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Religion, Church, and Economics

In all history, we do not find a single religion without a church.

—Emile Durkheim, *The Elementary Forms of the Religious Life*

A glorious Church is like a magnificent feast; there is all the variety that may be, but every one chooses out a dish or two that he likes, and lets the rest alone: how glorious soever the Church is, every one chooses out of it his own religion, by which he governs himself, and lets the rest alone.

—John Selden, *Table Talk*

The concepts of religion and church are so intertwined as to be inseparable in most people's minds. By one set of definitions, *religion* is an organized system of beliefs, and *church* is an organized body of worshippers. At first blush, economics seems far removed from these constructs. In the complicated nexus of relations between the sacred and the profane, most people would place church and religion among the former and economics among the latter. But if we are rational about such things, we must recognize that organized bodies imply organization and administration. Therefore, in order to understand the workings of organized bodies, it makes sense to turn to a science like economics that seeks to explain the behavior of organizations. Economics and religion, therefore, are not such strange bedfellows after all.

The premise of this book is that the history and contemporary state of organized religions can be better understood if one uses economic principles to analyze their evolution and development. In order to do this, we must adopt a new mindset. We must be willing to employ the language and analytical methods of business and economics. This might be considered heresy to some, but there is cumulative evidence that old thought patterns are giving way to new ones, even among those ideologies most tightly wound to tradition. No church is more dominant in the history of Western Christianity than the Catholic Church. Yet the editor in chief of the *Catholic Herald*, Damian Thompson, recently wrote, using the language of business, "One of the discoveries in the sociology of religion in the last twenty-five years has been the extent to which, mutatis mutandis, patterns of religious allegiance in a pluralist society resemble those of consumption in the marketplace. People are attracted to strong brands that protect their identity; they enjoy products that suspend the boring reality of everyday life; and they demand near-infallible standards of professionalism."[1] Moreover, Thompson implicitly endorses a view we[2] advanced nearly a decade ago: "The Pope is a CEO, not a chairman, and as such has two priorities. The first is to make sure that staff and services bearing the label "Catholic" are what they say they are . . . [His] other priority is to improve the quality of the Church's greatest service, the liturgy of the Eucharist."[3] Although Thompson makes specific reference to the Catholic Church, the notion that organization is an essential feature of *all* churches is self-evident. He has, in other words, embraced the mindset that we employ in this book.

Religion and church are universal concepts. There are, by loose count, nearly two dozen major world religions. It is possible, indeed probable, that an economic approach to the study of religion may be fruitfully applied to any and all of them. But all scientific studies are bounded by theoretical or practical limits. Ours is no different. Here we confine our study to Christianity for three reasons: It is the largest of the world's organized religions;[4] it is the fastest-growing religion in developing countries around the world; and it has played a major role in the history and development of Western civilization. This book is not a work of history, but we wish to use history as support for our theory and its application. We will concentrate on the central transformation that occurred in Christendom in the sixteenth century—the Protestant Reformation—and its aftermath, including the initial and ongoing reaction against Protestantism by the Catholic Church. In economic terms, Protestantism may be represented as a successful penetration of a religious market dominated by a monopoly firm (the Catholic Church). Hence, the competitive process is at the heart of our inquiry. In the persistent rivalry that followed the Reformation, all manner of product differentiation was introduced; this process continues to this very day. We hope to show that as the story of Christianity unfolds it becomes increasingly evident that economics provides a useful framework for interpreting its evolution.

Is There an Economics of Religion?

No urge, primal or modern, is more fundamental than the desire to explain existence. Human curiosity concerning mankind's ultimate origins and destinations has motivated multiple belief systems and organized religions, all seeking, more or less, to provide meaning to life on earth. Although we cannot know for sure, it is quite possible that religion is as old as mankind. Can the same be said of economics? Whereas economic *behavior* is probably as old as *Homo erectus*, by a common consensus the formal study of economics is only about as old as the United States of America. The origins of formal economic theory go back to Adam Smith (1723–1790), a Scottish political economist and moral philosopher, who published his *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776. It might come as a surprise, even to some contemporary economists, that Smith wrote at length about the economics of religion.[5] But after Smith, the subject was largely ignored by the chief architects of economic theory.

Two centuries later, economists Corry Azzi and Ronald G. Ehrenberg (1975) reawakened their peers' interest in the subject by examining church attendance within the context of modern economics.[6] Their work is a watershed in what has since become a burgeoning field—the economics of religion. The distinguishing feature of this field is the belief that religion and religious behavior are rational constructs. In religious activity, as in commercial activity, people respond to costs and benefits in a predictable way, and therefore their actions are amenable to economic analysis (as well as sociological, historical, psychological, and anthropological analysis). This view is becoming increasingly commonplace, as manifest by an ever-expanding volume of literature from economics and the other social sciences.[7] We see this book as a continuation of this young tradition. We take our inspiration from Adam Smith. But our attachment to Smith is more fundamental than the shared assumption of rationality—which, after all, is the foundation of *all* modern economic investigation. By refusing to make pejorative judgments about religion, Smith distanced himself from his great friend and mentor, Scottish philosopher David Hume (1711–1776), who considered organized religion to be an elixir for the ill-informed and superstitious. Like Smith, we seek to avoid value judgments about religion. Consequently, we take preferences for religion as given and attempt to analyze their effects. We do not argue about why preferences for religion exist, or about whether or not people should believe in supernatural phenomena. For very good reasons, some of which we analyze in chapter 3, individuals have, since the beginning of recorded time, believed in the presence of an eternal spirit or deity, an afterlife, ultimate rewards and punishments, magic, and the existence of phenomena outside the corporeal or empirical. The economist, as any other scientific observer, does not attempt to explain whether such preferences are good or bad. Rather, given that they exist for reasons that are deemed rational, the economist asks what their actual effects might be on society, or on individual or collective welfare.

Limitations of the Economic Approach

The extension of Adam Smith's analysis of the economics of religion is even more appropriate today for two reasons: Religion remains at the center of culture and civilization, and economic theory has progressed substantially in the past two and a half centuries. Contemporary economics can bring many analytical tools and concepts to bear that were not available to Smith and his contemporaries. Our study relies not only on the standard techniques of demand and supply analysis, but also on contemporary concepts of industrial organization, bureaucratic behavior, full-price analysis, time allocation, economic interest groups, economic opportunism, spatial competition, and product differentiation.[8]

Despite the many advances of modern economics, limitations do remain on what it can contribute to the understanding of human behavior. A different and troubling limitation is some people's belief that economic analysis has no place in certain realms, including the family and religion. At base, the key controversy concerns the assumption of rationality. As we've noted, rationality is the foundation of economic analysis. There is, however, a certain resistance, inside and outside the academic world, to extending this assumption to religious behavior. Admittedly there are aspects of religion and religious behavior that are wildly incompatible with typical assumptions of rationality. But these aspects can be confined to the *psychology* of belief systems, which lies beyond the realm of our investigation. It is clearly not irrational to assume, as we do, that human beliefs (however they are formed) are *given*, and to proceed accordingly. It may well be that the lynchpin of a full-blown theory of religion requires both a richer model of psychology *and* economic market analysis. While we are not equipped to advance the former, we shall try to demonstrate the effectiveness of the latter.

In proceeding this way, we merely continue on the path of contemporary microeconomics, which has embellished the theories of competition and monopoly. In earlier centuries it was common to define economics in terms of action focused on achieving wealth. The modern view is that economics is only peripherally concerned with wealth maximization. Its central concern is with utility, or satisfaction. Therefore, all markets may be studied in terms of their utility-creating effects: whether it be the market for bread or automobiles, or the market for marriage, dating, or religion. Any market—not merely traditional ones—in which both suppliers and demanders engage in rational behavior may be analyzed using the principles of economics. With appropriate imagination, we can readily apply common tools of economic analysis, such as demand and supply curves, in nontraditional markets as well. For example, the demand for religious services may be specified such that the quantity demanded is, other things equal, inversely related to the full price paid by the individual believer. *Full price* is the total cost to an individual in terms of money outlay and resources foregone. In addition to explicit (money) costs it includes implicit costs, such as time spent in delivery, search, or waiting. When the determinants of the demand for religion change, the equilibrium full price of religion (including time spent on ritual and observance of religious precepts) likewise changes. *Equilibrium price* is the price that results from the free interaction of both supply and demand. The law of demand indicates that, other things equal, quantity purchased decreases as full price increases. The law of supply indicates that, other things equal, quantity offered for sale increases as full price increases. Alternatively stated, quantity demanded is inversely related to full price; whereas quantity supplied is positively related to full price. Equilibrium quantity is traded when the desires of both demanders and suppliers are simultaneously satisfied. What is of particular interest to economists who study market behavior is how market activities are coordinated: how and on what basis participants (demanders and suppliers) make decisions, and what are the outcomes of market activity. Like other markets, religious markets may produce outcomes that are beneficial or detrimental to participants. We anticipate these results but pass no moral judgments about them.

A basic question for many people is whether the law of demand applies to religious activity. To assume that it does not is to argue that relative price changes (due, for example, to aging, or to alterations of time costs connected with ritual or belonging) do not affect behavior in religious markets. It may be that some people (e.g., Joan of Arc or Mother Teresa) do not fit the standard model of economic behavior. (On the other hand, maybe their demand curves were vertical, i.e., their demand remained unchanged regardless of price). Our observations, however, and those of many other researchers convince us that this is not the case for most demanders of religion. Studies have consistently shown that religious participation rises with age and that higher time costs change the kind of religion demanded. The fact that there may be a few exceptions does not refute the general applicability of economics to religious markets.

Objections to the use of economics to help explain church behavior have come mostly from non-economists, and are not especially persuasive. For example, William Campbell, a Roman Catholic apologist, argues that the medieval church could not be selling a commodity. In a critique of our previous work,[9] Campbell asks: "What do we put on the quantity axis that makes any sense?"[10] The answer of course is that just as insurance companies sell protection against loss, the medieval church sold a product that is a composite good that includes both temporal and supernatural elements. A demand curve may be generated that reflects the relationship between the full price of this product and corresponding quantities demanded. In any specified market a change in demand (or supply) will have predictable effects. That other motives may be involved is incontestable. It is undoubtedly true that many in the Roman Catholic Church were "shocked and distressed" at Church abuses in the Middle Ages, but it is clear that the Church, largely in an attempt to maximize wealth, was unable to prevent Protestant entry by internal reforms, as we demonstrate in chapter 5. If accepted, Campbell's metaphysical arguments concerning religion would preclude further inquiry, for he declares: "The question of whether God is also to be included among the purposive rational agents is the crux question in the interpretation of history that mere empirical evidence will probably never solve."[11] Such arguments do not carry us very far in understanding the evolution and functioning of institutions such as the Christian church.[12]

Sound research on the economics of religion does not casually apply the sweeping idea that all human activities can be reduced to market analysis. Religion is a complex good that satisfies a complicated set of individual wants. Faith, philosophy, and other intangibles play critical roles in religious markets. Like science in general, economics must abstract and simplify in order to make intellectual headway. Economics is only one avenue for explaining phenomena that may have observational equivalents. The scientific method demands, among other things, that theories be portrayed in terms that are verifiable or refutable, usually on the strength of empirical evidence. And therein lies a major problem for the economics of religion that has so far hampered progress.

For the most part, existing economic studies of religion share a common weakness: They do not accurately define the subject being studied. As a consequence, religion may, and often does, take on different meanings, some of which are amenable to empirical (or anecdotal) study, and some that are not. This ambiguity may merely reflect familiar usage in the nonscientific community, as standard dictionary definitions of religion are far from uniform. Religion is usually treated as a system of beliefs, but sometimes the system is tied to an institutional structure and sometimes it is not. One leading authority defines religion, alternatively, as "belief in and reverence for a supernatural power or powers regarded as creator and governor of the universe"; and simultaneously as a "personal or institutionalized system grounded in such belief and worship."[13] This ambiguity introduces a problem in how to count believers or members of a religion for those attempting empirical research. This problem arises because believers may or may not be members of a religion or, if they are, they may or may not attend services. Can a general (Christian) market or a particular (Methodist) market be defined by the (increasingly) standard measure of church attendance, or must it be delimited by specific (Christian vs. Methodist) beliefs? If we think of religion as a belief system, what does or can a survey of belief in God, heaven and hell, or the Ten Commandments tell us about the market for religion? These are issues that challenge investigators and trouble skeptics. They present problems that so far have proven insoluble.

As an example of the difficulties involved, consider the following: Some Christians reject institutionalized religion because they do not find a church that matches their beliefs, or satisfies their wants. These Christians may become *both* suppliers and demanders of religion—Christian or otherwise. Individuals may want to embrace religion (demand) but only on their own terms, which means changing an existing belief system to conform to individual wants (supply). Clearly, changing one's belief system involves certain costs, such as time spent learning new rituals, carrying out new responsibilities, or meeting new brethren. Costs may also be raised by the imposition of different behavioral constraints imposed by a revised belief system. Given the wide latitude concerning biblical interpretation that is characteristic of Protestantism, there is no fundamental reason why Christianity cannot be tailored to individual tastes, within limits. This point was made in an important empirical study by Robert Barro and Rachel McCleary, who first demonstrated that income and education tend to raise church attendance.[14] However, they showed that the primary factor relating economic growth to religion is the ratio of believing in certain doctrines to attendance. In other words, belief rises relative to attendance, which seems affirmed by the following survey statistics: Approximately 96 percent of Americans believe in God or a universal spirit, while only 60 percent find religion to be "very important" in their lives, and only 40 percent attend services on a regular basis.[15] Clearly, mere head counts of attendance or membership must undercount religion if it is defined as a personal belief system. Other survey data corroborate this view. In ongoing surveys conducted by the National Opinion Research Center at the University of Chicago, respondents overwhelmingly report that "faith in God" is important to some degree, that they feel "deep inner peace or harmony," and that they are "spiritually touched by the beauty of creation."[16] Yet this seems to contradict the survey data on attendance.

Rather than resolve these contradictions (which may be insoluble) we propose a different approach that asks how general forms of religion, such as Christianity, are developed and morph into other, more specific forms, either Christian or otherwise. Although our approach does not solve the empirical challenge presented by survey data, it does underscore the ramifications of the competitive process, which presumably works in religious markets just as it does in all other markets. We appreciate the fact that attendance and membership statistics provide a starting point for many researchers—one must, of course, start somewhere—but at the same time, the acknowledged deficiency of the survey approach cries out for alternatives. We regard our approach as complementary to, rather than a substitute for, the survey approach.

Advantages of the Economic Approach

The events in the United States of September 11, 2001, and their aftermath, have stirred, more than ever, awareness among social scientists of the importance of studying religion. This book seeks to contribute to our understanding of religion by demonstrating the usefulness of economic analysis for the study of Christianity, both past and present. The level of historical and theological analysis presented here is not as deep as some scholars would prefer, but such depth is neither the intent nor the justification of our effort. Our investigation convinces us that an economic approach to religion may be justified in its own right or, at the very least, as a useful accoutrement to approaches employed in other fields. Our approach particularly reaffirms the fact that economic investigations like ours must include findings from other social sciences. With regard to religion in general and Christianity in specific, the advantages that we claim on behalf of the economics of religion help us to understand many nettlesome issues that occupied Christianity in the past or that will challenge it in the future. For example, the quasi-monopoly held by the Catholic Church until the sixteenth century had a decided and predictable impact on the formation of religious markets. Economic analysis can help us understand how religious markets evolved to satisfy changing (consumer) demands, and what social, political, and economic consequences followed from the entry of new firms (churches) into religious markets. Economic analysis can also shed light on the exasperating tendency of violence to be perpetrated in the name of religion, even though most organized religions embrace the concept of peace as a moral imperative. Economic analysis can help us understand how and why new doctrinal innovations occur over time and the motivation behind religious entrepreneurship. It can help us understand (and even predict) the origins and consequences of schisms within Christian religions. It can even help us develop an informed judgment about the probable fate of ecumenical movements in contemporary Christianity. There is undoubtedly much more that economic analysis can contribute to our understanding of, and appreciation for, religion, but we make no effort to be exhaustive in this regard. Inasmuch as the field is still considered to be at the cutting edge, it is likely that more than a few of its advantages cannot easily be foreseen.

Plan of the Book

Our analysis of the evolution of Christianity in the post-Reformation period is presented in succeeding chapters. In chapter 2 we provide a limited survey of the major approaches to the economics of religion, starting with Adam Smith and moving toward the present. Using past research as a backdrop, we attempt to place our theory within the context of existing research, including studies generated by other allied social sciences. In chapter 3 we analyze religion as rational economic behavior from both historical and contemporary perspectives. This chapter attempts to develop a theory of the demand and supply for the existence and form of religion and to identify the determinants of demand and supply. Chapter 4 presents historical examples of how economic determinants affect forms of religion in religious markets. This chapter is a prelude to our theory and discussion of the Protestant Reformation in chapter 5, in which we provide historical evidence for the usefulness of economics in analyzing the critical point of entry by Protestants into the market for Christian religion. Chapter 6 explores and evaluates the Roman Catholic response to market entry, which is commonly known as the Counter-Reformation. Chapter 7 supplies economic context for the early doctrinal and organizational responses to the new market entrants (i.e., by Martin Luther, leader of the great religious revolt of the sixteenth century, and others), and traces the ensuing developments that led almost immediately to open competition in the market for religion. This chapter emphasizes the doctrinal and organizational developments of Protestant Christianity that bestowed utility-enhancing benefits on members of various denominations. In chapter 8 we examine, evaluate, and supplement the sociologist Max Weber's famous conjecture that the advent of Protestantism encouraged the development of capitalism. Finally, in chapter 9 we explore the contemporary impact of Christianity's historical evolution on today's hot-button religious issues, such as the so-called North-South (liberal-conservative) issue, sectarianism, and other highly charged controversies (e.g., women/gay clergy, gay marriage, celibacy, and competition from other religious traditions). We conclude this study with some speculations on the usefulness of an analytical method that exploits modern microeconomics to understand Christianity. Although we do not argue that modern economics is capable of explaining all facets of religion and religious institutions, we nevertheless affirm, with the backing of an ever-growing body of scientific literature, that economic analysis can improve our understanding of important aspects of religion and religious practice.