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PROGRESS IN THE ECONOMICS OF RELIGION

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Introduction

The past few decades have witnessed dramatic growth in the domain of economics. Once limited largely to the study of commerce, economists now routinely analyze such diverse subjects as health, crime, education, fertility, discrimination, voting, marriage, and addiction.

A number of researchers are working to add religion to this list. Armed with the tools of economic theory and a growing body of data, they are exploring the determinants of religious behavior, the nature of religious institutions, and the social and economic impact of religion. Viewing religious behavior as an instance of rational choice, rather than an exception to it, their work parallels other attempts to expand the domain of economics. Hence, the research is quite unlike “Islamic economics,” “Christian economics,” or any other faith-based approach to economic theory and policy.

To date, the economics of religion has had its greatest impact in sociology, since it directly addresses concerns central to the sociology of religion. Sociologists have thus begun speaking of market models and rational choice theory as the “new paradigm” for religious research (Warner 1993, Young [in press]). This new paradigm explains and integrates a wealth of existing data, generates new predictions that suggest new avenues for empirical research, and yields policy

implications about the welfare effects of government intervention in the religious marketplace.

Since most work in the economics of religion is new and scattered over a variety of journals, a brief overview would seem to be in order. An overview serves also to dispel the popular but increasingly untenable view of religion as a fading vestige of pre-scientific times.

The Continuing Importance of Religion

Throughout the middle of this century, the social-scientific study of religion languished for lack of interest. In disciplines like sociology and anthropology, whose founders had devoted much of their attention to religion, religion receded to backwater status. In economics, which had never said much about beliefs, norms, and culture, the subject was ignored altogether. Though no one denied religion's *historic* importance -- it was, after all, one of the most fundamental, durable, and pervasive features of human culture -- most scholars came to view *contemporary* religion as little more than a fossil, and an uninteresting one at that. Without always realizing it, academics had come to accept (and perhaps even relish) the "secularization thesis," a doctrine predicting the rapid decline and eventual extinction of religion in the modern world.

But these days, the secularization thesis has fallen on hard times. The political resurgence of conservative Christianity in the U.S., the rise of Islamic fundamentalism in the Middle East, the explosive growth of Protestantism in Latin America, the religious ferment in Eastern Europe and the former Soviet Union, and the influence of religion in ethnic conflicts world-wide confirm religion's persistence. Throughout the world, religion remains more vital than the pundits proclaimed (and one is reminded of Mark Twain's quip that "rumors of my death are exaggerated"). Western European trends, once viewed as the bellwether of worldwide secularization, look increasingly exceptional (more the consequence of state regulation than underlying social change). Finally, a growing body of empirical research finds no evidence of

religious decline in America. These findings bear emphasis, since the secularization thesis remains entrenched in the minds of many academics not familiar with contemporary religious research.

* Rates of church membership in America have risen steadily in the past two centuries -- from 17% of the population at the time of the Revolution, to 34% by the mid-1800's, to more than 60% today (Finke and Stark 1992). These data come from a variety of reliable sources, including the U.S. government's decennial Census of Religious Bodies conducted from 1850 through 1936.

* More than 40% of Americans claim attend church in a typical week, and this figure has remained largely unchanged since the advent of Gallup Polls in the late-1930's (Greeley 1989).

* Surveyed religious beliefs have proved nearly as stable as church attendance. The fraction of American's professing atheism remains well below 10%, and the fraction claiming belief in the Bible, heaven, and hell remains high and nearly constant (Greeley 1989).

* Religion is *not* an inferior good. Rates of religious belief and religious activity do not decline with increased income *or education* -- a finding that holds in both cross-sections and aggregate time series.

* Styles of religion *do* vary with income and education. Fundamentalist, pentecostal, and other sectarian denominations are much more likely to draw their members from among the poor, less educated, and minority members of society (Iannaccone 1992).

* Church contributions make up more than half of all charitable giving in the U.S. (approximately 60 billion dollars per year), and the majority of nonprofit institutions are or were religiously-based.

Economic theory has much to say about all these facts, but the facts themselves refute the outmoded notion that religion is “unimportant” and therefore “uninteresting”. Religion remains a force in the personal, institutional, and political life of most people throughout the world. Social scientists have little choice but to take account of religion, since religion shows no sign of going away.

Modeling Religious Behavior:

Contemporary research on the economics of religion began with Azzi and Ehrenberg’s (1975) household production model of church attendance and contributions. Within this model, individuals allocate their resources so as to maximize the overall utility derived from religious and secular commodities. Although Azzi and Ehrenberg emphasized the hope of “afterlife consumption” as the motive for religious behavior, subsequent work tends to be less explicit about why people value religious commodities. Iannaccone (1984, 1990) extended Azzi and Ehrenberg’s model to incorporate the accumulation of “religious human capital.” The extended model explains age-increasing patterns of religious participation as a consequence of experience effects and rational habit formation. The model also generates predictions concerning denominational mobility, religious intermarriage, and conversion ages, all of which receive strong empirical support. Greeley and Durkin (1991) have presented a related model that incorporates “faith” as a type of human capital and views religious choice as the consequence of expected utility maximization.

Although household production provides a convenient starting point for the study of religious behavior, recent work pays more attention religious groups. Simple models of isolated utility maximizers, constrained only by personal income and commodity prices, have given way to others that emphasize the role of specialized firms or clubs in the production of religious

commodities.

Some papers in this category build on standard theories of the firm. Viewing the clergy as the producers of religious products and the laity as consumers, these papers seek to explain the development of religious doctrine, the organizational structure of religious institutions, and the evolution of religious practices. For example, Ekelund, Hebert, and Tollison (1989) use the model of a rent-seeking monopoly to explain the medieval Catholic church's usury doctrine. According to this argument, high-placed church officials manipulated usury doctrine so as to maximize rents from downstream producers (the clergy) and from input suppliers (banks) by controlling the borrowing and lending interest rates.

Other papers take club theory as their starting point. These emphasize that although religious institutions manifest many firm-like characteristics, the standard distinction between producer and consumer is only partially applicable. Congregations, like families, combine the functions of production and consumption. Except for a few full-time religious professionals and a handful of benchwarmers, most church members act as both producers and consumers of religious commodities. Moreover, many religious activities such as public worship and charity generate collective benefits.

Iannaccone (1992) addresses these issues in a club-theoretic model that turns the standard "swimming pool" story on its head. Rather than emphasize problems of congestion, the model emphasizes the *positive* externalities associated with religious participation. In congregational settings, an active member (who attends regularly, sings wholeheartedly, and greets others enthusiastically) *increases* the utility of other members. Free riders (who participate less frequently and less energetically) thus threaten to undermine the viability of most religions — a problem well-documented by sociologists of religion. The theory and data show that apparently gratuitous costs ("sacrifice and stigma") can function to mitigate free rider problems by screening

out half-hearted members and inducing higher levels of participation among those who remain. Perfectly rational individuals may thus find it in their interest to join so-called “sects” and “cults” that demand stigma, self-sacrifice, and bizarre behavioral standards. At the same time, other people (particularly those with higher market opportunities) will find it optimal to form less demanding groups, such as mainstream churches.

The club-theoretic model of high-cost “sects” and easy-going “churches” explains and integrates a large body of empirical findings that have fascinated sociologists of religion for more than a century. The predicted correlates of sectarian religion include strict behavioral standards, dramatic conversions, high rates of church attendance and giving, resistance to social change, small congregations, and lower-class and minority appeal. A dynamic version of the model (Montgomery 1994) explains the well-documented tendency for sects to moderate their demands over time and to thereby transform themselves into mainstream denominations (which eventually become so lax that they lose members). For a somewhat different view of sacrifice and stigma, see Schlicht ([forthcoming]).

Religious Markets:

If individual denominations function as religious firms, then they collectively constitute a religious market. This insight dates to none other than Adam Smith. In a largely ignored chapter of *The Wealth of Nations*, Smith argued that established religions face the same incentive problems that plague other state-sponsored monopolies, and he advocated religious laissez-faire as the best way to satisfy the demand for religious instruction, reduce religious conflict, and promote “pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism” (Smith 1965:745).

Anderson (1988) has reviewed Smith’s arguments in some detail, and McConnell and

Posner (1989) use Smith's argument to interpret the First Amendment's impact on religion in America. Iannaccone (1991) uses contemporary theories of regulation to extend Smith's analysis and test the prediction that competition stimulates religious activity. Data from eighteen Western countries show that church attendance, belief in God, and the perceived importance of religion are all greater in countries with numerous competing churches than in countries dominated by a single Protestant church. Finke and Stark (1992) draw similar conclusions based on the analysis of historical data from turn-of-the century American cities, and Hamberg and Pettersson (1994) observe a similar pattern across the provinces of contemporary Sweden. Finke (1990) reviews the impact of religious "deregulation" in post-colonial America religious history, showing that rates of church membership rose as the colonial pattern of established churches and *de facto* religious monopoly gave way to a free religious market. Olds (1994) provides econometric evidence that the number and wages of preachers in colonial New England rose in response to the disestablishment and privatization of religion. In post-WWII Japan, the abolition of state-Shinto and advent of religious freedom inaugurated a period known as "the Rush-Hour of the Gods." All these findings run counter to the longstanding sociological assumption that religious pluralism undermines religiosity and facilitates secularization.

Policy Implications:

As the preceding examples illustrate, economics has much to say about the determinants of individual religious behavior, the characteristics of different religious groups, and even the causes of cross-national variation in religiosity. Although these insights have value in their own right, they also concern public policy issues.

One issue concerns government regulation of deviant religious groups — extremist "cults" and "sects" — often viewed as a threat to individual and social welfare. Such groups, though

small in actual numbers of members, have been highly visible in the media, public debate, and legal disputes. Indeed, virtually all court cases (and hence all legal precedents) regarding religion center on the practices of deviant minority religions. A recurrent issue has been whether participation in such groups constitutes the exercise of religious freedom or enslavement to organizations bent on “brainwashing” and exploitation. Thus, many media accounts, psychological articles, and legal decisions, treat cult membership as *a priori* proof of pathology or coercion.

The club-theoretic view of sectarian religion challenges these interpretations. Within the club model, bizarre and apparently pathological practices of deviant groups arise as rational, utility-maximizing attempts to limit free-riding. This argument is bolstered by growing body of empirical research that totally discredit most media accounts of “brainwashing” and coercion. Theory and data thus suggest that most attempts to protect the populace from deviant religions will actually reduce social welfare.

A related set of policy issues concerns the overall consequences of regulating religion. The research cited above indicate that competition yields the same benefits in religious markets as elsewhere. It ensures the availability of a variety of different religious products, stimulates innovation, and forces organizations to be responsive to their members and to make efficient use of their resources. In contrast, religious monopolies tend to be less diverse, innovative, efficient, and responsive. Efficiency and welfare are thus fostered by governmental policies that maintain free and competitive religious markets. Conversely, governmental attempts to establish, regulate, or monopolize religion tend to reduce social welfare. These arguments deserve serious attention at a time when court rulings and the expanding welfare state threaten to erode the freedoms previously enjoyed by deviant religions.

Conclusions:

One might say much more about religion and economics. Though I emphasized the insights that economics brings to religion, one might easily turn the tables and focus on the ways in which religion affects economic outcomes. Empirical studies invariably show that the members of some religions (such Jews in America) earn significantly higher wages and incomes than average. Religion also affects individual rates of saving, occupational choice, and levels of education and numerous other economically important behaviors, such as voting, fertility, divorce, criminal activity, and drug and alcohol consumption.

Rather than pursue these issues, however, I will conclude with two examples illustrating the *indirect* benefits that flow from the study of religion. The benefits arise because religion provides an ideal testing ground for many theories of “non-market” behavior. No other non-market activity places so much emphasis on beliefs and norms and few are as fully documented. Numerous surveys, government censuses, and church records provide regional, cross-national, and historical information on rates of church membership, church attendance, contributions, religious beliefs, and the like. Religion thus makes it relatively easy to develop and test theories of preference formation, normative constraints, cultural change, and the like.

Consider, for example, the concept of religious human capital (which models the way in which people get “hooked” on a particular religion and its beliefs). When I began studying religious behavior, it became apparent that upbringing and past religious involvement exerted major influence on a person’s current religious practices. As a student of Gary Becker, it was only natural that I try to model this tendency as the consequence of rational choice and the accumulation of human capital. The resulting model (Iannaccone 1984, 1986) formalized Stigler and Becker’s (1977) treatment of addiction. Subsequently, Becker and Murphy (1988) greatly

extended this model in their theory of rational addiction. The economics of religion thus benefitted from and contributed to a very different line of research.

For a very different example of the synergies that arise when studying religion, consider the club-theoretic explanation for sacrifice and stigma. The model accounts for the continuing appeal of sectarian religion, and its predictions fit much of what is known about deviant religious groups. But the underlying argument applies also to non-religious “clubs” in which participation generates collective benefits and individual inputs are difficult to monitor. As the model predicts, many such collectives to demand apparently non-productive sacrifices: fraternities employ embarrassing initiations; secular communes separate members from family, friends, and society; primitive tribes employ painful and disfiguring rights of passage; and boot camp is notoriously demeaning. In principle, one might model any of these activities directly, but the data on religion prove more accessible.

In sum, religion remains a fundamental feature of human life and culture, a fact that social scientists ignore at their peril. Economics has much to say about religious behavior at the individual, group, and market levels; and economic theory tends to justify government policies that foster competitive religious markets. Religion also provides an ideal testing ground for extensions to traditional economic models.

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