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# Smithian Perspective on the Markets of Beliefs: Public Policies and Religion

*José Atilano Peña López*
*University of A Coruña*
*Department of Applied Economics*
*Spain*

*José Manuel Sánchez Santos*
*Universidad de A Coruña*
*Department of Applied Economics*
*Spain*

This article studies the economic analysis of the religious facts present in Smith's work from the perspective of regulation economics. This marks the starting point of a new research program that focuses on the existence of markets of beliefs and questions the secularization processes and public performances on religion. In the first part, two basic problems are tackled: (1) the rationality of the agents within this market and (2) the economic effects of the different market structures on the behavior of the agents. The second part deals with the normative consequences that are possible from the previous exposition on the regulation of the markets of religion. Overall, our approach allows us to establish the fundamental components of the economic analysis of the religious facts and their consequences on that regulation.

## Introduction

The interaction between economy and religion is clearly bidirectional. On the one hand, the economy and, particularly, economic policy affect religious expressions and, on the other hand, religion influences economic behavior as well as the political and legal systems. The emergent paradigm of the economics of religion[1] adopts the first perspective in order to study the religious behaviors from the optics of rational calculation and the satisfaction of necessities, as opposed to other social sciences that, traditionally, have analyzed them either as a subrational category or as immune to the rational choice and therefore in decline. Thus, for the sociology of religion, especially for the defenders of the secularization hypothesis,[2] religious practice is condemned to suffer a strong fall in demand

and even to disappear with the generalization of socioeconomic development. Economics of religion, on the contrary, adopts a perspective of supply that questions the alleged decline of the demand; that is to say, it studies the markets of beliefs, putting forward an explanatory theory for the religious manifestations different from those of sociology, psychology, or anthropology.

In spite of the apparent novelty of this research program, the first study undertaken from this perspective can be traced back to the original work of economics as a science—Smith's concept of the wealth of nations (WN).[3] In fact, as we will analyze, the revision of this part of the Smithian work will be extraordinarily useful so as to understand this approach and the effects of public policies applied to religion and religious institutions.

Within the history of economic thought, Smith's work has been extensively applied to scopes outside the market, especially regarding the evolution and operation of social institutions.[4] To a certain extent, in addition to being hailed the first economist, he could be described as the pioneer of methodological imperialism of economics over the remaining social sciences. This author undertook one of the most in-depth analyses of the WN so as to study the operation of the religious institutions, wherein he attempts to reconcile the religious and moral market, taking economic motivations and incentives as starting points. In this section, the author of the WN is interested in two basic problems: (1) the economic incentives implied in belonging to religious groupings and (2) the economic effects of the different structures of markets of beliefs on the conduct of the agents.[5] Although he does not offer a general theory of the economic operation of religion, he nevertheless introduces the analytical elements of economics so as to study social facts, apparently unrelated to this discipline,[6] which will allow us to evaluate public policies.

This present work studies the Smithian perspective analyzing the effects of regulatory intervention made by the state on the "markets of beliefs." Our aim is to value the coherence of the Smithian system and to propose congruent solutions of economic policy for this matter. In order to carry out this task, the paper is structured as follows. In the second section, the main contributions of the Smithian work, largely unsurpassed both in the study of the markets and religious behaviors, are reviewed. In the third section, normative proposals raised by Smith himself extend our perspective to the analysis that the economy of regulation makes on the legislation about religious freedom. Finally, the main conclusions are drawn.

# The Markets of Beliefs: The Hume-Smith Controversy

Democratic experiences in Western nations have given rise to cultural tradition on the defense and limits of the right to freedom of expression. This matter has interesting effects for the economic analysis of legislation. However, economists have paid very little attention to the market of ideas, beliefs, and groupings and even less so to the effects of its legal regulations.

The manner in which truth arises from ideas in conflict is analogous to the competition in a market of goods and services, in fact, the metaphor "market of ideas" is rather appropriate. In this sense, it is surprising that all modern societies show a clear preference for the free market of ideas over against the traditional free market of goods and services. Both are in fact part of the general concept of freedom. Coase[7] attributes this incoherence to a particular interest that underlies the performance of a perfectly constituted group of pressure, the so-called intellectuals. However, to separate both fields is an error. Moreover, he affirms that the same considerations are taken into account for the market of goods and services and for the market of ideas and beliefs.

For the specific case of religion, all Western constitutions mention the establishment of freedom of exercise or some form of official religion. The constitutional preoccupation for this particular section of groups and beliefs within the market is striking. The historical conflicts among religious creeds have been one of the main causes of social and political instability throughout history in all parts of the world.

The main work by A. Smith approaches this analogy from the consequentialist perspective of "new" economic science to put forward the optimal regulatory interventions.

## The Hume-Smith Controversy

Religious fanaticism was pinpointed as one of the main concerns during the Enlightenment. The reason for this lay in the fact that congregations and sects showed a strong tendency to demand nonoptimal levels of discipline for their members, creating inefficient or even dangerous social tendencies. With the disasters of the Civil War in mind, Hume reacted by demanding a greater level of state regulation to restrain the excessive "religious enthusiasm." For this author, the particular interest of the clergy must be studied by the legislator. This group, considered to be more valuable and sacred, would instil the most violent hatred in their followers regardless of the truth, morality, and decency of their doctrine, thus instigating the disorders.[8]

In short, Hume argued that religious *laissez faire* generates negative externalities, that is to say, damage is done to the economic and political system that cannot be controlled by the market. The suppliers of these religious goods and services tend to spread fanaticism and hatred, in the form of competitiveness, within the members of the religious congregations, resulting in civil unrest and political instability. Consequently, the proposed solution would be, to establish a state religion, and the optimal policy for the governor would be to pay for the indolence of the preachers, assigning state wages that allow them to maintain their congregation in check and create a religion founded on public interest. Hume defended the establishment of a religion directly bound to and controlled by the state, where the clergymen were granted the status of civil servants. Economically, such a religion would be a monopoly directly financed by the state, which we could describe as public religion.

As a starting point, Smith uses the same premises as his master and even recognizes the necessity of a partial subvention for the activities of the clergy, yet openly rejects his conclusions. For him, the clergy of an established church would slip into indolence and would not care for the faith and devotion of the people. Although they would limit any form of fanaticism, they would also impede the existence of an efficient religious socialization and an effective system of social signalling. On the contrary, *laissez faire* in the religious market, would stimulate the particular interest of the clergy, their industry, and their fervor in trying to encourage devotion. Similarly, these conditions would aid the entrance of numerous groups in the market and the competition created by new members, thus adapting the supply to the community's changing religious necessities. This new situation would have beneficial effects for the state and for religious consumers (WN, V, 1, 3, 3, pp. 190–99).

The fundamental difference between both positions lies in the fact that Smith takes into consideration two additional assumptions. First, with nonintervention from the state, the church is not a natural monopoly because it displays increasing or at least constant costs without barriers of entry. That is to say, a larger organization does not mean a reduction of costs, and the appearance of new organizations can be almost spontaneous if no legal restrictions exist. Second, numerous small religious companies without privileges (sects in Smith's terminology) will have to face the competition (WN, V, 1, 3, 3, pp. 196–99).

If we interpret this line of argument with microeconomic theory, Smith is challenging a model of monopoly with one of perfect competition so as to defend the necessity of freeing churches and sects from the state in order to guarantee religious freedom and competition.[9] The constitution of a monopoly of beliefs will result in a lower level of religiousness and a greater cost to provide the service, whereas free competition among religious organizations (churches, orders, communities) guarantees a higher level of religiousness and a lower cost to provide the service. Under these circumstances, the problem does not arise from the competition between beliefs but from the support of a specific group by the state, which chooses to eliminate by diverse means any form of competition. Thus, religious conflicts are a problem of rent seeking among diverse political and religious factions, and the basis of these struggles is either to seek protection or to silence and disregard adversaries. On the contrary, without political intervention, each individual will choose the preacher and creed that has more affinity with his or her religious necessities; a breeding ground for pluralism and tolerance at its fullest (WN, V, 1, 3, 3, p. 197).[10]

As a result, for Smith, the solution to the problem of religious fanaticism is different from Hume's solution. The free entrance of religious and moral institutions into the market, including "philosophy and science," "the gaiety of public diversions," and in general those that remedy the negative effects of "an excess of religious enthusiasm and superstition" (WN, V, 1, 3, 3, pp. 203–6), will generate an optimum social equilibrium. This proposal is coherent with the rationality of the competitive markets, where the state should be limited to assure free concurrence and free entrance because a market tends to offer optimal levels of any goods and services. Even in our case, the market tends to balance laxity and excess moral rigor. Thus, an increase in the demand and relative price of the services of "actors and clowns" would give rise to an increase in the demand of religious discipline (WN, V, 1, 3, 3, p. 206). In the last analysis, we could state that for Smith, the state stops being a "supplier" of public morals and leaves this in the hands of society.

In short, Smith proposes an antitrust policy that separates the Church from the state and reacts to those wary of religious fanaticism, indicating that free trade in preaching will tend to generate a socially optimal level of religious doctrine. In other words, competition acts as a brake on fanaticism and religious intolerance.

> The teachers of each sect, seeing themselves surrounded on all sides with more adversaries than friends, would be obliged to learn that candour and moderation that is so seldom to be found among the teachers of those great sects whose tenets, being supported by the civil magistrate, are held in veneration by almost all the inhabitants of extensive kingdoms who therefore see nothing round them but followers, disciples, and humble admirers (.…) This plan of ecclesiastical government, or more properly of no ecclesiastical government (…) would probably have been productive of the most philosophical good temper and moderation with regard to every sort of religious principle. (WN, V, 1, 3, 3, p. 197)[11]

Probably these are the fragments of the WN in which Smith defends more strongly the "anarchism of the free market" by extending it to the scope of ideas and beliefs. However, Smith's thesis is remarkably more explanatory than Weber's,[12] inasmuch as the link between the economy and religion is not bound to changes of the perception of the being of man, as had occurred with the Protestant reform but that otherwise would be associated with the rupture of the religious monopolies.

However, Smith is considering an additional function of religion that would be favored by the existence of decentralized markets. The religious groups tend to produce and to distribute information regarding the moral trajectory of its members. This information is valuable because it reduces information and transaction costs, signalling to the potential agents the risks associated with a contract. Then, the religious grouping facilitates a system of reputational capitalization and contributes to a method of external signalling.

> A man of low condition as soon as he comes into a great city he is sunk in obscurity and darkness. His conduct is observed and attended to by nobody, and he is therefore very likely to neglect it himself, and to abandon himself to every sort of low profligacy and vice. He never emerges so effectually from this obscurity, his conduct never excites so much the attention of any respectable society, as by his becoming the member of a small religious sect. (WN, V, 1, 3, 3, p. 201)

If we take into consideration this line of argument from the viewpoint of religious thought, the ideological background of some Smithian ideas is evident. On the one hand, the constant presence of the spontaneous order in Smith's work is clearly tied to the idea of providence. On the other hand, the conviction that religious institutions constitute a constructive force in the evolution of the society is upheld; that is to say, they are part of the process marked by providence. Nevertheless, as with other expressions of the market, the dominance of a group and the inertia that this would generate could impede the constructive development of society (TMS, I, 2; WN, V, 1, 3, 3).[13]

In sum, religion and morals have a key role in the necessary social stability, but the basic condition is freedom, and this is only maintained in decentralized markets. In this sense, Smith defends a necessary separation of the different churches and religions from the state apparatus because they can be corrupted more easily, can act negligently in their social function (especially in instruction), and can even be dangerous if they take advantage of a dominant position. On the contrary, the multiplicity of groupings is not destabilizing as it also creates a new form of order as opposed to the confessions subsidized by the state. The latter one foments the intolerance and religious fanaticism as a strategy to defend their corner of the market, therefore putting up barriers to entry. At the same time, the official nature of religion leads to inefficiency in the administration and provision of services.

## Churches as Production Units

The previous considerations allow us to draw a parallel between the operation of churches and the units of production (companies). The concepts applicable to any market (benefits of the competition, monopoly's dead weight, dangers associated with regulation, and so forth) are also applicable to the religious context. Concretely, Smith states that the clergy of any established religious institution is a company that acts by mutual agreement in the search of a common interest under one general plan, as if directed by a single man (WN, V, 1, 3, 3, pp. 206 and 210).

In the study of the diverse religious markets, Smith centered his interest in the binomial Catholicism-Protestantism, the latter in its diverse expressions. However, with no wish for apology, he insists on a challenging experience, the surprising success of Catholicism in those days. The explanation lay in the organizational system of the Catholic Church and, consequently, the different management of the monopolies that characterized both. Although the Catholic Church was an established or governing grouping, the administration of its market was remarkably more efficient than other analogous ones; the members that occupied low positions in the "promotion ladder" depended on the provision of religious services for their subsistence, that is to say, they were given the correct incentives.

> The industry and zeal of the inferior clergy are kept more alive by the powerful motive of self-interest than perhaps in any established Protestant church. The parochial clergy derive, many of them, a very considerable part of their subsistence from the voluntary oblations of the people (…) The mendicant orders, Dominicans and Franciscans, derive their whole subsistence from such oblations. (WN, V, 1, 3, 3, p. 191)

Thus, the ambition of any clergyman leads him to contribute to the system from which he also receives his benefits because his income is not guaranteed. This is not the case of the Anglican Church.

With regard to their organization, Smith observes that the Catholic system can be likened to a national franchise of a multinational company. In fact, he compares it with the company of the eastern Indians, a company that in its time was similar to this structure. This analogy is based on the relative autonomy of national churches, watched over by a central organism that has the denomination of origin (Roman Catholicism), that are taxable. Given this multinational character, in whichever country its members are, they must obey the central power established by the organization. In addition, this multinational organization has an international strategy and is able to apply dumping prices in its extension toward other markets where it still does not have monopoly character (missions).

Additionally, within the realm of the Catholic Church, another form of competition persisted. First, religious monopoly can be accompanied by church-state competition—even a tradition of open confrontation with the state. In this sense, Smith implicitly assumes the existence of a duopoly between both institutions, and, in fact, the interpretation of church-state relations throughout history can be made through this theory because the church was able to compete with the coercive power of the state (WN, V, 1, 3, 3, p. 206).

However, despite the recognition of this organizational advantage, he also criticizes the coercive power of the Catholic Church and its monopoly within the religious market. In the period prior to the Reformation, this constituted a monopoly of supply in Europe because of the barriers that entry created (any competitor would be considered illegal as a heretic). From the perspective of economic analysis, this market power means a reduction in the quality and amount of religious goods and services and, logically, would lead to a reduction in the well-being of the consumers. At the same time, this power would allow the church to extract monopoly rents and to constitute itself as a rival institution of the state by jeopardizing political stability[14] (WN, V, 1, 3, 3, pp. 212–14).

In most cases, religious uniformity is the product of an external imposition. From the economic point of view, this is logical due to the absence of requirements for capital or the nonexistence of technological barriers or decreasing average costs. Consequently, the barriers to entry of a new religion are nonexistent, and only external impositions manage to create them. That is to say, to maintain their power of monopoly against the competing confessions requires the coercive power from an institution that uses force: the state. As Finke and Stark indicate, the natural state of religious economies is where there is a great variety of specialized religious groups attending different segments of the market. Nevertheless, when there is repression, the religions that compete with the state monopolies necessarily operate in "secrecy." Once this repression is eliminated, pluralism once again surfaces.[15] The analogy with the monopoly model can also explain the existence of price discrimination or the relations of the primary producer (the Vatican in the case of the Catholic Church) with the last distributors (parishes, monasteries, and convents) or with the state.

Nevertheless, it is necessary to remark that the monopoly model, albeit applicable to its situation in the Middle Ages, is not totally suitable to depict the present situation of religious markets, although it could be applied to its situation in the Middle Ages.[16] The most appropriate scheme that Smith is considering for understanding the defects of the religious market in Western Europe is the one that contemplates the existence of a heavily subsidized dominant church, controlled by the state and, in its periphery, a high number of small companies in competition and with clear disadvantages.

This model of public religion is very similar to the most pervasive educational model in Western economies. Under a public-education model, the state or its subcontracted companies offer a subsidized service. In a scenario bearing these characteristics, the cost of the provision of the service is financed partially or totally through taxes from the general population and the quality of the suppliers, whose qualifications and products are strictly regulated. Alternative suppliers, however, are tolerated but find important barriers to entry.[17] In fact, Smith establishes a parallelism between the study of the behavior of these institutions and its financing and the case of religious instruction. Churches likened to institutions of social instruction with clear externalities, and religion could constitute a merit want (WN, V, 1, 3, 3, p. 190).[18]

However, there are important differences between religious instruction and general instruction. Smith did not fear a situation of production below the necessities of this kind of service in quantitative terms. On the contrary, the natural tendency of religion to constitute communities would give rise to multiple groups that facilitate the free election of confession, providing no religious monopoly existed. Therefore, it is not necessary to guarantee the access of all the social groups with state subsidies.

The state financing, from this perspective, can imply a greater inefficiency and a reduction in the amount and quality of religious services. On the one hand, public religion limits the range of options available to citizens, thus limiting competition and substitution. On the other hand, the public religious institutions can become mechanisms of political indoctrination.[19] In addition, and since obligatory participation is not common in the case of religion, we could deduce that in the cases where this market structure exists, they are usually associated with a low level of believer participation and involvement, that is to say, an apparent reduction in demand.

Smith's hypothesis on religion has been verified repeatedly from an empirical point of view. In general, those markets with a greater competition of confessions and lower barriers to entry showed higher levels of religious participation and commitment than those dominated by confessions in a monopolistic regime.[20]

In sum, Smith argued that market forces condition the behavior of churches, as with any other company, so that the benefits of competition, the loads of the monopoly, and the problems derived from government regulation are a reality both for religion and for any other sector of the economy.

## Economic Policy and the Markets of Religious Confessions

It can be deduced that Smith marks the starting point of a research program of the markets of beliefs or ideas. In all markets, freedom of choice by consumers restricts the performances of producers; in this way, a specific religious company will only flourish if it generates merchandise that is as attractive as its competitors, and, therefore, a situation of perfect competition will drive these companies to efficiency and the suppression of any excess profit caused by monopolistic privileges.

If we accept the Smithian thesis, competition in any market has the same beneficial effects because there is guaranteed access to the accessibility to an ample range of suppliers, thus stimulating innovation while forcing organizations to make efficient use of their resources. On the contrary, religious monopolies tend to be less diverse, innovative, and responsible, similar to any public regulation that increases the barriers of entry and reduces the accessible options, thus reducing the social welfare. Then, this well-being is increased using policies that maintain free competition not only in religious markets but also in the markets of moral, political, and social groupings in general.

### The Regulation of the Markets of Religious Beliefs

In the sphere of the constitutional treatment of religion, the most studied case is the First Amendment of the U.S. Constitution. This norm is almost inaugural, introducing the lay character of the state and has served as a blueprint for a good part of contemporary Western constitutions.

The common denominator of the vast majority of these legislations is that they include a double dimension: They prohibit the elaboration of a specific law that establishes the official nature of a religion (nonofficial clause or free establishment) or interferes with the free exercise of a religion (freedom of exercise clause).

The clause of free establishment is interpreted as a prohibition of direct or indirect support to the establishment of a particular church. Consequently, religious rivalry and diversity is impulsive; any type of public aid would mean favoring the established majority groups that are politically oriented and have an influential impact. In addition, as we can predict from the previous section, the apparent irreligiousness of the applied policies would generate a surprising religious vitality. Thus, in the case of the United States, the judicial sentences that are specially characterized for their secularism and that reject religion as part of the state agenda, have been generating an increase in demand for religious institutions. The norms referring to the free exercise, on the other hand, prohibit the government to use its power and resources to damage or benefit religion and religious institutions. In accordance with this second clause, the impact of the governmental actions on religious practice must be diminished and can be justified only by virtue of a relation of inevitable conflict with a public aim, so as to diminish any collateral effect.

This judicial position is totally coherent with the Smithian approach. In fact, if the governments undertook the defense of the values of a Christian regime, the individuals would obtain fewer benefits for belonging to a religious community. At the same time, when resigning to the presence of religious elements in education, the individuals would increase the demand of this service as provided by these social organizations. In sum, any form of restriction will be motivated more so by private interest than by public values, such as the truth.[21]

In this sense, it is possible to distinguish two possible elementary types of control in the markets of ideas. The first form of regulation is censorship that constitutes a form of *ex ante* regulation to avoid damaging the diffusion of an erroneous idea. Nevertheless, with economic and human development and political stability, the dangers of freedom of expression have decreased notably. In the present circumstances, it seems more opportune to trust on an *ex post* regulation that exerts control on those groups and ideas that are punishable. However, the limitations of regulation within these fields would have to be stricter based on the greater probability of obtaining external benefits. For example, at one extreme is the most important protection of freedom of expression in the scientific and artistic fields, only limited by the intellectual property. At the other extreme are ideas and groups that can generate negative externalities or satisfy undesirable needs.

In this way, both dispositions (free establishment and exercise) constitute a free religious market. Indeed, even the clause of free exercise can be understood as a logical complement of the definition of political neutrality and both are correctly interpreted from the antitrust policy viewpoint. Then, the state would have to limit the regulatory activism to the control of the exercise of free competition in the market of beliefs because promoting moral values is not a direct task of the state.

In fact, if the state did so, it would act as an inefficient substitute for the moral suppliers, thus weakening moral institutions and slanting them politically.

## Neutrality Policies

Although the spirit of the clauses of free establishment and exercise both search for the neutrality of public performances with respect to the diverse confessions, a strong indetermination on what is understood by neutrality persists. In this sense, the study from the point of view of regulation economics of the political decisions is enlightening. As the previous clauses contain an implicit prohibition of subsidies and imposition on this type of activity, they also include antitrust legislation.

Legally, the religious institutions are nonlucrative associations of individuals who, sharing a common dogma, provide a service (moral, educational, welfare). Similar to other organizations, they consume resources that, in principle, they obtain from their members, and they generate positive social externalities by increasing the level of well-being of members and subjects pertaining to a more or less ample community.[22] What is more, we can highlight that this type of expression of beliefs has characteristics of public goods because they are indivisible in their diverse manifestations and nobody can be excluded from the social benefits. Nonexclusion alludes to the impossibility of isolating the benefits because although the main beneficiaries are members, the rest of the society indirectly can perceive some effects without compensation.[23]

The problem here is defining a neutral regulatory policy[24] that allows religious institutions to compete among themselves and with secular institutions in the provision of moral values and diverse social services. Probably the best alternative is to define a neutral margin as a criteria for dealing with religious and secular institutions. That is to say, the state cannot promote incentives or demotivate secular or religious nonprofit organizations.[25]

With regard to this last characterization of neutrality, we find three basic objectives in the public performance: (1) the state must diminish the effects of public policy on the religious field, (2) the religious groupings can be granted different treatment with respect to other types of organizations only when it is necessary to diminish the effects of other policies, and (3) public aims should not integrate aspects that are harmful for any institution of this kind. In short, the government does not have the prerogative to foment it or to attack it.

For instance, neutrality means that churches can receive subsidies or be taxed by the government but only when the consequences are neutral with respect to similar nonprofit institutions. The problem arises when these institutions compete with secular-lucrative institutions with the advantages of nonprofit status.

Concerning the finality of neutrality in public policies, the greatest controversy has been generated on financing religious education. The fact is that refusal to subsidize these schools would act as an incentive for secular education, thus harming religious institutions. Evidently, it is not precise to expound the reasons for subsiding educational activities; it is sufficient to consider its social character of merit want and its externalities. Of course, there is no reason to believe that the religious education involves a reduction of externalities generated by this process because they are based on knowledge and abilities within a common curricular nucleus. What is more, to force individuals to pay taxes and to deny financing to religious education can imply a systematic transfer of resources, which would be discriminatory.

As an alternative, it would be possible to defend the effectiveness of policies that separate the functions. Nevertheless, the subject is more complex because we would find a problem of joint costs in the production of two differentiated outputs because the students perceive both religious and secular education simultaneously. The traditional answer from economics is the establishment of a price system according to the Ramsey criteria,[26] where the price of each product is fixed according to the elasticity of its demand. Thus, the highest price would have to be charged on the product that displays a smaller elasticity and then would have to cover a greater part of the joint costs. In our example, secular education is much more inelastic than the religious one and would have to bear a greater percentage of the total expenses. However, in our opinion, a significant problem can be detected with regard to the measurement of the elasticity of both goods.

If the alternative was a total refusal to support the joint costs because it is an indirect way "to guarantee" independence by covering the cost of religious institutions, this option would hinder this educational model, as religious rather than secular formation would be more expensive.

On the contrary, a system of prices based on avoided costs or, similarly, the costs that the supplier (the state) saves would not be a subsidy but a complete financing because the value of the buyer greatly surpasses the price of the product.

Additionally and probably the best criteria that could be adopted is based on observing who the final beneficiary of a political measure is. The support of a certain group or activity can imply comparison with respect to others. Taking up once again our initial exposition regarding neutrality, it is possible to make a distinction between the measures that constitute a tax on religion, and therefore hinder this type of behavior, by demotivating it. As a consequence, these types of activities could be taxed based on two conditions:

1. Any tax burden on a religious group must be shared by all nonlucrative activities, including leisure. In this way, taxation will create neither an incentive nor an obstacle. In economic terms, it is necessary to avoid the substitution effect.
2. The establishment of a charge must be analyzed in connection with the services provided and generate any form of systematic redistribution between religious and nonreligious groups.

Thus, the government cannot use membership as a criterion to define an action for economic policy. In short, neutrality in economic terms means that policy should not introduce any unjustifiable cost on the exercise of a form of belief that may generate distortions in the microeconomic decisions, ensuring the free evolution of the market in the Smithian sense.

## Conclusion

Smith's work has a foundational nature for the new paradigm of the economics of religion, which is the economic analysis of the religious behaviors of the agents and religious institutions. A revision of book 5 of the *Wealth of Nations* allows one to propose a first theory on markets of religious beliefs and churches as production units. At the same time, Smith makes an initial exposition on the signalling capacity of this type of organization on the moral aptitude of the individuals.

Gathering both arguments, religion plays a vital role in the creation of the moral constitution of the market system to such an extent that it establishes a bond between economic freedom and religious-moral freedom. An economy would be more efficient if free market religious services existed. This perspective of religious fact leads necessarily to a revision of the public policies related to this field. Like any other market, the regulation can highly influence its evolution. In our case, an effective antitrust law as well as an economic policy that guarantee neutrality with respect to this type of institution would improve the efficiency of all religious institutions.

Along the same line and from the point of view of regulation economics, it is possible to conclude that a constitutional text should guarantee political neutrality so as to ensure efficiency in the production of the services that the institutions provide. This analysis neither covers nor does it tackle the authentic nature of religious fact. Nevertheless, it constitutes a solid paradigm so as to understand the operation of churches as social organizations. The consequentialist point of view that characterizes economic science advocates the necessity of an authentic religious freedom and a neutral public policy with respect to religious beliefs, where these are treated like any other nonlucrative organization. Then policy should be secular but not laic.

## Notes

1. L. Iannaccone, "Introduction to Economics of Religion," *Journal of Economic Literature* 36 (1998): 1473–1507 and R. S. Warner, "Work in Progress Toward a New Paradigm for the Sociological Study of Religion," *American Journal of Sociology* 98 (1993): 1044–93.
2. The deductive logic of this hypothesis is remarkably simple. Economic development entails a series of changes: growth of per capita income, education, urbanization, and life expectancy, as well as change in the natality and the demographic structure. All these transformations would converge in a gradual reduction of the levels of religious practice, thus the religious services will experience a smaller demand and churches will lose capacity of social and political influence. Furthermore, they will reduce membership costs or exigencies to its members. Nevertheless, those investigators who tried to analyze the characteristics of new forms of experience and religious participation under these schemes were not able to integrate the new situation by trying to incorporate new expressions of religiosity using *ad hoc* hypothesis. For example, a classic contribution in this line is P. Berger, *Sacred Canopy: Elements for a Sociological Theory of Religion* (New York: Anchor, 1990).
3. A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 5th ed. (London: Methuen, 1904), commentaries by E. Cannan; hereafter WN. All quotations are extracted from the classic Cannan edition; A. Smith, *Essays in Philosophical Subjects*, in *The Glasgow Edition of the Works and Correspondence of A. Smith* (Oxford: Oxford Clarendon Press, 1980); A. Smith, *Lectures in Jurisprudence* (Oxford: Oxford University Press, 1978); and A. Smith, *The Theory of Moral Sentiments* (Indianapolis: Liberty Fund, 1969); hereafter TMS.
4. N. Rosemberg, "Some Institutional Aspects of the Wealth of Nations," *Journal of Political Economy* 68 (1960): 557–70.
5. Although this approach to the problem is dispersed in his work, the most direct references are within book 5 of WN in the section dedicated to the expenses of the sovereign and more concretely in the instruction expenses of people of all ages and conditions.
6. G. M. Anderson, "Mrs Smith and the Preachers: The Economics of Religion in the Wealth of Nations," *Journal of Political Economy* 96 (1988): 1066–88.

7. R. H. Coase, "The Market for Goods and the Market for Ideas," *American Economic Review* 64 (1974): 384–91. Also, A. Director, "The Parity of the Economic Market Place," *Journal of Law and Economics* (1964): 7, 1–10.

8. D. Hume, *History of England*, vols. 4 and 29 (Indianapolis: Liberty Fund, 1983). This is a common argument used in psychology in its eagerness to "deprogram" behaviors that are considered pathological; religion being one behavior found within that category. Philosophers and legislators of diverse directions have maintained similar opinions, even in our day.

9. Implicitly, Smith is assuming normality in the demand of religious goods and services, and hand in hand with this, that this demand has a natural or noninduced character.

10. The economics of the monopolization of beliefs is interesting, see E. G. West, "A. Smith's Economics of Politics," *History of Political Economy* 8 (1976): 515–39.

11. It is important to consider the fact that he is taking into account the most recent experiences in the colonies, concretely Pennsylvania. The reference to the case of the United States, taken up again by A. Tocqueville, has become paradigmatic of the effects derived from the introduction of religious freedom. K. Olds, "Privatizing the Church," *Journal of Political Economy* 102 (1994): 277–97.

12. M. Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: Scribner's Press, 1958). The Weberian thesis is hindered by the objections of traditionally Catholic countries that can be considered as firstcomers to capitalism; for example, the Belgian case. The Smithian proposal would allow a complementary explanation of these characteristic outliers.

13. R. Klay and J. Lunn, "The Relation of God's Providence to Market Economies and Economic Theory," *Journal of Markets and Morality* 6, no. 2 (2003): 541–64; and A. M. C. Waterman, "Economics as Theology: Adam Smith's Wealth of Nations," *Southern Economic Journal* 68, no. 4 (2002): 907–21.

14. Anderson, "Mrs. Smith and the Preachers."

15. U.S.A., after the independence of England and Japan, after the loss of official Shintoism with the end of World War II are paradigmatic cases; R. Finke and R. Stark "Religious Economies and Sacred Canopies: Religious Mobilization in American Cities," *American Sociological Review* 53 (1988): 42–63.

16. R. Ekelund, R. Herbert, and R. Tollison, "An Economic Model of Medieval Church," *Journal of Law, Economics and Organization* 5 (1989): 307–31.

17. In this sense, factors such as social dominance of religious education, traditions, and so forth are important barriers of entrance for any other confession.

18. On this matter, Smith recognizes that religious instruction could be privately financed and receive the benefits derived from it (WN, 5, 3, 3, p. 695). This affirmation is used by Anderson, "Mrs. Smith and the Preachers," and West (G. West, *Adam Smith and Modern Economics* [Aldershot: E. Elgar, 1990]) to defend that Smith decidedly favored the private financing of these institutions. Nevertheless, as it is remarked in Leathers and Raines (C. G. Leathers and J. P. Raines, "Adam Smith on Competitive Religious Markets," *History of Political Economy* 24 [1992]: 499–513; C. G. Leathers and J. P. Raines "Adam Smith and Tomas Chalmers on Financing Religious Instruction," *History of Political Economy* 31, no. 2, [1999]: 340), Smith's motivations seem more complex than a simple defense of private financing. In fact, it would be taking into consideration two different factors: first, the appropriate amount and the generated type of instruction and, second, whether the income of clergy and professors are sufficient to generate the necessary incentives for the fulfilment of their duties.

19. These affirmations could also be deduced by analogy from the classic works on the problem of the public education: J. Lott, "Why Is Education Publicly Provided?" *Cato Journal* 7 (1987): 475–501; E. Hanushek, "The Economics of Schooling," *Journal of Economic Literature* 24 (1986): 1141–77; S. Peltzman, "The Effect of Government Subsidies in Kind on Private Expenditures: The Case of Higher Education," *Journal of Political Economy* 81 (1983): 1–27.

20. L. Iannaccone, "Religious Market Structure," *Rationality and Society* 3 (1991): 161–64; L. Iannaccone, "The Consequences of Religious Market Structure," *Rationality and Society* 3 (1991): 156–77; L. Iannaccone, "Deregulating Religion: The Economics of Church and State," *Economic Inquiry* 35 (1997): 111–23; and L. Iannaccone, "Toward an Economic Theory of "Fundamentalism," *Journal of Institutional and Theoretical Economics* 153 (1997): 111–12.

21. R. Posner, "The Law and Economics Movement," *American Economic Review* 77 (1987): 9–12.

22. In our case, religious confessions develop social activities that can result in benefits that are not limited to their members but that revert to a part of society (social instruction, formation in values, social and moral capital).

23. A. Mittleman, *Religion as a Public Good: Jews and Other Americans on Religion in the Public Square* (New York: Rowman and Littlefield, 2003).

24. M. W. McConnell and R. A. Posner, "An Economic Approach to Issues of Religious Freedom," *The University of Chicago Law Review* 56 (1989): 1–60.

25. For example, the clause "freedom of the press" guarantees a certain degree of independence. Nevertheless, an essential difference appears in our case because the government can establish subsidies for the press, although this is not possible

for the religious activities in general because it would mean stimulating this type of behavior as opposed to a secular kind.

26. F. P. Ramsey, "A Contribution to the Theory of Taxation," *Economic Journal* 37 (1927): 47–61. Also, S. E. Pudney, "An Empirical Method Approximating the Separate Structure of Consumer Preferences," *Review of Economic Studies* 48 (1981): 561–87.