

# DEREGULATING RELIGION: THE ECONOMICS OF CHURCH AND STATE

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*Traditional religious research fails to recognize religion as a market phenomenon. It especially overlooks supply-side factors that shape the incentives and opportunities of religious firms, emphasizing instead demand-side shifts in the perceptions, tastes, and needs of consumers. This paper reviews the effects of government actions that alter religious supply. Our examples demonstrate that simple deregulation lies at the root of major religious trends and that the vitality of a religious market depends critically upon its competitiveness. (JEL L51)*

## I. INTRODUCTION

Enshrined in scripture, scholarship, and the media—the standard stories of religion recount creeping “secularization” punctuated by infrequent bursts of spirituality. Societies drift from faith to disbelief; pivotal figures receive revelations; and, if the proper social conditions prevail, the dispossessed experience outpourings of faith. Historians like McLoughlin [1978, 2] thus speak of America’s “Great Awakenings,” religious revivals of the 18th and 19th centuries rooted in “periods of cultural distortion and grave personal stress.” Contemporary social histories portray the 1960s as a “consciousness reformation” in which millions of American youth joined cults and communes to meditate and repudiate materialism. And in the wake of Iran’s revolution and Reagan’s election, journalists and scholars proclaimed a “fundamentalist phenomenon”—Falwell at home and the Ayatollah abroad.

These are not the type of stories that economists tell. The defining features of the economic approach, characterized by Becker [1976, 5] as “maximizing behavior, market equilibrium, and stable preferences,” are nowhere to be found. Small wonder the entire subject is ceded to disciples less committed to the framework of rational choice.

The abdication, however, is unwarranted. Economic theory complements the more traditional approaches to religion and counteracts many of their biases. In particular, it counteracts their failure to understand religious markets. By focusing on “charismatic” (or fanatical) prophets and credulous (or “brainwashed”) followers, traditional interpretations overlook the more pedestrian, but also more comprehensible social forces that shape religious history. They especially overlook supply-side factors that alter the incentives and opportunities of religious firms, emphasizing instead demand-side shifts in the perceptions and needs of religious consumers.

In this paper, we will emphasize the supply side. We do so because it is routinely ignored, and because we are unimpressed by most demand-side explanations for religious change. Empirical studies show that the underlying determinants of religious demand (such as the average person’s desire for supernatural comfort and explanations) vary far less than the conditions governing religious supply.<sup>1</sup> These

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1. For extensive data confirming the stability of basic religious beliefs and behaviors, see Greeley [1989]. Greeley finds that American rates of church attendance, church membership, prayer, and belief in God, the Bible, and the devil have not changed significantly since pollsters began surveying religious attitudes more than 50 years ago.

studies also prove that the standard, measurable determinants of consumer demand (such as income, education, and demographic characteristics) predict very little of the observed variation in religious belief and behavior. In practice, therefore, most demand-side explanations for religious change amount to little more than ad hoc postulations of altered tastes. Although we do not deny the role of extraordinary revelation in the spread of religion, we suspect that most prophetic genius is, to use the words of Thomas Edison, "one percent inspiration and ninety-nine percent perspiration."<sup>2</sup>

In speaking of "religious markets" we implicitly model religion as a commodity—an object of choice and production. Consumers choose what religion (if any) they will accept and how extensively they will participate in it. Iannaccone [1988; 1992] has formalized this process of choice in other papers. Here, it suffices to emphasize a few basic facts. People can and often do change their religion or levels of religious participation. As with other commodities, this ability to choose constrains the producers of religion. Under competitive conditions, a particular religious firm will flourish only if it provides a commodity at least as attractive as its competitors'. And as in other markets, government regulation can profoundly affect the producers' incentives, the consumers' options, and the aggregate equilibrium.

Simple deregulation lies at the root of numerous religious trends and events; this is our basic message. America's exceptionally high levels of church attendance and Sweden's exceptionally low levels stem from the former country's competitive religious market and the latter's state-sponsored religious monopoly. Japan's postwar shift to a free religious market led to an explosion of new religions. The rise of fundamentalist-style "televangel-

ism" finds its proximate cause in a revision of FCC regulations. And the "cult phenomenon" of the 1960s and 1970s had more to do with changed immigration laws than a transformed American "consciousness." Thus, the history of religion is inseparably linked to the economics of religion, and standard economic forces continue to shape its future.

## II. ADAM SMITH'S CRITIQUE OF ESTABLISHED RELIGION

Adam Smith [1965, 740–66] laid the foundation for an economics of religion more than 200 years ago.<sup>3</sup> In a largely ignored chapter of *The Wealth of Nations*, Smith argued that self-interest motivates clergy just as it does secular producers, that market forces constrain churches just as they do secular firms; and that the benefits of competition, the burdens of monopoly, and the hazards of government regulation affect religion like any other sector of the economy. Consider, for example, the following passage:

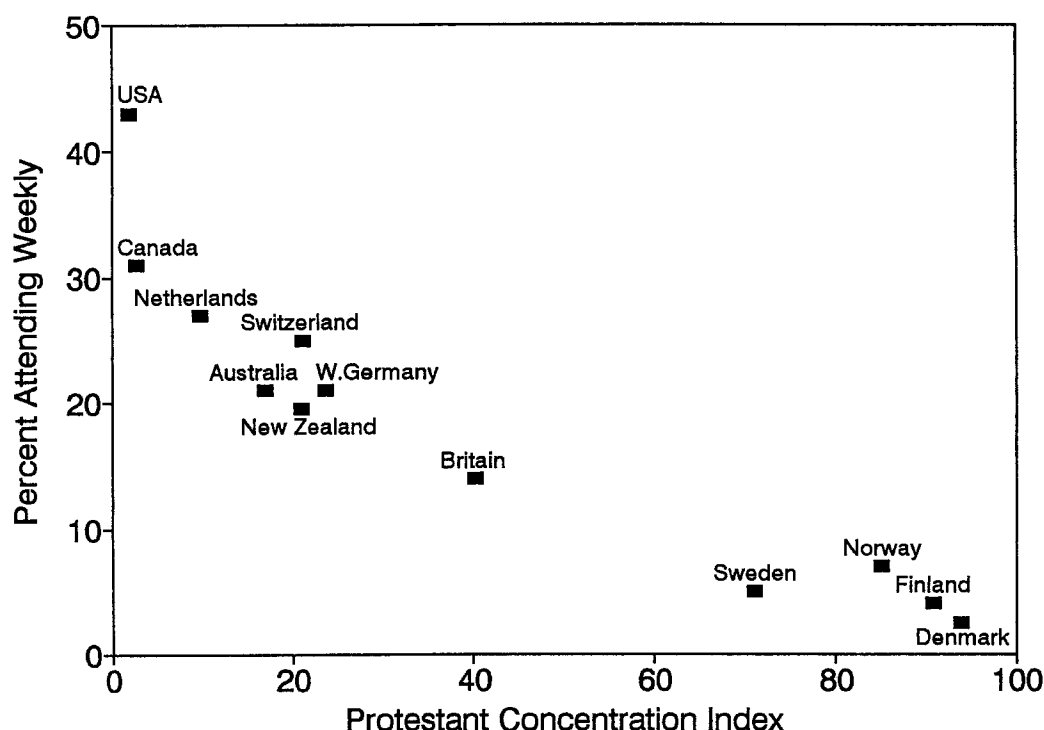
The teachers of [religion] ..., in the same manner as other teachers, may either depend altogether for their subsistence upon the voluntary contributions of their hearers; or they may derive it from some other fund to which the law of their country many entitle them .... Their exertion, their zeal and industry, are likely to be much greater in the former situation than the latter. In this respect the teachers of new religions have always had a considerable advantage in attacking those ancient and established systems of which the clergy, reposing themselves upon their benefices, had neglected to keep up the fervour of the faith and devotion in the great body of the people ... [Smith 1965, 740–41]

Recently, Iannaccone [1991] attempted a simple cross-national test of Smith's assertions. Although the available data are relatively crude, they do shed light on the effects of state-sponsored religion and religious competition. As it turns out, Smith's predictions carry the day. Among Protestants, at least, church attendance and religious belief both are higher in countries with numerous competing churches than in countries dominated by a single church. The pattern is statistically significant and, as seen in Figure 1, visually striking. Church attendance rates, frequency

2. Consider, for example, America's "First Great Awakening" (1739–1740) led by the famed preacher George Whitefield. Stout [1991, 189] claims that "crowds materialized out of nowhere" wherever Whitefield went. But the truth is far less mysterious. Whitefield's own records document his mastery of advance publicity and marketing. Beginning as much as two years ahead, he cultivated interest in the cities he planned to visit through a steady stream of press releases extolling the success of his revivals elsewhere. He also printed and distributed thousands of copies of his sermons and even ran newspaper advertisements announcing his impending arrival. See Lambert [1990] for details.

3. Contemporary research on the economics of religion began with Azzi and Ehrenberg [1975]. See also Sullivan [1985], Anderson [1988], Ekelund, Hebert, and Tollison [1989], and Iannaccone [1988, 1992].

**FIGURE 1**  
Church Attendance Rates



of prayer, belief in God, and virtually every other measure of piety decline as religious market concentration increases.<sup>4</sup> The relationship remains strong even after controlling for income, education, or urbanization.

The following examples of religious regulation clarify this pattern and establish two key results. First, as in secular markets, regulation can critically affect outcomes. Second, the vitality of a religious market depends upon its competitiveness.

4. Iannaccone [1991] tests a model in which the  $i$ th denomination's church attendance rate,  $a_i$ , depends (negatively) on its share of the national religious market,  $S_i$ . It follows that the overall attendance rate in the  $j$ th country must approximate the weighted sum  $\sum_i a_i(S_{ij})S_{ij}$ . Taking first-order linear approximations,  $a_i(S_{ij}) \approx \alpha_i + \beta_i S_{ij}$ , and using survey data on national attendance rates,  $A_j$ , one obtains an equation suitable for regression analysis:  $A_j \approx \sum_i \alpha_i S_{ij} + \sum_i \beta_i S_{ij}^2$ . The small number of nations in the sample prevent estimating a distinct  $\alpha$  and  $\beta$  for each denomination. But test regressions show that it suffices to estimate separate coefficients for Catholics versus non-Catholics, the vast majority of whom are Protestant. This results in re-

### III. REPOSED UPON THEIR BENEFICES: THE SOCIALIZED CHURCH OF SWEDEN

Looking at Figure 1, one immediately spots the exceptionally low levels of religiosity in the Scandinavian countries and, conversely, the high level of religiosity in the U.S. As predicted by Smith, these extremes correspond to different market structures. A single state-run (Lutheran) church dominates the market in every Scandinavian country. In contrast, the United States enjoys a constitutionally mandated free-for-all in which hundreds

gression equations of the approximate form  $A_j = \alpha_{cath} S_{cathj} + \alpha_{prot} \sum_i S_{ij} + \beta_{cath} S_{cathj}^2 + \beta_{prot} \sum_i S_{ij}^2$ , where the  $\Sigma_i$ 's range over every non-Catholic denomination. The regressions explain more than 90% of the observed variance in national rates of church attendance, frequency of prayer, and belief in God. The key regressors,  $S_{cathj}^2$  and  $\Sigma_i S_{ij}^2$ , represent the Catholic and Protestant contributions to total market concentration (since their combined sum equals a national Herfindahl index of religious market concentration). As can be seen in Figure 1, the relationship between Protestant market concentration,  $\Sigma_i S_{ij}^2$ , and church attendance,  $A_j$ , is extremely strong.

of denominations compete and none has special status.

This distinction did not escape the attention of 19th century European travelers. For example, in 1837 an Austrian named Francis Grund, observed that

*In America, every clergyman may be said to do business on his own account, and under his own firm. He alone is responsible for any deficiency in the discharge of his office, as he is alone entitled to all the credit due to his exertions. He always acts as principal, and is therefore more anxious, and will make greater efforts to obtain popularity, than one who serves for wages (quoted in Powell [1967, 77]).*

The clergy of Europe's established churches were by contrast "indolent and lazy," because "a person provided for cannot, by the rules of common sense, be supposed to work as hard as one who has to exert himself for a living." Grund concluded that the "Americans, therefore, enjoy a threefold advantage: they have more preachers, they have more active preachers, and they have cheaper preachers than can be found in any part of Europe" (quoted in Powell [1967, 77, 80]).

In contemporary Europe, Swedish Lutheranism epitomizes the subsidized church syndrome. Since its inception, the Church of Sweden has enjoyed the full protection of the state. Swedish citizens obtain at birth automatic membership in the Church and prior to 1860 were forbidden altogether from leaving the Church. As recently as 1951 Swedish citizens could not relinquish their membership except to join a dissident "free" church, and marriage outside the Church was nearly impossible. Even today, when only 2% of Swedes attend the Church's Sunday services, social pressures are such that 95% retain official church membership and 70% have their children baptized in the Church. Lamont [1989, 164] reports that most of these remain members in name only, and 10% actually belong to other denominations. He also quotes the Bishop of Stockholm rationalizing the gap between official rates of membership and actual levels of participation as follows: "The Established Church is like a post office ... people don't rush to it when it opens ... They are just happy it's there."

Like any massive state concern, the Church runs on tax funds. The state imposes a special Church tax, and even those not belonging to

the state church must pay 40% of this assessment. Direct contributions from worshipers amount to almost nothing. Tax moneys cover the cost of church construction and maintenance. They also pay the salaries of the Lutheran clergy, who as civil servants help maintain the country's vital statistics, perform municipal functions, and are integrated into the ordinary government bureaucracy. According to Rydenfelt [1985, A-25], "[a]bout 85% of them are members of trade unions, negotiating with their employer—the government—over salaries, the number of working hours and pensions." The clergy have a legal right to strike and, compared to other Swedish professionals, earn high salaries. (The archbishop's salary, for example, exceeds that of the prime minister.) Not surprisingly, the Church suffers from high costs and excess capacity. Rydenfeldt [1985, A-25] reports that "[f]requently services in large temples with room for hundreds of people are attended by five or 10 individuals. Those few people are served by parsons, precentors and sextons, a staff with the ability to serve hundreds. Only a very small fraction of capacity is ever utilized."<sup>5</sup>

State intervention is, of course, the price that the Church must pay for state protection. Numerous special laws regulate the Church's role, and the king as head of the Church names the archbishop and bishops to their positions.<sup>6</sup> And though the Swedish Church has always served as an organ of the state, its dependence has grown since the Social Democratic Party came to power in the 1930s. From this traditionally atheistic party, which had originally

5. One of our friends, an American Lutheran minister named Otto Bremer, had the following experience at the Cathedral of Stockholm many years ago. He went there to attend Sunday services and found himself in a huge structure, surrounded by a mere handful of fellow worshipers. At the end of the service, he spoke to the priest, who bemoaned the paucity of worshipers and described the large, professional staff attached to the Cathedral. Otto remarked, "But surely, the staff and their family alone should have made up a much larger audience." The priest replied, "Yes, but they work so hard all week. They like to take Sunday off."

6. The state's power of appointment is a source of constant tension. In neighboring Norway, for example, the government ignored the advice of church leaders when appointing new bishops in 1978 and 1979. Then, in a 1980 effort to ensure "sufficient breadth," it appointed a "quasi-Marxist theologian" to a pastorate "over the vehement protest of the bishops and against the wishes of the parish council." (See Hale [1981, 67].)

called for disestablishment, the Church appears to have purchased support by subjugating its religious concerns to political demands. Gustafsson [1990, 114] has detailed the resulting, "nearly total takeover of the power functions within the Church by the political parties." Consider, for example, his description of parish council elections:

[T]he political parties nominate candidates and the great majority of those elected get their seats as representatives of a political party. In some parishes, "non-political groups," i.e. groups of the most religiously active parish members, nominate candidates of their own but efforts to get these candidates elected mostly do not meet with any great success.... [Among the] politically nominated members ... loyalties are primarily to the political parties that have nominated them and not to the Church. [p. 112]

Rydenfelt [1985, A-25] notes that "[n]o religious qualifications are required of the candidates—indeed, they need not even be baptized or confirmed." Lamont [1989, 195] adds that when the diocesan council meets "they sit in party lines on either side of the table with the major party in the chair."

Through all this, the spiritual mission of the church has received little attention. Indeed, some have claimed that state-subsidized monopoly, administered by a largely atheistic government, has turned the Church of Sweden into a spiritual wasteland. Hamberg [1991] and Pettersson [1990] document steady declines in rates of Sunday worship, Sunday school attendance, Bible reading, and prayer. Only 2% of the population now attend the state church in a typical week.

Might the preceding facts reflect nothing more than a low demand for religion? Lacking the data to isolate religious demand and supply, we cannot dismiss this possibility. Yet one is hard-pressed to identify demand attributes that should make Swedes so much less religious than others. The Swedish population is relatively rich and well-educated, but these attributes do not correlate with low rates of church attendance.<sup>7</sup> Sweden's massive welfare state might appear to hold the key—providing a secular substitute for the real and promised benefits of a religious faith—but

7. Survey studies in the U.S. and Europe consistently find that income and education are weak, but generally positive, predictors of church attendance. See for example, Iannaccone [1990, 307, table 3] and Gustafsson [1983].

weekly rates of church participation were relatively low (though not nearly as low as now) even *before* the era of socialist reform.<sup>8</sup>

Demand-side explanations thus amount to little more than the claim that Swedes manifest an unusually low "taste" for religion. This ad hoc assertion flies in the face of survey data, which finds insufficient cross-national variation in personal beliefs to explain Scandinavia's low rates of church attendance.<sup>9</sup> Taste-based arguments also fail to account for the religiosity of the Scandinavian Lutherans who immigrated to the U.S. in the late 19th and early 20th centuries, coming for economic rather than religious reasons. In America, these people and their descendants have never attended church less frequently than most other Protestant Americans (which implies that they have consistently attended more than their Scandinavian counterparts who remained in Europe).<sup>10</sup> Finally, one must recognize that Swedes are not uniformly irreligious, and that even within Sweden variation in religiosity appears related to market structure. Church attendance rates are, for example, fairly high *beyond the boundaries of establishment*. Barrett [1982, 649] reports weekly rates around 20% for Catholics and 70% for Mormons, Jehovah's Witnesses, Seventh-day Adventists, and other small sects. Pettersson [1990] finds that the 10% of the population belonging to "free" churches account for *half* of all the churchgoers on any given Sunday. And Hamberg and Pettersson [1994] show that religious participation in both "free" and state churches is higher in municipalities where the local religious market is more competitive (as measured by a

8. About 6% of the population attended church each week in 1927. See Pettersson [1988] for a description of the unusually complete religious statistics collected by the Swedish Church since the 17th century. One must treat these data with care, however, when making cross-national or time series comparisons. For example, prior to 1862 church attendance was more or less obligatory, and those who failed to receive Holy Communion at least once a year did not enjoy full citizenship.

9. See Stark and Iannaccone's [1994] discussion of data from the 1981–83 World Values Survey. Compared to other Europeans, Scandinavians are *somewhat* less likely to reject atheism, claim a belief in God, and describe themselves as religious, but they are *much* less likely to attend church.

10. Around the turn of the century, the sociologist Max Weber [1946, 342] observed a similar contrast when comparing the religious behavior of German immigrants and those who remained in Germany.

Herfindahl index of denominational concentration).

As the next section shows, very similar market forces (albeit leading to a very different overall outcome) characterize religion in America.

#### IV. FREEING THE MARKET: AMERICAN RELIGION SINCE 1776

Romantic school tales notwithstanding, the American colonies did not begin as bastions of spirituality founded by pious souls determined to establish religious freedom in the New World. On the contrary, insofar as religion mattered at all (and for many it did not) the immigrants' usual goal was to found a society in which *their* religion (e.g., Puritan Congregationalism) enjoyed preeminent status. Politicians and preachers alike viewed religious freedom as a dangerous and heathen notion, guaranteed to threaten the authority of the state and the survival of the church. Hence most of the colonies had their own established churches, and only by virtue of necessity did religious toleration come to the United States. Religious freedom grew in large part from the need for compromise among the colonies and the difficulty of maintaining religious uniformity across a diverse immigrant population sparsely settled over vast areas.

The Revolution set America on the path toward a truly competitive religious market. The Constitution went well beyond affirming previously established principles. Article IV stated that "no religious test shall ever be required as qualification to any office or public trust under the United States," and the First Amendment stated that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." The actual process of disestablishment took decades to complete since these acts guaranteed only that there would be no *national* church. Several New England states supported *their* established churches into the 19th century, and many more maintained systems that amounted to de facto establishment—see Finke [1990] for details. However, when religious deregulation finally took hold, its effects were striking.

First, the denominations that had enjoyed official support—the Congregationalists, Anglicans, and Presbyterians—lost most of their market to upstart sects, particularly the Meth-

odists and Baptists. In the words of Smith, these sects manifested the "zeal and industry" that gives "the teachers of new religions ... considerable advantage in attacking" the established churches. From 1776 to 1850 the market shares of the old-line and upstart Protestant denominations exactly reversed. Congregationalists, Episcopalians, and Presbyterians, who in 1776 accounted for 55% of all the religious adherents, dropped to just 19%. Baptists and Methodists went from 19% to 55%. (See Figure 2 and, for details, Finke and Stark [1989]. See also, Olds's [1994] study of religion in Connecticut and Massachusetts for evidence that disestablishment led to a huge increase in the relative and absolute numbers of "dissenting" preachers.)

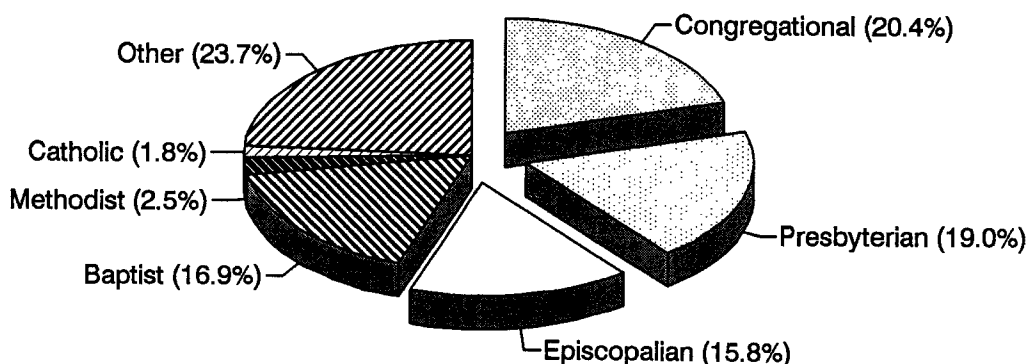
These changes cannot be explained by trends in immigration, income, or regional populational growth. The vast majority of Baptists and Methodists were American converts, and only a small percentage of European immigrants arrived with pre-existing ties to either denomination.<sup>11</sup> Although both denominations recruited a disproportionate number of new members from among the poor, average real incomes rose throughout most of this period. Finally, both denominations grew rapidly in nearly all regions of the country, including those that had been overwhelmingly Congregational, Presbyterian, or Episcopalian.

Religious deregulation had a second, more important effect. Overall levels of religious adherence shot up. Reliable sources place church membership at a mere 17% of total population in 1776. By 1850 this rate had risen to 34%. By 1906, church membership topped 51%, and the most recent religious census puts it at 62%—see Figure 3.<sup>12</sup> (Again,

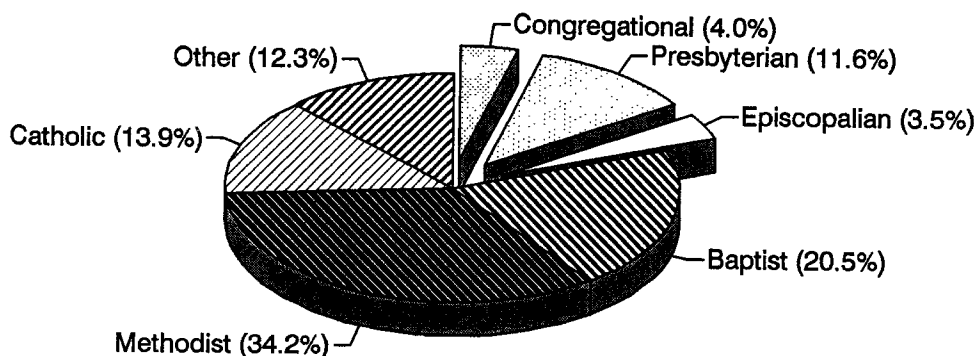
11. Irish and German immigration did boost the share of Catholics, and this is reflected in Figure 2, but the biggest increases in Catholic population (from Ireland, Germany, Poland, and Southern Europe) post-date 1850. Similarly, the large influx of Scandinavian and German Lutherans occurred mostly in the late 19th and early 20th centuries. For detailed immigration breakdowns from 1820 through 1970, see United States Bureau of the Census [1975, 105–9].

12. Finke and Stark [1992] assembled these data from a variety of original sources, most notably eight religious censuses conducted by the U.S. Census Bureau from 1850 through 1936. We can be virtually certain that the membership trends reflect an increase in actual church participation because the 19th century censuses contain data on church seating capacity.

**FIGURE 2a**  
Market Shares, 1776



**FIGURE 2b**  
Market Shares, 1850



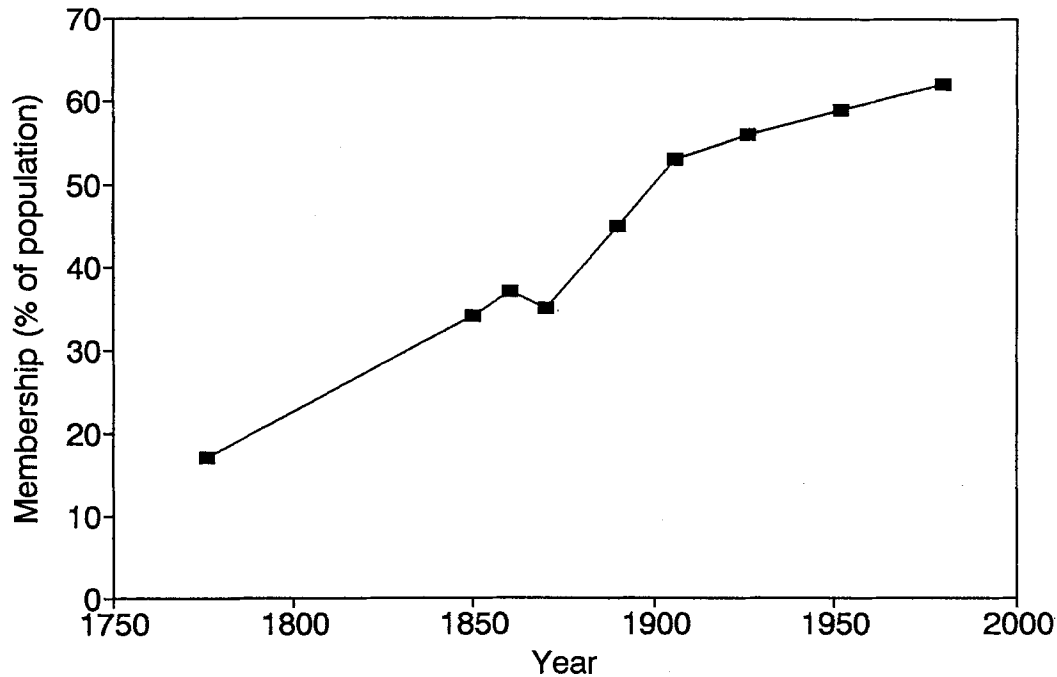
Olds's [1994] findings for Connecticut and Massachusetts parallel our own. His data reveal a dramatic increase in the numbers of preachers and church members relative to the underlying population.) Setting these figures alongside English historical data on religious adherence, it appears that when America last

had a religious market structure like England's, adherence in the two countries did not differ dramatically. But in the ensuing two centuries, American rates of religious practice rose steadily, to the point where they now dwarf those of England and every other Protestant country in Europe.<sup>13</sup>

13. Finke [1992, 162–3] argues that Methodist growth faltered in 19th century England while it flourished in America because the English Methodists (in response to pressure from the government and the Church of England) regulated the activities of their ministers and thereby reduced the opportunities for the type of religious entrepreneurship (camp meetings, revivals, and itinerant preaching) that underpinned the phenomenal growth of American Methodism. British historian David Hempton [1988, 94] characterized the status of Methodism as “the most con-

troversial legal problem of the period between 1740 and 1820.” We suspect, but can not prove, that much of the overall difference between rates of church attendance in England and the U.S. also stems from the English government's continuing support for its established Church. Calling England's position “the worst of worlds,” and contrasting it to the American religious situation, the editors of *The Economist* [1993, 80] recently advocated the Church of England's formal disestablishment.

**FIGURE 3**  
Church Membership in America, 1776–1980



#### V. THE RUSH HOUR OF THE GODS: JAPAN, 1945

Lest it appear that the stimulating effects of religious competition apply only to Western religion, consider the consequences of deregulation in Japan.

Before the end of World War II, the government strictly controlled religious activity in Japan. Shinto shrines were subsidized, Shinto priests were government officials, the Japanese Emperor was proclaimed a god, and participation in Shinto ceremonies was a matter of civic duty. Although article 28 of the 1889 Meiji constitution claimed a right to "freedom of religious belief," no such freedom existed in practice. Hardacre [1989, 128] observes that State Shintoism "had an obligatory character" and all other religions were subject to interference, suppression, and persecution. Religious organizations could not legally exist without official recognition, and such recognition came slowly if at all. (For example, the government took 40 years to recognize Tenrikyo, a major Shinto sect.) Ordinances of 1900 and 1908 granted the police

broad powers of religious surveillance and gave them authority to suspend religious activities deemed "undesirable." Many new religions and (non-recognized) "pseudo-religions" became targets of the police, their leaders frequently arrested on charges of disloyalty to the state.<sup>14</sup> Groups that the government officially labeled "evil religions" endured especially severe repression. Hardacre [1989, 127] reports a 1935 incident in which 550 police attacked the Omotokyo religion's headquarters and reduced "its buildings to pieces no larger than one Japanese foot, lest larger pieces be used to rebuild these edifices."

The Japanese defeat and Allied Occupation in 1945 led to the immediate repeal of all laws controlling religion, forced the Emperor to renounce his divinity, disestablished the Shinto religion, and granted unprecedented religious

14. For example, the now-flourishing Soka Gakkai association was suppressed in 1930 for refusing to worship talismans from the Ise Shrines. Its leader, Makiguchi Tsunesaburo, was arrested and later died in prison. See Hardacre [1989, 124–31] and McFarland [1967, 63–64] for other examples and details.



freedom.<sup>15</sup> Article 20 of the new Japanese constitution stated that “freedom of religion is guaranteed to all. No religious organization shall receive any privileges from the state or exercise any political authority. No person shall be compelled to take part in any religious act, celebration, rite or practice. The state and its organs shall refrain from religious education or any other religious activity.” Article 89 decreed that “no public money or other property shall be expended or appropriated for the use, benefit or maintenance of any religious institution or association” (Nakano [1987, 132]). According to McFarland [1967, 4], this amounted to “the first laissez-faire religious policy in the history of Japan.”

The response was overwhelming. It was said that “New Religions rose like mushrooms after a rainfall” (McFarland [1967,4]). Only 31 religious groups had received official recognition in the decades before 1945 (13 Shinto sects, 28 Buddhist denominations, and two Christian groups). By 1949, 403 new groups were founded, and 1546 more established independence through secession from the shrines, temples, or churches to which they had previously belonged (Nakano [1987, 131]). Although some of these had established an underground existence before the war, the constitutional change now enabled them to operate in the open and thereby attract a vastly larger membership. Soka Gakkai, the most successful new religion, grew from 60 members in 1937, to 20,000 families in 1953, to 8 million members in 1972. Overall membership in non-traditional religions rose from about 4.5% of the population (2 million) in 1900, to more than 20% (21 million) in 1975 (Barrett [1982, 419–20]). By all accounts, the greatest growth occurred in the years immediately following 1945, a period that came to be known as *kamigami no rasshu awa*, “the rush hour of the gods.”<sup>16</sup>

15. The magnitude of these reforms reflected the American military command's belief that State Shinto and Emperor worship had contributed significantly to Japanese ultra-nationalism, totalitarianism, and expansionism. Nakano [1987] provides a detailed review of the religious reforms imposed under the Allied Occupation. See also Earhart [1982].

16. To put “the rush hour” in perspective, compare the trajectory of America's most successful new religion—Mormonism. It took the Mormon church nearly a century to attain one million members (in the late 1940s), and another 50 to surpass 4 million in the U.S. and 8 million

Some might argue that it was the *demand* for religion, not supply, that shifted most dramatically in the wake of the Second World War—a devastating war that killed or impoverished millions, leveled cities, and disrupted every aspect of Japanese society. According to this psychologically oriented explanation, the desire for supernatural comfort increased as people sought refuge from the horrible consequences of the war and the destruction or discrediting of traditional institutions. Lacking survey data from the immediate postwar period, it is hard to completely refute this interpretation, and we do not deny that it might have *some* validity. But the weight of evidence confirms the primacy of supply-side factors.

We know, for example, that the Japanese defeat did not trigger widespread spiritual escapism or indiscriminate pro-religiousness; the traditional religions did not experience any increase in membership or devotion. We also know that the growth of new religions was not confined to the immediate postwar period; it continued long after the Japanese economy recovered from the war and continues even today. Finally, we have the contemporaneous experience of other nations. Germany shared Japan's defeat, but did not share in its switch to a new religious market and did not experience a postwar boom in new religions. On the other hand, the war's end did bring religious change to South Korea. The country was liberated from Japanese rule and Japanese religious restrictions, and like its defeated neighbor experienced an immediate flowering of new religions and a sharp increase in the level of active religious membership—see Choi [1986]. In liberation or defeat, war or peace, 20th-century Asia or colonial America, the pattern persists: deregulation opens the floodgates of religious innovation.

#### VI. PRIME-TIME PREACHERS: TELEVANGELISM AND THE FCC

To this point our examples have concerned massive shifts in religious regulation and the resulting large scale changes in religious firms

worldwide. Soka Gakkai reached this number in less than 50 years. Note also that Soka Gakkai and the other new religions have attained their phenomenal rates of growth within a culture where less than 35% of the population professes *any* personal religion. (See Barrett [1982, 419].)

and market equilibria. But economic reasoning applies to much smaller changes and is in some sense more useful at this level, since it draws attention to events that are otherwise misinterpreted. Any careful observer might have predicted a major response to the total restructuring of Japan's religious market in 1945. The same cannot be said for an apparently minor change in FCC guidelines.

The Communications Act of 1934 authorized the Federal Communications Commission to grant broadcasting licenses, which amounted to monopoly rights over specific frequencies in certain areas. In return for these monopoly rights, broadcasters (first radio and then television) have had to submit to FCC regulation, and in particular have been required to devote a portion of their air time to the "public service." Whenever the FCC has issued guidelines concerning public service programming, it has listed religion as one of its "suggested" categories. In practice, the FCC's many statements and rulings (reviewed by FCC Commissioner Lee Loevinger [1965, 648]) gave broadcasters no choice but to devote "a significant percentage" of their air time to religion. Moreover, because the FCC favored (free) "sustaining-time" programming over commercially sponsored (paid) programming, most religious broadcast time was provided free of charge.<sup>17</sup>

The FCC thus required broadcasters to supply a scarce commodity (air time) to a certain segment of demanders (preachers) free of

charge. Not surprisingly, the demand for such time greatly exceeded its supply. Unable to ration through price, the networks fell back on strategies that minimized their costs and favored their friends. Most turned over their time to the Federal Council of Churches, a cartel-like association of America's "respectable" Protestant denominations.<sup>18</sup> Of course, the Council always denied acting as a cartel. But in the words of one of its own executives, it enabled the member denominations to control "the allocation of time among themselves on radio and television" and thereby avoided "competition among the churches" (Barnes [1960]). Above all, the Council worked to keep conservative (fundamentalist and evangelical) Protestant denominations off the airwaves. It did so by denying them access to free time and by pressuring national networks and the local stations not to provide any additional commercial air time.<sup>19</sup> One largely successful campaign to restrict paid religious broadcasting, documented in the pages of the liberal Protestant magazine *The Christian Century*, drips with cartel rhetoric.<sup>20</sup> As television broadcasting grew in the 1950s, the Council again successfully pressured the networks to exclude conservative Protestants and again campaigned against paid religious broadcasting.

With little access to commercial network time and no free programming, the conservatives had to fight for a place in the broadcast market. In the 1930s, when they still could

17. In radio, NBC and NBC's Blue Network, later named ABC, never sold any time to religious broadcasters. CBS sold time from 1927 through 1931, but ceased doing so thereafter. Only the Mutual Broadcasting System continued to sell commercial time to religious broadcasters through the 1930s, and in 1944 even they adopted highly restrictive rules constraining the duration, content, and time slots for paid religious programs. See Finke and Stark [1992, 286–91].

18. From its founding in 1926, NBC offered all of its religious time through the Federal Council. As a way to rid themselves of Father Charles E. Coughlin, a highly controversial Catholic preacher, CBS switched to free religious programming in 1931 and gave control of its "Church of the Air" to an in-house advisory board and the Federal Council. The Mutual Broadcasting System's restrictions on paid broadcasting came in response to pressure from the Council. See Hadden and Shupe [1988, 46–47].

19. Hadden and Shupe [1988, 47] note that the prominent evangelical leader James DeForest Murch claimed that the chairman of the Council's Department of National Religious Radio "signed 50 or more radio stations with ironclad contracts obliging them to use the Federal Council approved programs and no other."

20. The following statements are typical:

... the time is propitious for a conference between all the chains and responsible Protestant, Catholic, and Jewish bodies to work out a national religious broadcasting program that would combine dignity with effectiveness. [*The Christian Century*, 22 March 1944]

These programs [produced by the Seventh Day Adventists, Missouri Synod Lutherans, and other conservative denominations] ... have long been distasteful to liberal church leaders ... and to network officials ... The network religious radio program racket, capitalized by independent super-fundamentalist revivalists, will not be eliminated until Mutual [Broadcasting System] goes the whole way and bans paid religious programs altogether, as the other networks have done.... Perhaps the only way such programs can be eliminated is by a ruling from the Federal Communication Commission against the sale of time for religious broadcasting, coupled with a parallel ruling requiring each station and network to give a specific minimum allotment of suitable time each week to religious programs. [*The Christian Century*, 23 August 1944]

buy unrestricted time on the Mutual's network, they learned to produce radio programs that covered their costs through listener solicitations. When later forced off the networks, they syndicated these programs, buying air time from numerous local stations across the country. In 1944 they also formed the National Religious Broadcasters to lobby Congress, the FCC, and the National Association of Broadcasters. Their lobbying efforts paid off in 1960 when the FCC finally ruled that it would no longer distinguish between free and paid religious programming when evaluating broadcasters' license renewals. Stations and networks could now satisfy their public service obligations with commercial time; giving the time to "responsible," "liberal" bodies like the National Council of Churches had suddenly become costly. Free broadcasts, which had accounted for 47% of total religious programming in 1959, dropped to 8% by 1977. By the late 1980s the networks abandoned free weekly religious programming altogether.

The liberal churches never recovered. Like Adam Smith's "established churches," lazy after years of "reposing themselves upon their benefices," they proved "altogether incapable of making any vigorous exertion" on their own behalf. In the wake of the new FCC ruling, liberal church leaders did not even try to compete in the commercial program market, and thus quickly faded from the scene. Hadden [1993, 118], the nation's leading scholar of religious broadcasting, attributes the liberal's anemic response to their long-standing "ambivalence" toward broadcasting as a religious medium, an ambivalence not shared by evangelical-fundamentalists, who readily embrace any means of spreading the gospel. We would also emphasize what Hirshman [1970, 57] has termed the monopolist's "proneness to inefficiency, decay, and flabbiness." In a study of liberal church decline that spans two centuries and reviews activities far removed from broadcasting, Finke and Stark [1992] find that privileged liberal denominations consistently lost market share when faced with conservative competition because their leaders proved slow to innovate or emulate the successful innovations of others and often failed to address the perceived needs of their members, giving preference instead to their own social/doctrinal views.

Fundamentalist and Pentecostal preachers—Jerry Falwell, Oral Roberts, Pat Robertson, Jim Bakker, and many others—soon dominated the religious airwaves. They had honed their skills at the fringes of the industry, and now aggressively competed for its heartland. In the process, the number of religious broadcasters rose sharply, religious viewership increased, contributions to religious broadcasters grew dramatically, the technical quality and expense associated with religious programming increased, and "televangelists" became leaders and symbols of the so-called "fundamentalist phenomenon."<sup>21</sup>

The rise of televangelists shocked America's political, academic, and media elites. For more than a generation, scholars had taught that theologically conservative, fundamentalist-style religion was passe, that individual denominations were abandoning their sectarian distinctiveness, and that the future of American Protestantism lay in mergers and ecumenical oneness. When the events of the 1970s and 1980s proved this vision false, many scholars and reporters overreacted. They proclaimed an unprecedented outbreak of religious-political conservatism spawned by economic frustration, reactionary sentiments, or post-modern anxiety. In fact, as Finke and Stark [1992] have shown, the evangelical-fundamentalists had been present and growing for decades, but FCC regulations and other cartel-like arrangements had functioned to keep them out of the limelight.

#### VII. AMERICA'S "CONSCIOUSNESS REFORMATION" RECONSIDERED

Throughout the 1970s, no subject in the sociology of religion received as much attention as the rise of America's "New Religious Movements." Scholars rushed to explain the "flowering" of Asian-born and Asian-inspired

21. According to Hadden and Shupe [1988, 292] "there are 1,370 religious radio stations and more than 221 Christian networks broadcasting 24 hours a day that can be picked up via satellite nationwide ... There are 414 organizations engaged in the production of religious television programs and 596 organizations producing religious radio programs." Hadden and Shupe [1988, 155–56] also cite a 1985 CBN/Nielson study that estimated the monthly cumulative TV audience for the top ten religious programs at 68 million. This figure is confirmed by a 1987 Gallup survey in which 39% of the American public reported viewing a religious program within the past month and 25% reported viewing such a program in the past week. For a discussion of the recent "fall" of televangelism and the prospects for yet another rebirth, see Hadden [1993].

"cults," and usually pinned the blame on a "new religious consciousness" grown up among America's youth to challenge Western materialism, individualism, and rationalism (Glock and Bellah [1977]).

In truth, however, American demand for Asian religion dates back more than a century. Gordon Melton [1987] has documented how Harvard professors, upper-class Bostonians, the Unitarian Church, and various Spiritualist organizations brought numerous Asian religious teachings and, above all, Asian religious teachers to the United States in the late 1800s. This process of cultural importation largely ceased when after World War I Congress passed a series of exclusion acts that dramatically cut Asian immigration and denied potential citizenship to many Asians already in America. Hull [1985, 11] notes that "[b]y 1917, Congress had excluded virtually every resident of the so-called 'Asiatic barred zone,' a vast territory that extended from the Kirghiz (Russian) Steppes and the Arabian Peninsula to what is now Indonesia." Thenceforth, Americans interested in exploring Asian religion had to rely on books, travel abroad, American teachers, or the occasional Asian visitor on a tourist visa.

The Immigration and Nationality Act Amendments of 1965 abolished the arcane system of quotas that had defined American immigration policy for the preceding 50 years. The effects were profound. Indian immigration skyrocketed from 467 in 1965 to 2,293 the following year and 8,795 in 1970. The total number of Asian immigrants rose from around 10,000 in 1955 and 20,000 in 1965 to more than 40,000 in 1966 and 90,000 in 1970. (Asia's share of total American immigration thereby rose from less than 5% to nearly 25%).<sup>22</sup> Demand for Asian religion in the U.S. rose as the number of residents with Buddhist and Hindu backgrounds increased, but the supply-side effects were even more striking, as Asian-born teachers arrived to exploit the longstanding, pent-up demand for Asian religious teachings. According to Melton [1987, 52], "The growth of the so-called new religions (primarily the old religions of Asia newly arrived in the West) can be traced to

the movement of Eastern teachers to take up residency in the United States beginning in 1965:

- 1965 Swami Bhaktivedanta (ISKON)  
[The Krishnas]  
Sant Keshavadas (Temple of Cosmic Wisdom)  
Thera Bode Vinita (Buddhist Vihara Society)
- 1968 Yogi Bhajan (Sikh Dharma)
- 1969 Tarthang Tulku (Tibetan Nyingmapa)
- 1970 Swami Rama (Himalayan Institute)
- 1971 Swami Satchindananda (Integral Yoga Institute)  
Gurudev Chitrabhanu (Meditation International Center)  
Maharaj Ji (Divine Light Mission)
- 1972 Sun Myung Moon (Unification Church) [The Moonies]  
Vesant Paranpje (Fivefold Path)"

Given the prior existence of a sizable market in books and periodicals concerning Eastern wisdom and the occult, it should come as no surprise that when these teachers finally arrived to market their services in person, they had little trouble finding some buyers. It was not so much that Asian faiths had struck a new chord in the American counterculture as that their growth had been artificially thwarted until then. With the immigration barrier removed, normal religious trade reasserted itself. Moreover, given the guru-based structure of many Asian religions, virtually each teacher who came to America founded a *separate* movement. Thus it took relatively few American converts to generate a substantial number of Asian-based cults.<sup>23</sup>

As always, one may attribute some portion of these changes to the demand side. Asian cults attracted a disproportionate share of their converts from among affluent, college-age adults, and we know that this portion of the population grew rapidly in the 1960s. But it is also clear that the new immigration laws would have had significant religious consequences even without the baby boom. In failing to perceive the supply-shift in Asian reli-

22. For detailed immigration breakdowns from 1820 through 1970, see United States Bureau of the Census [1975, 105–9].

23. In the 1950s, only 7% of the new religions formed in America were Indian based; in the 1960s and 1970s this fraction rose to 17% and 18%, respectively. Interestingly, it dropped back to 11% in the 1980s, further suggesting that the "explosion" was at least partly due to pent-up demand. See Finke and Stark [1992, 322].

gion, scholars postulated a radical demand shift: the baby boomers' so-called "consciousness reformation." This led to overstating the significance of the entire affair, and contributed to cult controversies and "brainwashing" hysteria in the late 1970s and early 1980s. These in turn led to court rulings that, according to some scholars, seriously threatened traditional rights—see Anthony and Robbins [1992] and Wood [1989]. Subsequently, more sober studies proved that the vast majority of Asian cults attracted fewer than 1,000 followers [Melton 1987, 47]. Indeed, even the largest and most successful, the Moonies and the Krishnas, never enlisted more than 10,000 (though for a time it seemed these all were simultaneously stationed in America's airports).<sup>24</sup> An economic orientation, emphasizing rational choice, stable preferences, and (slightly shifted) market equilibrium would have better served the scholars, courts, and public.

#### VIII. CONCLUSIONS

The preceding accounts illustrate the critical role of governmental regulation in shaping religious trends and events. One may easily unearth other such stories. In the United States, the fate of many new religions has been dramatically altered by court rulings (e.g., restricting airport solicitation) and IRS determinations (e.g., denying tax-exempt status to new movements or jailing their leaders on dubious counts of tax evasion) (Robbins [1987]). In Latin America, the recent "explosion" of Protestantism traces back to the elimination of state-established Catholic monopoly, and is according to Martin [1990, 13] "contingent upon ... the general deregulation of religion." Similar changes have occurred in the Philippines since the ouster of Ferdinand Marcos in 1986. That year alone, 580 new religious groups registered and began preaching. Another 311 registered in 1988 (Alibutud [1991, 13]). Finally, there is the collapse of Soviet communism, leading to sudden growth in both alternative and conventional religion. Although reliable statistics are just now becoming available, all evidence points a mushrooming market for old and new faiths in the officially atheistic countries that long sought

to suppress the religious impulse.<sup>25</sup> And throughout Eastern Europe and the former USSR, religion has surfaced as a key component in ethnic/cultural disputes over physical territory and political power.

One may, of course, point to apparent counterexamples. Commenting on an earlier draft, a reviewer urged us to acknowledge the "problem" of medieval Europe (known both as "the Age of Faith" and the era of Catholic supremacy) and the contemporary Middle East (where Islam enjoys a virtual monopoly but also breeds militant Fundamentalism). Though we would not go so far as to claim that monopoly *never* promotes high rates of religiosity, we do suspect that these two examples pose a challenge that is more imagined than real. Recent social-historical research has uncovered widespread religious apathy and very low rates of Catholic church participation throughout medieval Europe. We review these findings at length in Stark and Iannaccone [1994] and reiterate Andrew Greeley's conclusion that "[t]here is no reason to believe that the peasant masses of Europe were ever very devout Christians ... Christian Europe never existed." Commenting on British religion in the late medieval period, historian Keith Thomas [1971, 159] states that "it is problematical as to whether certain sections of the population at this time had any religion at all." The medieval Catholic monopoly thus wielded vast political and economic power but generated relatively little observable spirituality. The case of contemporary Islam seems less clear, largely because social-scientific studies of the Islamic religion are relatively few. But we do know that popular accounts systematically underestimate the levels of religious diversity and competition that exist in Islamic countries. Just as non-Westerners tend to overlook denominational variation within "Christian" America, so West-

24. In 1984 a Toronto magazine estimated that there were 10,000 Krishnas in that city alone. When Hexham, Currie, and Townsend [1985] looked into the matter, they found that the correct total was 80!

25. See the articles by Briggs [1993], Greeley [1994], and Schmemmann [1993]. Since freedom of conscience was formally granted in 1991, more than 6,000 Russian Orthodox churches and monasteries have re-opened and about 1,000 foreign missionaries and 50 different religious organizations have entered Russia. In a 1991 survey of 2,964 Russian adults, 22% of the respondents said they used to be atheists but now believe in God, whereas only 3% said they had once believed but now were atheists (Greeley [1994, 257]). David Barrett, editor of the *World Christian Encyclopedia*, characterizes this shift as "one of the most enormous swings ever in the history of Christianity" (quoted in Briggs [1993, C-10]).

erners tend to neglect the sectarian divisions within Islam. In fact, Muslims are divided into two major denominations (Sunni and Alevi [Shi'i]), each of which houses *hundreds* of sects that people take seriously. (See Akin and Karasapan [1988, 16] for a summary of the numerous religious orders, called *tarikats*, that "have been part of Turkish cultural and social life for centuries." The *tarikats*, and their even more numerous subdivisions, called *tekkes* or *dergahs*, compete for members and promote a wide range of theological and political views.) The growth and intensity of Islamic religion may thus have more to do with its vigorous internal markets than its presumed monopoly status.<sup>26</sup> Though one hesitates to draw firm conclusions, it seems that even such "problem" cases as contemporary Islam and medieval Catholicism may yield to an economic view of religious markets.

Standard economic theory has much to say about religious trends and events, and by extension, about religion in general. The economics of religion deserves a place alongside the many other forays into areas of behavior once deemed beyond the discipline's reach. How large a place, one cannot yet say. But this much is certain: the traditional rumors of religion's demise are greatly exaggerated. For good or ill, at home and abroad, religious belief remains widespread, religious commitments continue to shape people's behavior, new and deviant religions remain a focus of legal debate, and religious differences sustain political and social conflict. This paper has examined religious markets and governmental regulation in a variety of settings: contemporary Sweden, colonial America, postwar Japan, and more. We have emphasized supply-side factors (and perhaps even over-emphasized them) so as to counteract the tendency to reduce most every religious event to some unobservable change in the popular psyche. Elsewhere, we have analyzed religion at other levels, testing models of individual behavior and denominational characteristics (Iannaccone [1990; 1992]). Others, such as Ekelund, Hebert, and Tollison [1989], have

explored the economic underpinnings of specific religious doctrines. Whatever the long-term prospects for the economics of religion, its fundamental insights remain as valid today as in the days of Adam Smith.

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26. We are indebted to Timur Kuran for information regarding Islam. Kuran [1995] also notes that popular accounts ignore the extent to which Middle Eastern citizens must conceal their true religious feelings, maintaining the appearance of piety, or face severe social and political penalties.

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