Chapter 27

Economics of religion

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In recent years there has been a revival of interest in economic explanations of religious behavior, backed up by extensive theoretical and empirical work that has placed this field on a solid footing. To be sure, topics such as church finances and giving have long been studied by economists, and many principles of management and marketing can be applied without much modification to religious organizations. However, the modern economics of religion is much broader and deeper than that, potentially addressing many of the topics covered by other social sciences and by religious studies. This essay will examine the major questions.

Economics is a rather technical science, fraught with mathematical equations and technical terminology, so we must translate into comprehensible language for a wider audience. Yet, we will use metaphors carefully, so they communicate accurately what economists of religion actually think. In particular, we organize this essay in terms of three familiar roles that people play in an economic system: *consumer*, *producer*, and *investor*. When we apply these three terms to religion we are not using analogies; the economics of religion really does assert that people primarily play these roles while engaged in religious behavior. We begin by describing each concept, then explain how they interact to form a *religious market*.

Consumers

Only humans manage money, but all vertebrate animals possess the fundamental prerequisite for economic behavior, decision-making on the basis of experienced and anticipated rewards (Skinner 1938). Like our mammalian forebears, we seek the things we desire and avoid the things we fear. Like them, we enter the world immature and dependent upon parental care-giving. Humans are a social species, but so too are bees and beavers, ants and elephants, and all social species have evolved complex mechanisms for resource sharing and defense. No other species appears to possess religious faith, but economic principles suggest that religion may be a natural human consequence of intelligent reward-seeking through social interaction in a world of uncertainty and deprivation.

In his classic, *The Wealth of Nations*, Adam Smith (1776) wrote brilliantly about the character of religious markets. Though these passages were long ignored, Smith's observations helped spark renewed interest in economic theories of religion fully two centuries after he wrote. Self-interest motivates many people to seek religious rewards, self-interest prompts other people to supply valued religious goods and services, and the combination yields a religious market in which the churches compete for customers.

Christian Churches and their non-Christian counterparts provide many of the same services as secular businesses (setting aside for the moment some special expected benefits peculiar to religion, which will be covered in the section on investors). Like a school or day-care center, Sunday school supervises and educates children. Like a theater or a symphony orchestra, church services provide drama and music. Like a country club or tourist resort, religious organizations host recreational activities. Religious charities can substitute for government welfare and social work (Gruber and Hungerman 2007). Many writers have drawn analogies between religious counseling or confession and their secular equivalents, professional or educational counseling and clinical psychology or psychotherapy (Bakan 1958; Frank 1961). In these latter examples, a client goes to a professional for a specialized service, whether the professional's credential is religious or secular, and the chief economic difference may be whether there is a set fee for a given service.

Different industries routinely compete to satisfy the same needs. Depending on relative costs, you may therefore drive your car to a conference, take a bus, fly on a plane, or use your computer to "meet" over the internet. But each industry provides products that differ from those provided by competing industries, and these products often come bundled in very different packages. With respect to social services, most religious organizations operate like department stores, providing one-stop sources of an array of different goods and services demanded by individuals and households.

Religious organizations can sometimes provide ordinary products more efficiently than secular organizations. A familiar example is moral education for children. Political pressures and legal rulings limit the extent to which public schools can inculcate values, but as voluntary organizations largely insulated from politics, religious organizations indoctrinate quite openly. Religion's ability to attract customers seeking cure of physical or mental illnesses depends on how well secular organizations are doing that job, which differs dramatically across ailments. One traditional function attributed to religion is that it authenticates members as good and trustworthy members of the community, a function that credit rating agencies also perform but not always as well (Klein 1997).

Renewed interest in economic theories of religion can be traced in large part to the work of Nobel-prize winning economist, Gary Becker. In one of his most famous essays, Becker (1976:5) argued that "the heart of the economic approach" lies in "the combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly." Market dynamics are easier to address after separately reviewing religious production and consumption, but the other two assumptions can be illustrated by consumption alone. A formal statement of the maximizing principle is this:

> Individuals act rationally, weighing the costs and benefits of potential actions, and choosing those actions that maximize their net benefits.

Maximizing behavior is simply the point made earlier, that humans seek to gain the most reward at least cost. Given two alternatives whose contingencies are well known, a person will rationally choose the more advantageous one. Thus, the economic perspective on religion, and Becker's work in general, is often called *rational choice* theory (Stark and Iannaccone 1993; Iannaccone 1997).

This term has two disadvantages. Most obviously, it emphasizes just one of the three fundamental economic assumptions. One might just as well have focused on either of the others, for example calling this the *religious markets* approach (Jelen 2002). More subtly, "rational choice" ignores comparable terms used by people in other disciplines, thus obscuring the extent to which the theory enjoys a broader scientific basis than just economics. For example, operating from almost identical assumptions and giving great prominence to concepts from economics, the sociologist George Homans (1974) used the term *learning theory*, and thereby emphasized connections to behavioral psychology as well. But whatever name we use, the assumption that humans maximize is key to an economic understanding of religion. *Rational choice* has the advantage of making it clear from that start that religious behavior is often quite rational, rather than a consequence of mere ignorance, superstition, or wishful thinking.

The maximizing assumption is often criticized as tautological. An economist asserts that "customer A buys brand X rather than brand Y because the former maximizes the customer's expected utility." And how does the economist *know* it maximizes the customer's utility? Because he observed him choosing it! This certainly sounds like a tautology, which many declare a waste of words. But some tautologies, including those derived from mathematical definitions and axioms, turn out to be tremendously useful. Euclidean geometry is a case in point. Although one can derive illuminating alternative systems of geometry, this does not negate the relevance of standard geometry for describing the vast majority of situations encountered by humans. In a similar manner, the system of "tautologies" derived from standard economic assumptions yields one of the most valuable intellectual structures ever developed for social-scientific description, analysis, and theorizing.

In connection with religion, the chief substantive objection to maximization is the claim that it ignores altruistic behavior. This argument has also been raised in connection with simplistic theories that biological evolution is "survival of the fittest." Altruistic behavior, from the standpoint of sociobiology, represents *inclusive fitness* (Wilson 1975), action that helps the individual's genes survive and reproduce through benefit to close family relatives, not necessarily to the individual who takes the action.

Economists need not adopt this principle from sociobiology, because they have two other legitimate responses. First of all, altruism seems paradoxical only because we presume to fully know what a rational individual's preferences and reward contingencies should be. Yes, nobody wants to die, but a parent may value the lives of their children sufficiently to risk their own lives, and most examples of altruism in fact involve relatively minor sacrifices of momentary personal benefit to help exchange partners who will reciprocate in future. Second, the function of a scientific theory is not to explain everything, but rather to explain much with great clarity and to provide some guidance as to what phenomena fall beyond the scope of the theory. If empirical research turns up cases where the maximizing assumption really fails to apply, then economists will be motivated to search for new principles that do provide an explanation – as is in fact the case in the new and rapidly growing fields of behavioral economics, neuroeconomics, and experimental economics.

Turning to the assumption of stable preferences, the third core assumption in Becker's list, one cannot but wonder how economists deal with the fact that it is a rare (and strange) person indeed who always maintains the same tastes, values, beliefs, and behavior. However, a little more detail will help us understand what economists mean by "stable preferences," and how they handle behavioral change. Here is a formal statement of the principle:

> The ultimate preferences (or "needs") that individuals use to assess costs and benefits tend not to vary systematically from person to person or time to time.

Note, first of all, that the principle is hedged by the phrase "tend not to vary systematically," which acknowledges that variations do occur but often can be ignored. More importantly, the stable "tastes" or "preferences" in question are *ultimate* preferences (Becker 1996).

Much of what people seek in life is but a means to an end. Consider, for example, the aphorism "in for a penny, in for a pound." What does *pound* mean? It refers to British currency. Americans should properly say, "in for a penny, in for a dollar." People in Britain prefer pounds while Americans prefer dollars, not because their ultimate preferences differ, but simply because they employ different currencies. Pounds and dollars facilitate the exchanges that enable people to satisfy their wants. Their value is instrumental not ultimate, and external conditions can change how valuable they are as means to achieve people's ultimate goals.

The real import of the stable preferences assumption is that it focuses our attention on external, market conditions that shape behavior by changing the relative costs and benefits associated with different actions. Economists leave to psychologists and neurobiologists the task of studying substantial differences in the mental apparatus of different individual people. As a social science, economics concerns what happens between people more than what happens inside them. This is not blindness, but the division of labor across the human sciences, and economists need to focus their vision on the factors that create and sustain markets, to discover new insights. We do not fault the Palomar and Hubble telescopes for failing to detect radio waves, because they were the best optical telescope of their eras, and wholly different designs were required for radio telescopes. Similarly, we should ask how far we can see with the tools of the economics of religion, not whether we can see absolutely everything in every direction.

One example of how economic thinking helps us understand religious behavior is the differences in what people with different incomes contribute to their religious organizations. For sake of simplicity, conceptualize each person's contribution as a combination of time and money that together constitutes his or her total "payment" for religious goods and services. People differ in the wage rates they can command for their work time, so the time of high wage earners truly has more monetary value, and it is only natural that they seek to obtain religious rewards through actions that require relatively less time and relatively more money. Though other considerations routinely influence people's contributions, this simple tradeoff accounts for many of the differences between rich and poor congregations – differences that are rarely even noted by non-economic researchers (Iannaccone 1990).

Producers

Producers are human beings, so their behavior follows the same principles as that of consumers. They too maximize, but the relevant maximizing now relates to the supply-side of the religious economy. Whether pastors, priests, rabbis, or imams – religious producers will tend to adjust behavior so as to maximize the return to their efforts. They are in this sense *profit maximizers*, even though the profits in question may derive from a complex mix of monetary and social rewards. The profit motive and entrepreneurial spirit is most clearly visible in new religious movements, but by no means absent in established denominations.

In a survey of alternative theories, Bainbridge and Stark (1979: 288) sketched the entrepreneur model of cult formation. They employed the concept of *compensator*, which will be considered more closely in the section on investors. This word refers to expectations of future rewards from religion, especially supernatural rewards promised in another life. Religious cults emphasize new supernatural hopes, manufactured and sold by their founders:

1 Cults are businesses that provide a product for their customers and receive payment in return.
2 Cults are mainly in the business of selling novel compensators.
3 Therefore, a supply of novel compensators must be manufactured.
4 Both manufacture and sales are accomplished by entrepreneurs.
5 These entrepreneurs, like those in other businesses, are motivated by the desire for profit, which they can gain by exchanging compensators for rewards.
6 Motivation to enter the cult business is stimulated by the perception that such businesses can be profitable, an impression likely to be acquired through prior involvement with a successful cult.
7 Successful entrepreneurs require skills and experience, which are most easily gained through a prior career as the employee of an earlier successful cult.
8 The manufacture of salable new compensators (or compensator-packages) is most easily accomplished by assembling components of pre-existing compensator-systems into new configurations, or by the further development of successful compensator-systems.
9 Cults tend therefore to cluster in lineages. They are linked by individual entrepreneurs who begin their careers in one cult and then leave to found their own. They bear strong "family resemblances" because they share many cultural features.
10 Ideas for completely new compensators can come from any cultural source or personal experience whatsoever, but the skillful entrepreneur experiments carefully in the development of new products and incorporates them permanently in his cult only if the market response is favorable.

Because most religious organizations incorporate as non-profits and describe their activities with a distinctive, non-economic vocabulary, the extent to which they operate like commercial firms and reward their leaders is obscured. But most cults are too new to have developed institutional arrangements that cover (or constrain) the worldly benefits desired by their leaders, and thereby witness to a broad truth: successful religions are businesses that yield a steady stream of rewards for their employees, and especially their top managers.

As in the world of commercial business, compensation can come in different forms. The New Thought religious organization called Unity was set up originally as a business, then morphed into a non-profit organization (Vahle 2002:147). David Berg (Moses David), founder of the Children of God (The Family) displayed substantial interest in sexual rewards, whereas L. Ron Hubbard seemed more interested in money (Bainbridge 2002b; Lewis 2009). Alternately, it could be that Berg and Hubbard adapted their business models to different segments of the religious market, with Hubbard targeting the wealthy and Berg selling to those who could only pay with time and services. The obvious entrepreneurial orientation of many cults routinely leads to accusations that they exploit their followers, but as in the secular business world, unsatisfied customers soon become ex-customers (Barker 1984).

The idea of clergy as profit-maximizers is probably the most controversial part of the economic theory of religion. Yet, clergy do benefit from their jobs (Bainbridge 2002a). Well-established denominations provide a good deal of economic security, considerable status in the community, and the pleasures of sociability. Some of these benefits, notably economic security, may have been even more important in earlier centuries, when few people in secular society enjoyed them. Some of the historical controversies about the churches precisely concern how much of which rewards clergy should enjoy, for example how much luxury versus asceticism and even celibacy. One possible explanation for the difficulty the Roman

Catholic Church faces in its current efforts to recruit nuns and priests is that the cost–benefit calculus has changed to the church's disadvantage, as increased economic security in the wider society means that security no longer offsets the personal cost of celibacy.

In most mainstream religious organizations, production is by no means limited to paid professionals. All active members of the laity participate in production, as is seen most clearly in worship services and group rituals but is no less true of the social activities, study groups, friendship networks, and even the faith maintained by congregations. As these examples suggest, most of the benefits of religion are *club goods* (Iannaccone 1992). These are goods that are *non-rivalrous*, in the sense that one person's use of them does not diminish another person's use of them, but *excludable*, in the sense that people who do not belong to the "club" cannot use them. Above all, they are *collectively produced*.

Prior to the historical development of commercial markets and industries, much human wealth production took place in households, and Iannaccone has shown how the combination of the economic concepts of club good and household production combine to explain the amateur producer role in religious groups:

> *Churches as clubs.* Club models of religion may be framed as an extension of the household production approach. The religious commodities that enter a household's utility function now depend not only upon their own inputs of time, goods, and capital, but also upon the inputs of fellow church members. So, for example, the pleasure and edification that I derive from a worship service does not depend solely on what I bring to the service (through my presence, attentiveness, public singing, and so forth); it also depends on how many other people attend, how warmly they greet me, how well they sing, how enthusiastically they read and pray, how deep their commitment, and so forth.
> (Iannaccone 1998: 1482)

Because both laity and clergy produce religious goods, both require *religious capital* (Iannaccone 1984; 1990), although clergy require more. James Coleman (1988) introduced the concept of *social capital* to rational choice theory, thereby increasing the social-scientific sophistication of the approach. *Religious capital* is the accumulated stock of skills, sensitivities, and social relationships that affect a person's net benefits from religious activities. Capital is a *stock* that augments the flow of goods and services that people create with their inputs of time and money. In contrast to time and money inputs, capital is durable and remains useful over time. In fact, some religious activities tend to augment the very capital that makes them productive. Religious capital and religious production can thus be mutually reinforcing, some might even say *addictive* (Iannaccone 1984). As the entrepreneur model of cult formation above already noted, founders of religions tend to apprentice in other successful religions. Like all other forms of capital – physical, financial, human, and social – stocks of religious capital must be built up over time.

Investors

A distinctive feature of religious organizations is that they promise attainment of rewards, such as eternal life in Heaven, that cannot be delivered in the here and now. Notice the use of economic terminology when Stark and Bainbridge (1987: 36) defined these promises as *compensators*: "When humans cannot quickly and easily obtain strongly desired rewards they persist in their efforts and may often accept explanations that provide only compensators.

These are intangible substitutes for the desired reward, having the character of I.O.U.s, the value of which must be taken on faith." Consumers who give their church time and money in hopes of earning entry into Heaven are essentially *investing* in it. When they die, and "go to their reward," then they believe they can cash in on this investment.

In the first formal economic model of religious activity, Corry Azzi and Ronald Ehrenberg (1975) placed heavy emphasis on the perceived supernatural benefits of religion. In particular, they saw the chief goal of religious activity as *afterlife consumption*, a supernatural return on natural investments. Religion requires major investments and promises the highest possible return, typically eternal life or some comparable form of transcendence. Like secular stocks and bonds, however, compensators come in all *denominations* – in the monetary sense of the term – both small and large. In their formal derivations, Stark and Bainbridge (1987:36, 39) distinguished specific from general compensators:

> Compensators are treated by humans as if they were rewards.
> For any reward or cluster of rewards, one or more compensators may be invented.
> Compensators vary according to the generality, value, and kind of the rewards for which they substitute.
>> Compensators which substitute for single, specific rewards are called *specific compensators*.
>> Compensators which substitute for a cluster of many rewards and for rewards of great scope and value are called *general compensators*.
>
> ...
> The most general compensators can be supported only by supernatural explanations.
>> *Supernatural* refers to forces beyond or outside nature which suspend, alter, or ignore physical forces.
>> *Religion* refers to systems of general compensators based on supernatural assumptions.

When Stark and Bainbridge coined the term *compensator*, they were thinking in terms of psychological compensation to assuage unsatisfied desires, but they could just as well have used the term *compensation* in the economic sense, as payment for work. Similarly, setting aside bad puns confusing *profit* with *prophet*, religion explicitly offers the hope of profit. The Bible often uses metaphors of profit and loss when discussing the benefits of religion. Here are just seven of the thirty-seven passages using the word *profit* in the King James Version:

> Samuel 12:21 And turn ye not aside: for then should ye go after vain things, which cannot profit nor deliver; for they are vain.
> Job 21:15 What is the Almighty, that we should serve him? and what profit should we have, if we pray unto him?
> Job 22:2 Can a man be profitable unto God, as he that is wise may be profitable unto himself?
> Proverbs 11:4 Riches profit not in the day of wrath: but righteousness delivereth from death.
> Jeremiah 7:8 Behold, ye trust in lying words, that cannot profit.
> Matthew 16:26 For what is a man profited, if he shall gain the whole world, and lose his own soul? or what shall a man give in exchange for his soul?
> James 2:14 What doth it profit, my brethren, though a man say he hath faith, and have not works? can faith save him?

Profit refers to benefit from actions, especially from exchanges. Interestingly, Bible passages often employ the language of profit and exchange to justify *religious* behavior. Should you try to gain the whole world, even at the cost of your soul, or seek to preserve your soul while forgoing the opportunity to gain the world? Religion is like a life insurance policy. Indeed, Azzi and Ehrenberg (1975) explicitly modeled religion as an after-life insurance policy, and Viviana Zelizer (1978) has documented how the emergence of the life insurance industry stimulated debates about whether it was sacrilegious.

Many secular investments can be bought and sold, but this is not usually the case for spiritual investments in religion. Stocks, bonds, and most physical assets can readily be exchanged for money, which provides a simple means of calculating their current value and ultimate profitability. The same is not true for general compensators of religion, nor is it true for most investments in relationships or even one's skills. To some extent, the difference is a matter of constraints on exchange and time. An owner of (term) life insurance cannot collect the death benefits while still alive, nor can the policy be redeemed in the event of some other person's death. Similarly, my investments in church-going and Christian virtue do not yield a ticket to Heaven that I can sell to others. But a more fundamental difference separating religious investments from most secular investments is *information*. We can determine whether a life insurance company has fulfilled its obligations when other people die, whereas we have no objective information about a religion's afterlife payouts to its investors, nor can we adduce much objective evidence for many other religious claims. The payoffs rest on faith.

This information problem helps us understand many seemingly strange features of religion, including the historical tension between pluralism and exclusivity (Iannaccone 1995). Stock market uncertainty prompts people to hedge their bets, investing in a diversified portfolio of assets. This same strategy arises in some religious markets especially those of Asia with the most familiar example being Japan where a given family might practice both Shinto and Buddhism, and more recently may even turn to Christianity for some services such as weddings. This risk reduction strategy leads to private production, diversified consumption, and fee-for-service transactions. In the west, however, the dominant strategy is quite different. The great monotheistic faiths – Judaism, Christianity, and Islam – reinforce trust through collective (club) production, exclusivity, and high levels of commitment. Collective production tends to reduce the perceived risk and raise the perceived value of religious activities, although also promotes free-rider problems in which some laity and even clergy may seek to gain religious rewards without making a commensurate investment (Iannaccone 2002).

Markets

Now that we have considered three main economic roles that people play in religion – consumers, producers, and investors – we can examine how these roles fit together to create markets. To this point we have deferred discussion of Becker's third basic assumption, which is often expressed as the principle that markets tend to reach equilibrium. We prefer a somewhat more cautious statement, but one that we think explains rather more:

> Social outcomes constitute the equilibria that emerge from the aggregation and interaction of individual actions.

Whenever we see relatively stable social forms, they probably reflect a market of one kind or another that has achieved a fairly durable equilibrium. Hence, we begin our discussion of religious markets by considering forces that produce equilibrium, despite our awareness that real social units are never truly in equilibrium and that small changes can sometimes trigger radical transformations both in secular and religious markets.

In ancient days, and in less economically developed parts of the world today, religion was local and conducted by religious professionals who did not belong to geographically widespread organizations. Indeed, *pagan* really means local. The modern analogy would be highly specialized service professionals, like dentists or psychoanalysts, who may belong to loose confederations but operate as tiny local businesses. The decisive transition to a more modern model was taken by the Roman Catholic Church, which inherited bureaucratic forms from the Roman Empire and operated rather like an industrial corporation or *firm* (Ekelund et al. 1996).

In a free market with easy entry and innovation, producers will not thrive unless they adjust their products in response to changes in technology, customer wants, and market conditions. A minister, who sees empty pews on a Sunday morning, will try various tactics to increase attendance, such as church picnics, inviting celebrity preachers to visit, and calling on parishioners at their home to offer spiritual benefits. Other things being equal, a denomination as a unit will adjust itself to attract customers. As local churches and denominations compete with each other for customers, the market as a whole becomes more vigorous. Customers receive more benefits from religion and more readily invest in it.

Every industry produces a range of products, brands, and firms, and there is some degree of segmentation in all markets. Earlier we explained that this results primarily from differences in the resources the various customers possess, and in other external factors, rather than differences in their fundamental preferences. However, to the extent that differences in fundamental preference do exist, they tend to reinforce market segmentation. Throughout the modern world, competing denominations offer different and distinctive bundles of goods and services tailored both to the different external conditions and internal tastes of their customers.

Social class has long been of major concern of sociologists of religion. Economists, by contrast, emphasize that individuals with different levels of income and education naturally demand different combinations of goods and services. Put crudely, poor people are attracted to deviant *sects*, whereas rich people flock to mainstream *churches and denominations* (Pope 1942). Earlier we noted that people with lower wage rates will tend to invest proportionately more time rather than money in religion, compared with rich people who invest proportionately more money. To the extent that prosperous people can afford to buy more of their ordinary rewards from secular business, they will demand less from their churches. People who are not prosperous will need to create many of the same rewards as club goods within their congregations. Thus, sects tend to attract customers from the margins of society – the segments poorly served by commercial markets and secular governments (Iannaccone and Berman 2006).

The diversity of firms in a free religious market will serve the needs of a larger fraction of the population, but there is also a second economic reason why a free market better mobilizes the population for religion. By the sheer fact of needing to compete with each other, clergy in different denominations will be forced to seek customers more vigorously. This was explicitly explained half way back to Adam Smith by social scientist of religion, William Folwell Bainbridge (1882b) in his observational study of American Protestant missions in Asia. Some leaders of international missions wanted to divide the Orient up among denominations, so they would not get in each others' way, but his research visiting missions in Japan, China, Burma and India suggested to him that this was a mistake. In another book from the same research (Bainbridge 1882a), but focusing on northern Baptist missions, he explained it was usually worthwhile concentrating efforts in areas where local religions were weak and potential customers could more readily be won over. Although he expressed this idea in terms of the military concept of *concentration of forces*, it could as easily be expressed in terms of concentrating marketing of a new religious product on *early adopter market segments*, comparable to those who first tend to buy new technologies (Katz and Lazarsfeld 1955; Rogers 2003).

Two decades ago, one of the first debates in the revived economics of religion centered on two opposing arguments about the relationship between religious pluralism and commitment (Warner 1993). In a series of publications, Roger Finke, Rodney Stark, and Laurence Iannaccone pictured religion as a market economy in which denominations compete with each other for members (Finke and Stark 1988, 1989a, 1989b, 1992; Finke 1989; Iannaccone 1991). Different individuals and groups in society have different needs, cultures, and non-religious affiliations, so therefore religious pluralism should increase commitment by offering each person the style of religion that suits him or her best. In their empirical work, they tried to show that rates of church membership are higher where there are more denominations in the religious marketplace.

In contrast, other researchers argued that religious pluralism has a negative effect on church membership (Breault 1989a, 1989b; Land *et al.* 1991; Blau *et al.* 1992; Blau *et al.*, cf. Christiano 1987). Religious monopoly might be associated with higher rates of religious involvement, if individual affiliations are chiefly the result of social influence, and if social influence is most effective when it is monolithic.

Thus, the narrow debate over denominational diversity and religious mobilization contrasted two distinctive general models of group process. The diversity-mobilization argument conceptualized group affiliation in terms of individual choices among competing suppliers, with individuals maximizing their satisfaction by selecting the suppliers that best meet their personal needs. The monopoly-mobilization argument saw affiliation in terms of the net power of social influences operating within a diffuse social network, wherein persons are more strongly impelled to join a group the greater the proportion of their consociates who are members. Empirical evidence at first seemed contradictory. It is possible to resolve this debate, first by acknowledging that both perspectives are correct, representing real competing forces in social life that produce different empirical outcomes depending upon which force is stronger under the circumstances (Bainbridge 1995). But the second theory like the first can be conceptualized in terms of the economics of religion.

If we realize that the customers of religion are also investors, then we can ask where they get the confidence to invest in one brand of religion or another. Brand loyalty is a very real phenomenon in commercial markets, as anyone would know who has compared the cost of national brand products in the grocery store with generics. Brands benefit from advertising, from personal testimonials, and from the perception that they must be good or they would not have survived in the market. Major brands really do have an advantage, whether they are breakfast cereals or churches, but market segmentation also works against them.

Note that one firm can have many brands, as General Motors sold both Pontiacs and Chevrolets built from similar designs with many of the identical parts. Thus, for example, the Roman Catholic church could have an ethnic Irish church in one part of Chicago, and an ethnic Polish church in another part, enjoying the benefits of diversity while remaining a single organization. On a higher level of abstraction, one could describe all Christian churches as different brands of the same faith. This in fact may be the best strategy. By agreeing about many fundamentals, all these Christian churches support faith in each other, even as they compete with each other. The analogy from secular markets might be the New York Stock Exchange. All the stocks listed on "the big board" benefit from the confidence the investing public has in the stock exchange, even as the individual listed companies compete for investors.

There were a number of methodological problems with the statistical studies of monopoly and mobilization (Voas *et al.* 2002). But their chief drawback was that they did not start with an appropriate theoretical model of where variations in religious diversity came from, or how much would be optimal in a given community. Studies tended to measure the religious diversity of metropolitan areas or US states, on rare occasions of different nations, then correlate this statistic with the fraction of the population who were formal members of religious organizations. In the United States, much diversity comes from the immigration patterns of a century or two earlier, when ethnic groups brought their traditional faiths to wherever they settled. As H. Richard Niebuhr (1929) noted, it would have been rational for many of these ethnic denominations to merge as their customers assimilated into the wider society, but in order to compete with each other they had actually emphasized minor differences just as ordinary corporations struggle over niche markets, product differentiation, and any other competitive advantages they can find to help them stay in business.

The optimal number of firms in the religious market could be rather small, if socioeconomic differences among the customers were the only marketing factor. It is not surprising, therefore, that some studies would fail to find a correlation between the number of denominations and the total membership rate – because everywhere there might be a sufficient number of diverse firms to satisfy the customers. In secular industries, the number of firms can decline as successful firms buy up others, but this is less likely to happen among religious organizations. There certainly are cases in which denominations merge, and in some cases like the United Church of Canada the motivation may have been a conscious realization that there were too many similar competitors for the size of the market.

It is possible there is a degree of asymmetry in the speed with which a free religious market clears, depending upon whether it begins below or above the optimal number of firms. New firms may enter a free market quickly; many of these new firms take a generation or two to fail, and well-established firms leave the market very, very slowly. This would especially be the case when competing firms offer products of roughly equal customer value, and when large firms do not enjoy economies of scale. Stark (1996) has argued that Christianity triumphed over classical paganism because it offered a much more satisfactory product, but innovations that markedly increase customer satisfaction may be rare in religion. Thus, the number of denominations in the market may not be a proper measure of whether it has reached equilibrium in terms of prices and the value to customers.

Because local congregations are like household economies producing club goods, they may not be very dependent upon the denomination they belong to, and indeed some very successful denominations such as the Southern Baptists are relatively loose confederations with much local autonomy comparable to business franchises. Unlike local automobile dealers, they are not highly dependent upon the fortunes of the manufacturer, and it is even possible for a local congregation to survive without a denomination, as many community churches in fact do. The point is that in the religion business very large firms may not have the advantage of economies of scale anywhere near as much as an automobile company does, and therefore smaller denominations are not doomed to being out-competed quickly by the large ones.

If a spectrum of faiths already exists in the society, then competition between religious organizations would rather quickly move toward equilibrium of costs and benefits with a high degree of mobilization of the public in religion, and a high level of customer satisfaction. As secular society changes, affected by such factors as new technology and political shifts, the segmentation of the market will change, but the religious market should adjust fairly smoothly. Widespread economic prosperity should move more people into mainstream churches, and economic decline or increased inequality would favor the sects, for example. Yet we know that some features of religion seem to change at a pace that rivals the glaciers for slowness.

The year 1776, in which Adam Smith essentially established the economics of religion, was notable also for the American Revolution and the first really practical steam engine developed by James Watt. In a loose sense, the modern era could be dated from that year, yet Judaism is something like fifteen times as old as *The Wealth of Nations*. Languages change only very slowly, but Christianity is about three times as old as the English language. The first thing to observe here is that religion is about the most powerful example of equilibrium we can discern in human affairs!

However, the example of Christianity does remind us there can be something new under the sun. Religious innovation does sometimes occur. Although based in the entire heritage of an ethnic group, Judaism emerged through entrepreneurial acts by individual leaders, notably Abraham leading his people into Egypt, and Moses leading them out again. Christianity began with the proverbial dozen disciples and remained small for a century or two. Islam entered the picture later, founded by Mohammad and his immediate successors. Thus one important topic relevant to religious equilibrium is the relative ease or difficulty with which new firms may enter the market.

Industries differ greatly, from one to another and over time, in terms of how easy or difficult it is to enter the market. Starting a new automobile company from scratch today is prohibitively costly, but that was not the case in 1900. Apple and Microsoft began as small groups of friends with few resources in the 1970s, but you would need a huge infusion of investment capital to launch a computer company to compete with them today. (We should not stretch our metaphors too far, but we might need to recognize that the open-source Linux operating system is analogous to a religious sect competing with the Microsoft church, relying as it does upon volunteer efforts in an intense but disorganized community not unlike a sect congregation.) What are the costs of successful entry into the religious market? How does a new firm enter the religious market?

In post-industrial society, as in the ancient world, there are few impediments to entry into the religious market, so cults abound. If the modern experience is any guide, much religious innovation is generated by small firms, as is the case in many other industries. Only a handful of people with a place to meet and the beginnings of a new faith are required. The low cost of entry into a free religious market is offset by the high likelihood of failure, however. One explanation is that cults are clubs, and religious club goods that are initially designed to serve the original members in their possibly unique circumstances may not market well to other people in the neighborhood, many of whom are already satisfied with the religion they have. Another explanation is that most tiny new religions cannot reach their market effectively, because potential customers may be strewn thinly over a wide area and can be reached only by extreme marketing exertions. Thus, any chance of success depends upon an unusual degree of entrepreneurship, which we already noted is required to start the novel religion in the first place. The main reason, however, is simply that over time innovation and entrepreneurship tends to fill all the profitable niches in a stable and open religious market. After more than two centuries of religious *laissez faire*, the U.S. market is not likely to see much *major* religious change absent equally major changes in technology, demography, or government.

Conclusion: consequences

The most famous social-scientific theory about the economic impact of religion is probably Max Weber's (1904–1905) century-old thesis that Protestantism stimulated the birth of capitalism by encouraging thrift and thus investment, and perhaps by encouraging rationalism as well. Many subsequent economic historians have disagreed with Weber, pointing out that capitalist institutions had already been established prior to the Reformation and thrived in Catholic areas (Samuelsson 1993; Delacroix 1995). Weber himself actually stated his thesis rather tentatively, writing about an elective affinity between the Protestant ethic and capitalism, rather than asserting that the former caused the latter, and specifically saying that Protestantism probably lost this function once capitalism was well launched. However, subsequent Weberians seem determined to be more Weberian than Weber himself, and introductory sociology students get the impression that capitalism could not exist without the continuing support of a particular kind of religion.

This conceivably could be true if a given religion enjoyed a monopoly through an alliance with the political elite of the society and exerted pressures on the secular economy for the benefit of the elite, but it would do so at the risk of losing many of its non-elite customers. However, in a free religious market, it is hard to see how a major religion could push the secular economy in any direction that its customers did not want to go. During historical dislocations, like the Reformation, religion might operate for a time as an independent force in society, but it would lose this power as equilibrium was reestablished. This is not to say that religion is unimportant in a free society, merely that it tends to operate like other free institutions. The pressure to survive constrains it to maximize the satisfactions of its customers and thus limits its power to force them toward goals they do not desire.

A free market of religion harmonizes with the free market of material goods and secular services, with the free market of ideas that is science and scholarship, and the free market of public decision-making that is democracy. Religion may contribute to the functionality of the entire society, by supporting interpersonal trust and suppressing criminal behavior, by compensating deprived populations for that portion of their deprivations that is unavoidable, and by supporting the production of the most important product of household labor, namely children (Bainbridge 2007). These are benefits that people want, rather than impositions upon them. Religion thus helps people achieve their valued goals on Earth, whatever rewards it may also provide in Heaven.

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