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Religious Markets and the Economics of Religion

La théorie économique du choix rationnel offre à la sociologie des religions un nouveau paradigme qui pourrait éventuellement remplacer ou reprendre d'une autre façon diverses approches se proposant actuellement au choix des chercheurs. Cette théorie a le double avantage d'être conceptuellement claire et empiriquement féconde. Elle permet d'intégrer diverses choses déjà connues quant à la participation religieuse; elle est porteuse de possibilités nouvelles de prévision, suggérant de nouvelles perspectives pour la recherche empirique; elle permet d'évaluer les implications d'une intervention de l'Etat sur le marché religieux; elle stimule les échanges entre la recherche entreprise dans le champ religieux et celle, en plein développement, qui tente de l'appliquer à d'autres institutions et activités "non-marchandes".

1. Introduction

We hear much talk these days of "religious markets" and "religious economies". Religious "consumers" are said to "shop" for churches much as they shop for cars: weighing costs and benefits, and seeking the highest return on their spiritual investment. Religious "producers", the erstwhile clergy, struggle to provide a "commodity" at least as attractive as their competitors'. Religion is advertised and marketed, produced and consumed, demanded and supplied.

One is tempted to dismiss such statements as a passing fad, misguided and possibly even pernicious symptoms of a materialistic age with little or no appreciation of religion's true nature. This response is, in my opinion, mistaken. The logic of economics and even its language are powerful tools for the social-scientific study of religion. Economic theory, or more precisely rational choice theory, offers a new paradigm in the sociology of religion, one that may eventually replace or encompass many of the generalizations and approaches now competing for researchers' attention. Rational choice approaches are both conceptually clean and empirically fruitful. They account for much of what is already known about religious participation, generate predictions that suggest new avenues for empirical research, yield policy implications about the welfare effects of governmental intervention in the religious marketplace, and forge links between religious research and a growing body of rational choice research on other "non-market" institutions and activities.

2. The Rational Choice Approach

The defining feature of rational choice theory is its assumption of maximizing behavior. Individuals weigh the anticipated costs and benefits of their actions and act so as to maximize net benefits. This assumption — whether stated in terms of utility, exchange ratios or self-interest — has been the subject of endless debate, and I leave it to others to argue its abstract merits. My own reasons for using it are more pragmatic than philosophical. I do not *know* that people truly are rational. I simply know that rational choice assumptions have borne considerable fruit in the social sciences, particularly economics; that rational choice theory is well suited to the task of building and testing formal models of human behavior; and that the rational choice approach to religion has until recently gone largely untried.

Rational choice theory assumes that people approach religion in the same way that they approach other objects of choice. They evaluate its costs and benefits and act so as to maximize their net benefits. Hence they *choose* what religion (if any) they will accept and how extensively they will participate in it. Nor are these choices immutable — people can and do change their religious identities or levels of religious participation over time. As in any other market, the consumers' freedom to choose constrains the producers of religion. Ultimately, it determines the content of religious commodities and the structure of the institutions that provide them. These effects are felt more strongly where religion is less regulated and, as a consequence, competition among religious firms is more pronounced.

The rational choice approach raises questions that we might otherwise ignore, questions such as: How do religious "commodities" differ from secular commodities? What are the costs, both direct and indirect, of different religions and different religious practices? How does social and technological change affect these costs? Do "cheap" religions, which promise much and demand little, enjoy more success than "costly" religions? Why are religious goods and services usually produced and consumed collectively; why are they not more often packaged and sold for money? What are the consequences of religious market structure; does it matter if a given market is monopolistic or competitive, regulated or free? And what outcomes — what costs and benefits, what styles of organization, what levels of activity — are consistent with "equilibrium" in a religious market? These are not the kind of questions that one can answer in the space of one paper, or perhaps even in the space of one lifetime. Nevertheless, an overview of some partial answers illustrates the power and potential of the rational choice approach.

3. Religious Commodities and the Problem of Risk

Underpinning the economics of religion is the concept of religion as a commodity. "Commodity" is a term that startles some and offends others, but it serves to identify religion as an object of choice, an object that exists because people produce it. This leads to fruitful questions about the nature of religious commodities and the conditions under which they are produced.

Religious commodities are not physical goods like cars or computers that can be manufactured, packaged and sold in stores. Nor are they services like haircuts or banking that we have others do for us. Rather, they fall into a third category that economists call "household commodities" – valued goods and services that families and individuals produce for their own consumption (Becker, 1976). Household commodities may be as concrete as meals and laundry or as abstract as relaxation and love. Like the products of a commercial firm, household commodities are produced with scarce resources – purchased goods, household labor and human skill. In a recent paper (Iannaccone, 1990) I argued the merits of a household commodity-oriented analysis of religious practice. That analysis accounts for many of the observed patterns in denominational mobility, religious intermarriage, conversion ages, the relationship between church attendance and contributions, and the influence of upbringing and inter-faith marriage on levels of religious participation. I will not restate the analysis here, but I mention it as an example of economics integrating numerous predictions within a single conceptual framework.

Unlike secular commodities, religious commodities rely on supernatural forces. This imbues them with unique advantages and disadvantages. On the one hand, they can offer the prospect of otherwise unobtainable rewards: eternal life, peace on earth, unending bliss. The persistence of death, war, and human misery need not invalidate these promises since their truth and fulfillment remain rooted in another reality. On the other hand, standing beyond the range of human evaluation carries a cost. Religious commodities are inherently risky. Their existence and efficacy must be taken on trust. Since people avoid risk just as surely as they seek rewards, religion presents people with a classic approach-avoidance dilemma. Insights from the economics of uncertainty help us analyze the activities and institutions that arise in response to this dilemma.

Consider a generic statement of the problem. Economists sometimes distinguish between "search" and "experience" goods. The former are goods whose quality can be readily assessed upon inspection; the latter must be purchased and consumed before their quality is known. Used cars are classic experience goods, as many a disappointed used-car buyer can attest. Since potential buyers are hard-pressed to determine the quality of a used car in advance of purchase, used-car sellers have an incentive to overstate the value of their merchandise and to disguise its true nature. Used-car buyers, in turn, are aware of the sellers' incentive to misrepresent their products and so will attempt to increase their stock of information and/or reduce their risk in many ways. They may demand guarantees, seek information from third parties, investigate the seller's reputation, and so forth. For their part, sellers also have an incentive to provide, or at least appear to provide, proof that their claims are true.

The uncertainty surrounding most religious goods is far greater than that which surrounds used cars. No amount of personal experience suffices fully to evaluate a religious seller's claims. Indeed, the sellers themselves often do not know that their claims are true. Hence we can predict the emergence of institutions and arrangements designed to increase information and reduce the likelihood of fraud. Examples are not hard to find. Testimonials are commonplace in religion and, predictably, are more common in those variants that place greater emphasis on material blessings. Testimonies are more likely to be believed when they come from a trusted source, such as a personal acquaintance or a respected figure. They are especially credible when testifiers have relatively little to gain (or better yet much to lose) from having their claims heard and believed. This helps to explain why the structure of religious firms is so often *congregational*. Fellow members are more trustworthy than strangers. They also have less incentive to overstate the benefits of the religion than do members of the clergy, whose livelihood depends on a steady stream of "sales". The clergy, in turn, are more persuasive when they do not benefit materially from their followers' faith. This fact may help to explain why clergy receive low salaries relative to their level of training. Citizens fully expect the managers of successful secular corporations to earn large salaries, bonuses and stock options; and they do not boycott a firm simply because its chief officers have grown rich from the sale of its products. But the same citizens view the officers of religious firms in a completely different light. They are disgusted and outraged when they hear of successful religious leaders amassing personal fortunes.

As these examples illustrate, economic analyses of religious risk help us to understand some "peculiar" features of religious institutions. These features function to reduce the risk of consumer fraud. They include: a minimal professional staff whose financial compensation is low and independent of customer contributions/payments; heavy reliance on part-time and volunteer workers (and thus reliance on payments of time and service rather than money); and a congregational structure, which limits the need for full-time professionals and provides a source of credible product endorsements.

4. Congregations and Free-Riders

Congregational structure has costs as well as benefits. It does indeed reduce the risk of fraud, thereby making religion more compelling and attractive, but it also makes it more vulnerable to "free-rider" problems. Free-rider problems are the Achilles heel of collective activities. These problems were first identified in 1965 by Mancur Olson and have been the focus of much economic, political and sociological research since then. They arise wherever individuals find it possible to reap the benefits of other people's efforts without expending a corresponding effort of their own. In such settings it is rational to sit back and "free-ride" rather than strive to serve the corporate interest.

One need not look far to find examples of anemic congregations plagued by free-riding – a visit to the nearest "liberal" mainline Protestant church usually will suffice. However, far more striking examples are found in communes and communal cults. In such groups, which can only survive with high levels of commitment, the costs of free-riding are laid bare. Consider, for example, the Shakers' problems with transient members, or the Moonies' struggles with "exploiters" who joined the movement for "inexpensive room and board, money, . . . or sex" (Lofland, 1977: 152). Hines (1983) and Kanter (1973) document the "commitment problems" plaguing most nineteenth-century communes. As Charles Guide observed, "these colonies are threatened as much by success as by failure . . . [for] if they attain prosperity they attract a crowd of members who lack the enthusiasm and faith of the earlier ones" (Kanter, 1973: 157–158). The same perverse dynamic threatens *all* groups engaged in the production of collective goods.

It would seem that religions are caught on the horns of a dilemma. On the one hand, a congregational structure which relies on the collective action of numerous volunteers is needed to make the religion credible. On the other hand, this same congregational structure threatens to undermine the level of commitment and contributions needed to make a religion viable. As I have argued elsewhere (Iannaccone, 1989, 1992), costly demands offer a solution to the dilemma.

The costs of which I speak are not the standard costs associated with the production or purchase of secular commodities. Rather, they are apparently *gratuitous* costs, sacrifice and stigma, foreign to most secular contexts: burnt offerings, which destroy valued resources; distinctive dress and grooming that invite ridicule or scorn; dietary and sexual prohibitions that limit opportunities for pleasure; restrictions on the use of modern medicine or technology. The list goes on. Such costs are present to some degree in all religions, but they are especially pronounced in cults and sects. Mormons abstain from caffeine and alcohol; Seventh-day Adventists eat no meat; Krishnas shave their heads; Moonies submit to arranged marriages; Jehovah's Witnesses refuse blood transfusions. On the surface it would seem that such demands must make a religion less attractive. And indeed, the economist's law of demand predicts just that, *ceteris paribus*, other things remaining equal. But in a group context other things do not remain equal.

Costly demands mitigate the free-rider problems that otherwise undermine a religious group. They do so for two reasons. First, they create a barrier to group entry, a barrier that screens out half-hearted members. No longer is it possible just to drop in and reap the benefits of attendance or membership. To take part, you must pay a price; you must accept the stigmas and sacrifices demanded of all members. Casual members are unwilling to bear these costs. High costs have a second effect. They stimulate participation among those who do join the group. They do so, not by somehow transforming human nature, but by increasing the relative value of group activities. For example, some social stigmas increase group participation simply by making it costly (or even impossible) to engage in activities outside the group. As the price of external activities rises, the demand for internal substitutes also increases. If we may not attend dances or movies, play cards, visit taverns or join fraternal organizations, we certainly will look forward to church socials.

Cost-benefit analysis thus reveals why membership in high-cost religions is often a "good deal". Costly strictures mitigate the free-rider problems confronting religious groups. Potential members are forced to choose: participate fully or not at all. The seductive middle-ground is eliminated;

average levels of commitment and participation increase; and, strange as it may seem, members come out ahead. Efficient religions may thus embrace stigma, self-sacrifice and bizarre behavioral standards; and perfectly rational people can be drawn to decidedly unconventional groups. This conclusion is in extreme contrast with the view, prevalent among psychiatrists, clinical psychologists, and the media, that conversion to religious cults or sects is inherently pathological, the consequence of psychological abnormality or coercive "brainwashing".

The proposed model of cost-induced commitment leads to a formal theory of church and sect (cf. Iannaccone, 1988, 1989). By characterizing numerous religious demands as functionally equivalent solutions to free-rider problems, the model implicitly categorizes religions according to the extent to which they limit the consumption opportunities of their members. Groups that demand similar levels of sacrifice should display similar behavior despite differences in organization, history, and theology. Mainstream "churches" and extremist "sects" thus emerge as analytically distinct modes of religious organization rather than ad hoc descriptive categories. And the empirical correlates of sectarianism — strict behavioral standards, dramatic conversions, high levels of religious participation, resistance to social change, lower-class and minority appeal — are shown to be formal consequences of a sectarian strategy. Empirical regularities that have fascinated sociologists for most of a century are thus derived from a single framework.

5. Religious Markets

Beginning with observations about rational choice and religious commodities, our analysis has led to insights concerning both religious consumers and religious firms. Economic thinking thus enhances our understanding at both the individual and group levels. Further insights emerge when we move to a higher level of aggregation and analyze the interaction among groups. The conceptual basis for this analysis is the economic theory of the market. The concepts of competition, monopoly and market equilibrium yield a provocative model of religious markets with testable predictions about the effects of religious pluralism (Finke and Stark, 1988; Iannaccone, 1991).

The working assumptions of economics imply that self-interest motivates clergy just as it does secular producers; market forces constrain churches just as they do secular firms; and the benefits of competition, the burdens of monopoly, and the hazards of government regulation are as real for religion as for any other sector of the economy. It follows that pluralistic competition stimulates religious markets just as it does secular markets, forcing suppliers to produce efficiently a wide range of alternative faiths well adapted to the specific needs of consumers. On the other hand, state-sponsored religious monopoly provides only the appearance of piety — an ineffective clergy and an apathetic population lie just below the surface.

Empirical evidence for these claims is beginning to appear on many fronts. Finke and Stark's (1988) analysis of church membership in turn-of-the-century American cities finds significantly higher rates of religious affiliation and Sunday school activity in cities with higher rates of religious diversity. My own cross-cultural study of religious participation in western developed nations finds significantly higher levels of church attendance and religious belief in countries, such as the US, with high levels of religious pluralism (Iannaccone, 1991). Similar patterns emerge within the denominations of a country. Average levels of religious belief and participation are consistently lower in the dominant groups, particularly those which enjoy financial and regulatory support of the state, than among the small denominations operating at the competitive fringe of the country's religious market. New research on the religious history of both Europe and America provides further support. It is becoming clear that Europe's so-called "age of faith" was in fact an era of widespread religious apathy (Wallis and Bruce, 1989) and that American rates of church membership and religious practice rose steadily as the established churches of the original colonies gave way to a free and increasingly diverse market of competing denominations.

6. Policy Applications

I asserted at the start of this paper that economic analysis addresses a number of policy issues in religion. I briefly review two such issues.

The first concerns government regulation of deviant religious groups, extremist "cults" and "sects" often viewed as a threat to individual and social welfare. Such groups, though small in numbers of actual members, have been highly visible in the media, public debate and legal disputes. Indeed, virtually all court cases (and hence legal precedents) regarding religion in America have centered on the practices of "deviant" or minority religions. A recurring issue in these cases has been whether participation in deviant groups constitutes enslavement to organizations bent on exploitation.

This concern is largely unfounded if the "cost and commitment" model of religious groups is correct. Within that model, the bizarre and apparently pathological practices of deviant groups are seen as the consequence of rational, utility-maximizing choices. Hence, cult membership cannot be viewed as a priori proof of pathology or coercion. Governmental regulation of religious cults will tend to reduce rather than increase social welfare, by stifling religious innovation, narrowing people's range of religious options, and placing many forms of religion beyond reach.

The second set of policy issues is related, but broader, and concerns the overall consequences of government regulation of religion. Economic analysis suggests that competition has the same beneficial effects in religious markets as elsewhere. It ensures the availability of a broad variety of different religious products, stimulates innovation and forces organizations to be responsive to their members and to make efficient use of their resources. In contrast, religious monopolies tend to be less diverse, innovative, efficient and responsive. Social welfare is thus fostered by governmental policies that maintain free and competitive religious markets. Conversely, governmental attempts to establish, regulate or monopolize religion tend to reduce social welfare.

7. Conclusions

This paper began with the assertion that rational choice theory offers an alternative paradigm in the sociology of religion. It then reviewed examples of rational choice approaches drawn from three levels of inquiry: individual, group, and market. Though by no means exhaustive, the examples demonstrate the range of problems that the approach illuminates and the benefits that the approach can provide. The benefits include systematic explanations for known empirical regularities; new predictions that challenge old theories and suggest new avenues for empirical research; and policy-relevant insights regarding the effects of governmental intervention in the religious marketplace. The rational choice paradigm has a long way to go before it replaces or encompasses the many approaches that currently characterize the sociology of religion. But as the examples in this paper illustrate, its potential to do so is real.

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