After long neglect, the subject of religion has received growing attention in the economics profession over the past two decades. One of the reasons is that it has proven difficult to explain the levels of economic development of many nations around the world without reference to a national culture, and many of these cultures have been significantly influenced by religion. Contrary to a wide expectation in the modern era that the role of religion would gradually diminish, and perhaps eventually disappear, in many parts of the world various forms of religious fundamentalism have instead been growing, both in numbers of followers and in political and economic impact. In economic terms, individual consumers can be said to demand a variety of forms of religious activity as part of their maximization of utility, and producers of religion have emerged to supply religious services in an overall market for religion.

There is also increasing understanding that secular religions, such as Marxism and the American progressive ‘gospel of efficiency’, incorporate economic arguments while borrowing heavily from traditional Christian sources, which is one of the reasons for their success. In the intellectual sphere in general, there has been a blurring of the lines between secular religion and traditional religion, reflecting that the category of religion can legitimately include fundamental belief systems that may or may not include a God in the hereafter. A religion of economics may be one in that category.

The subject of religion and economics is large and diverse. This chapter reviews three important elements of the new attention to religion among economists: (i) the role of religion in national economic development, (ii) the economic behaviour of consumers and producers in the market for religion, and (iii) the religious side of economics itself as a professional discipline.

Max Weber revisited
One hundred years ago, Max Weber looked to religion as a root explanation for the rise of capitalism, and the subsequent economic success of the West, arguing that certain tenets of the Calvinist theology of salvation encouraged an ascetic commitment to a worldly calling. Weber’s thesis was subsequently strongly criticized, partly because important features of capitalism had first arisen in Italy. Yet, though the debate continues, Weber’s thinking is experiencing a revival. Many economic and other historians continue to consider the rise of capitalism as closely linked to the Protestant Reformation.

The reasons, however, extend well beyond Weber’s original focus on Calvinist theology. Protestantism encouraged the individual reading of the Bible and thus higher rates of literacy and the development of human capital. Also, Protestant confiscations of large Catholic properties opened them for commercial use in the market. Protestantism abolished the Catholic separation between the priesthood and the laity – creating a new ‘priesthood of all believers’. The perfection of all of society – including its economic elements – became a religious obligation, as seen in the American Puritans’ belief that they
were a chosen people, with a divine mission to create God’s Kingdom in Massachusetts. This Protestant sense of a divine responsibility here on earth reappeared in the American social gospel movement, which played a significant role in the founding of the American Economic Association in 1885. Leading economists such as Richard Ely argued that a valid Christian religion was now about curing the ills of this world and that scientific knowledge of the workings of society – and especially of the economy – would be essential to fulfilling this religious task.

Many of the most important economic impacts of Protestantism were thus unintended; the rise of capitalism almost certainly would have been regretted by John Calvin and other Protestants of his time. Furthermore, the greatest economic impacts of Protestantism often came long after the Reformation, and indeed many of them became evident only in the modern era when the specific character of Protestant theology had been significantly altered. The economic importance of Protestantism may reflect its competitive organizational structure as a religion as much as its specific doctrines. Because Protestantism had many denominations and greater religious fluidity, it had a greater ability to accommodate its theology and its practices to rapid social change. If one Protestant denomination was not filling the economic bill, so to speak, another Protestant competitor could rapidly arise in its place. Protestantism sustains a ‘free market’ of religion and thus is more adaptable than the hierarchical religious organization of the Roman Catholic Church with its elaborate centralized system of religious regulations.

Barro and McCleary (2003) include religious variables among the explanatory variables in their models of national economic growth, finding some statistical significance. La Porta et al. (1998) find specifically that a Catholic national religious history and national economic growth are negatively correlated. Latin America has attracted growing interest because its long-time poor economic performance is difficult to explain in conventional economic terms. Lawrence Harrison (1985) argued that the economic failures of the region were due to a Latin American cultural ‘state of mind’ that was significantly attributable to the legacy of the long Spanish Catholic colonial period. Timur Kuran (2004) finds that the relative economic backwardness of Muslim nations has reflected in part specific features of Islamic religion.

Drawing on the work of Ronald Coase and Oliver Williamson, a ‘new institutional economics’ has focused since the 1970s on transaction costs as a determinant of economic organization and efficiency. Among many factors, transaction costs might be higher or lower, according to the ethical system in society. Religious beliefs might be particularly important economically – whatever the ultimate validity of its message, a religion might be more or less economically ‘efficient’ – because religion could foster trust and higher ethical standards of behaviour, thus significantly reducing transaction costs. Douglass North and other economic historians have sought to explore the impact of ‘social capital’ – often the product of religious influences – on economic outcomes. In Italy, Robert Putnam (1993, p. 107) found that devout Catholics showed less trust and fewer other behavioural characteristics that enhanced the level of social capital, thus contributing to the large economic disparities between the north and the south of the country.

There has been growing recognition that economic development is more than just a process of making necessary capital investments, or of creating a system of property rights and other appropriate economic institutions. It involves major changes in beliefs
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and indeed a wholesale process of social transformation that encompasses change in almost every dimension, including religion. Other than warfare, the free market is the greatest instrument for social change in the history of the world. It sweeps aside not only inefficient businesses, but much else of the old order. Religion, however, often resists such rapid change. Future economic research should examine not only the relative ability of Protestantism versus Catholicism to accommodate the transformative forces of modernization in the West but also the receptivity to such change of Buddhism, Islam, Hinduism and Eastern Orthodox Christianity in other parts of the world. Economists should be leading contributors to this research, but its inherent interdisciplinary character will necessarily involve significant contributions from political scientists, historians, sociologists, cultural anthropologists, theologians and other fields.

Weber and other economists began this effort 100 years ago, but the contemporary process of exploring the cultural – and thus often religious – roots of economic development is yet at an early stage. Any grand theory to explain the role of ethics and religion in economic growth and development is unlikely at this time. It will be important first to conduct a number of analyses of specific nations and particular episodes in economic history.

The microeconomics of religion

Asking a different set of questions, a second new area of economic study is the microeconomics of religion (Iannaccone 1998). For example, are individuals with higher incomes more likely to go to church? What is the relationship between church attendance and the size of individual donations? Economically, membership of a religion can be understood as a way of maximizing individual utility and thus be placed under the same economic lens as other acts of individual consumption. For those who believe in life after death, long-run consumption – and thus the total long-run individual level of utility – might be conceived to include even events in the hereafter (Azzi and Ehrenberg 1975).

Iannaccone (1995) analyses religious activity within an economic framework of rational choice theory. One chooses a religion (Roman Catholic, Anglican, Southern Baptist, Lutheran and so on.) and a particular church and clergy in order to maximize one’s future advantage. Some churches require strictly observant behaviour as a condition of membership, thus raising the individual costs of religion, while others make little effort to oversee the religious practices of their membership. Religions have varying requirements – in Judaism, for example, following kosher rules may be mandated – and thus widely varying opportunity costs are created to full religious participation. In matters of achieving salvation, Roman Catholicism gives a greater importance to positive actions in this world according to well-defined church rules, while Protestantism preaches salvation ‘by faith alone’. Among other consequences, rational consumers with different risk preferences will factor the alternative theologies of salvation into their religious choices.

Areas of religious activity will involve different prices – in terms of both money and time, with the value of time varying substantially among individuals, normally closely correlated with incomes and marginal wage rates. Given both an income and a time constraint, the choice among religious commitments and actions will then be embedded in a larger framework of individual consumer choice to maximize overall utility, subject to these constraints. Some people will therefore rationally choose to watch or
play football on Sundays instead of going to church, possibly making different choices in this regard in the course of their lifetime, reflecting changing relative ‘prices’. Others will choose to hike in the wilderness, perhaps finding greater spiritual inspiration there than in attending official church services indoors. Various forms of spirituality compete along the many potential dimensions of religious satisfaction to maximize individual benefits minus costs.

As in other areas of consumer choice, increasing income is likely to have significant consequences for religious activities. With more feasible choices, the opportunity cost of direct religious participation will rise, perhaps causing individuals with higher incomes to attend fewer church services. If individuals wish to maintain a high degree of religious involvement, they may instead rationally substitute higher monetary donations and other financial contributions for the commitment of their own time and effort to church affairs. Alternatively, once people have satisfied their core material needs for food, clothing and shelter, religion may become a higher need that attracts greater direct involvement of those with more income, making religion a ‘luxury good’. Christianity in the medieval period was largely the province of the wealthier segments of society. Today, surveys show that religious commitment – if not total time spent in church – increases at least modestly with rising income. Contemporary environmentalism can be seen as a secular form of contemporary religion that may be similarly income elastic. More definitive answers to such microeconomic issues of religion require further research.

On the supply side of religion, a church is a special form of ‘business’ and the ‘market for churches’ offers a potentially interesting case study in the field of industrial organization. In this new area of research, economists assume that the leaders of religious organizations act according to the economic motives of the marketplace. Contrary to the usual assumptions of the past, a religion and a church may not be distinguished by an ethical or altruistic set of motives but by the unusual setting in which private profit-making takes place. A religion can be good business, including the economic ‘monopoly’ that the Catholic Church long asserted as a matter of a divine command. According to economists such as Ekelund et al. (1996), historic Vatican assertions are not to be taken at face value but should be seen as business strategies for discouraging the rise of religious competitors.

In Protestantism, by contrast, widespread religious competition is the norm. The denominations within Protestantism partially serve as brand names with the same informational purposes as say ‘Toyota’ and ‘Ford’ among automobile makers. Just as free markets outperform monopolies in the production of ordinary goods and services, Stark and Iannaccone (1994) argue that nations with wide religious freedom and competition – more likely historically to have a large Protestant influence – encourage greater devotion and stronger religious attachments. From this perspective, the notably high degree of religious belief and observance in the United States – unusual for such a high-income nation, and in contrast to Europe – is due to the fierce religious competition which better serves ‘customers’. In religion as well as ordinary goods and services, the unregulated free market often yields greater total product at less cost.

Because many churches depend for their operation on voluntary contributions of time and money, they face a major free-rider problem. Some churches function less as profit-maximizing businesses than as self-organized clubs of individuals. As Mancur Olson described for such collective action in general, one strategy is to offer individual benefits to members of the group (a church in this case) that exceed the individual costs
of membership. Historically, until the rise of the welfare state, churches took care of the poor. Churches today provide not only activities designed to inspire religious knowledge and faith but also child-care, Sunday potluck dinners, personal counselling, weddings and funerals and other social activities and services. For many people, the church has become not only their place of worship but also the focal point of their community life.

Some churches place much higher demands on members than others. This may be seen as creating a particular type of ‘hostage’ commitment that helps to address the free-rider problem. Once individuals have invested a large amount of time and effort in a particular church, they will be reluctant to leave because they would then forgo this significant past investment. It is therefore more difficult to free-ride on the actions of others in the church because this may result in a costly expulsion from the group. Thus, members of demanding religious sects do not have to rely on idealistic motives alone; they can reliably trust others in the group for economic reasons. In an extreme case, acts of terrorism may create particularly strong hostage effects, establishing powerful economic incentives to maintain support and cooperation within the group without threat of free-rider defections.

Religion can play an important role in understanding the economic workings of non-religious organizations as well. Gary Richardson (2005) argues that, in the functioning of medieval guilds, Christianity played an important practical role by threatening defectors with loss of religious benefits, thereby helping to resolve the free-rider problems of the guilds. Within the modern business corporation, as in the wider society, it is important to foster a cultural environment of trust and mutual cooperation. In some businesses, a shared religion may play an important role in this respect.

Until recently, most economists neglected the impact of religion on consumer and producer behaviour. But this was rapidly changing by the end of the twentieth century, as evidence was increasing of the large influence religion has in the affairs of society. The microeconomics of religion is still at an early stage of research, leaving a wide range of economic issues for study in the future.

**Economics as religion**

From one perspective, analysing religious behaviour as a case study in individual rational choice and in industrial organization is an exercise in achieving greater scientific understanding of the social phenomenon of religion. From another perspective, however, it is a symbolic statement of the higher religious authority of the economic way of thinking – of an ‘economic religion’. In the broadest sense, religion consists of the framing process by which events in the world are understood, interpreted and given an ultimate meaning. In Marxism, the laws of economic history took the place of the Christian God in controlling and ordering events in the world (economics was ‘omnipotent’). Reflecting an underlying Christian eschatology, the end of economic history in Marxism is a new heaven on earth.

Neoclassical economics can also become a religion in this sense (Nelson 1991, 2001). When former Princeton University economist William Baumol was asked to explain why he had entered the economics profession, his response was that he had hoped to cure poverty which was the ‘root of all evil’. In the Bible, original sin in the Garden of Eden is the ‘root of all evil’. In Baumol’s alternative theology, there is a new explanation for the presence of sin in the world. Severe economic deprivation – the dire poverty in which human beings have lived for almost all of human history – has driven people to lie, cheat, steal and commit other sinful acts.
If poverty is the true explanation for the presence of sin in the world, then the economic successes of the modern age have created a radical new possibility for humanity. If economic shortages could be entirely eliminated, it would be possible to 'save the world' through human economic actions alone. The biblical God would no longer be necessary. Economic progress would eliminate the old divisions between human beings grounded in resource scarcities, thus leading us to a new heaven on earth. Indeed, John Maynard Keynes wrote in the essay ‘Economic possibilities for our grandchildren’, ([1930] 1963) that rapid economic growth would soon lead to a condition of general and total abundance and thereby to a new and far better era in human history.

When religion is understood as an economic act of rational choice, it amounts to an assertion that traditional religion should be viewed within the framing lens of economic analysis – and not vice versa. The highest order of understanding, the genuine route of access to the highest truths, is achieved through processes of economic reasoning. Thus, the past indifference of social scientists to traditional religion partly reflected a disdain for a religious competitor. The social sciences – with economics leading the way – challenged traditional Judaism and Christianity, in effect claiming through their methods of analysis to be the highest religious authority of our time. With the rise of the microeconomic study of religion, they have reasserted that dominance by seeking to ‘explain’ religion in economic terms – religion is merely an alternative form of consumer good. Economists do not speak, by contrast, of the exercise of such rational choice in their individual decision to become an economist or in their choice of economic school (economic ‘denomination’) with which to affiliate. Apparently for them, the practice of economics, unlike traditional religion, is above all that, not a matter simply of individual consumption of a good or service, but involving a higher order of understanding and existence – entering into the true religious domain of life.

When economics and other social sciences are seen in a theological light, new questions of fundamental values emerge. How does economic religion understand (sometimes explicitly but more often implicitly) traditional religious questions, such as the relationship between human beings and nature? Is it appropriate that ‘the Creation’ of traditional Christianity has become the materially productive ‘natural resource’ of economic religion? Is the course of history leading us to a new heaven on earth, as many economic prophets have said, or perhaps to a new hell on earth, as many environmental critics of the ‘worship’ of economic growth more recently warn? What distinguishes ‘good’ from ‘evil’ in economic religion? Were ‘efficient’ and ‘inefficient’ the most important categories of ethical approval in the twentieth century?

In the past century, belief in economic progress has appeared to be the most powerful religion of the age. Professional economists did not create this belief, nor were they principally responsible for the deep modern conviction of the saving powers of ‘progress’. However, given that a faith in economic progress was (and still is) the religion of such large numbers of people around the world, the twentieth-century profession of economics can itself be viewed as a priesthood in the following sense. As the technical experts in the workings of economic growth and development, it was the economists’ teachings that provided an operational content to the modern faith in earthly salvation by economic progress. By assuring the world that economic knowledge can reveal the inner workings of economic advance, moreover, economists have helped to sustain hopes for continuing rapid economic growth. If society follows the policy recommendations of the economic
priesthood, the wonderful result – and it will not be far in the future – will be a new heaven on earth reached by economic means.

Whether or not current professional economists explicitly make any such statements is unimportant to this argument. In fact, few do so today, although more did in the past. Nonetheless, this economic theology remains implicit in the thinking of perhaps the majority of current economists. Indeed, part of the attraction of the idea of economic progress as a religion is that it seemingly leaves behind the old wars within Christianity and other fierce religious disagreements of the past.

Conclusion
Religion is partly about changing preferences – as in being 'born again' – and in this respect it fits awkwardly with the standard assumption of economics that takes preferences as given. Economists have previously addressed such matters in a limited way, as in the study of advertising, but the power of religion to change individual behaviour through a greater sense of guilt, higher hopes for salvation and many other psychological mechanisms is of an altogether different magnitude. Study of the role of religion in shaping national culture, and thus influencing the level of social capital in society, will require greater attention to past historical events than economists have been accustomed to giving.

Religion is ultimately more than an element of the individual utility function or an object of market production. In the most profound sense, religion is about the very act of framing our understanding of our existence in the world. It is in this sense that economics may for many individuals even become their own religion. To ask the question, how does the choice of a basic way of framing human existence influence subsequent economic outcomes, individually and collectively, would have fallen outside the scope of most economic thought in the twentieth century. Research into the economic impact of religion may therefore require that current economists learn to think more broadly about the essential character of human beings and the historical and cultural workings of society. In the end, the complexities introduced by the full study of religion and economics in all of its dimensions may add to the pressures for a wider rethinking of economics in the twenty-first century.

References

See also the entries on: Catholic social thought; Islam; Protestant ethics; Sin; Max Weber and the Protestant work ethic.