economics, and Weber held a chair in economics at the University of Heidelberg. Weber's longer treatise on *The Protestant Ethic and the Spirit of Capitalism* (2002, p. 40, 107, 184) cites several passages from *The Wealth of Nations*, and describes them as "familiar" and "well-known."
4. According to Dennis Wrong (1961: 190), modern sociology "originated as a protest against the partial views of man contained in such doctrines as utilitarianism, classical economics, social Darwinism, and vulgar Marxism. All the great nineteenth and early twentieth century sociologists saw it as one of their major tasks to expose the unreality of such abstractions as economic man, the gain-seeker of the classical economists."
5. Household production also strengthens the theoretical justification for empirical studies that sift survey data for correlates of attendance and contributions. Statistically "significant" predictors—such as income, education, age, race, region, marital status, and gender—can be interpreted as determinants of the demand for religious participation. In practice, however, the results differ little from those previously documented in sociological studies.
6. Although most applications of the capital concept emphasize its tendency to *increase* religious activity, the opposite occurs when the capital is specific to an institution or environment that becomes less accessible or appealing. Voas's (2003) recent study of Scottish religion may illustrate this point. The theoretical result is analogous to sustained unemployment among older workers who lose long-held jobs.
7. The relevant draft chapters are available on request.
8. The skeptical reader will wonder why congregations cannot operate like commercial firms, hiring their labor and selling their products. The simple answer is that the typical congregation operates as mutual benefit organizations dedicated to the collective production of worship services, religious instruction, social

activities, and other quasi-public “club goods” (Sandler & Tschirhart, 1980). Of course, this begs the question *why* standard firms cannot offer the same goods and services. The answer seems to lie in the distinctive, faith-based character of religious “products.” Most religious “firms” require *networks* of faith as opposed to mere *pools* of labor.

9. Smith’s insight is too important not to quote: “The teachers of [religion] . . . , in the same manner as other teachers, may either depend altogether for their subsistence upon the voluntary contributions of their hearers; or they may derive it from some other fund to which the law of their country may entitle them. . . . Their exertion, their zeal and industry, are likely to be much greater in the former situation than the latter. In this respect the teachers of new religions have always had a considerable advantage in attacking those ancient and established systems of which the clergy, reposing themselves upon their benefices, had neglected to keep up the fervour of the faith and devotion in the great body of the people.”
10. The brilliant and iconoclastic economist Kenneth Boulding deserves credit for discussing economic features of religion long before Berger (1970), Stark (1972), and others did so. Unfortunately, his insights about religion appear to have had no impact on economists or sociologists. Boulding’s 1950, 1952, and 1957 essays on religion and economics appear in *Beyond Economics* (Boulding, 1970).
11. To calculate the diversity index for any given market, square the market share of each firm currently operating in the market. (In the case of religion, we typically interpret each denomination’s “market share” as the fraction of the population affiliated with it.) Then sum these squared-shares to obtain the “Herfindahl” index of market concentration. The indices of diversity and concentration are complementary, so  $D = 1 - H$ , and  $D$  measures that probability that any two people, chosen at random, are affiliated with different denominations. For more on these indices, see Iannaccone (1991, p. 164–167).
12. In so-called *contestable markets* (where firms can easily entry or exit markets) latent competition takes the place of actual competition. A single firm may account for all current sales in such a market but still lack monopoly power, because it will immediately be displaced by new entrants unless its prices and quality remain near competitive levels.
13. In fact, Berger and Luckman (1995) later concluded that pluralism was a much more powerful secularizing force than modernity itself.
14. Proponents of secularization theory apply the term “modernization” to the combined forces of urbanization, education, rationalization, and increased pluralism. See Roberts (Roberts 1990: 303–323) for an extended summary of variants on the secularization thesis promoted by Peter Berger and Thomas Luckmann, Thomas O’Dea, Talcott Parsons, Robert Bellah, and others. For a historical overview of the secularization thesis and debate, see Swatos and Christiano (1999).
15. Delacroix and Nielsen note that despite numerous studies challenging the empirical validity of Weber’s argument, the Protestant Ethic thesis lives “as an article of faith in sociology primers, international business textbooks of all stripes, [and] the middlebrow press” (cf. Eisenstadt, 1968; Samuelsson, 1993; Tawney, 1998; Delacroix & Nielsen, 2001).
16. For a brilliant analysis along these lines, see Hayek (1988), especially the chapter entitled “Religion and the Guardians of Tradition.”

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