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ADAM SMITH ON COMPETITIVE RELIGIOUS MARKETS:  
PREACHING ABOUT PREACHERS?

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I. Introduction

Anderson (1988) and Rosenberg (1960) have provided substantial insights into Adam Smith's economic analysis of religious behavior. In particular, both emphasized Smith's optimistic view of competitive religious markets. As an addendum, this paper investigates more closely the theoretical basis for Smith's prediction that optimal religious doctrine and institutions would spontaneously evolve in free markets for preachers.

Anderson argued that while Stigler (1982) correctly noted Smith's episodes of economic "preaching," Smith deserves credit for his "bold extension of economic analysis into an area of human behavior traditionally thought to be beyond the boundaries of economic science: religion" (Anderson 1988, p. 1067). Yet, in predicting optimal outcomes in competitive religious markets Smith may have been "preaching" about preachers. More specifically, Smith failed to offer a viable theory of efficient competitive markets for preachers as a basis for such a prediction.

Our purpose is to explain the nature of that failure. We draw from Rosenberg's article Smith's principle of

optimal rewards and show that optimality in the structure of clerical incomes is a necessary condition for the predicted optimal religious doctrine and institutions. Subsequently, we note Smith's conception of optimal clerical incomes, and find that his theoretical framework was not sufficiently specified to predict optimal outcomes when clerical incomes are derived from voluntary contributions. The deficiency lies in the absence of an institutional mechanism that would guide clerical incomes to optimal levels.

## II. Smith's Principle of Optimal Rewards

Smith described religious instruction (or "instruction of people of all ages") as "a species of instruction of which the object is not so much to render the people good citizens of this world, as to prepare them for another and better world to come" (1937, p. 740). Nonetheless, his economic analysis of religious instruction revealed significant influence on behavior of individuals in this world, e.g.: "Smith noted that one of the most economically significant functions of religious belief was to provide strong incentives to follow moral strictures that helped to support civil society, that is, honesty, benevolence, restraint from violence, and so forth" (Anderson 1988, p. 1069).

In the case of religious behavior, Smith's "economic imperialism" (Anderson 1988, p. 1067) manifested from his interest in the alternative methods by which institutions for religious instruction could be financed. The use of

public revenues could be justified on an economic basis. But private funding by voluntary contributions, which would keep alive the "powerful motive of self-interest," had greater merit.

The expence of the institutions for education and religious instruction, is . . . , no doubt, beneficial to the whole society, and may, therefore be defrayed by the general contribution of the whole society. This expence, however, might perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who received the immediate benefit of such education or instruction, or by the voluntary contributions of those who think they have occasion for either the one or the other  
(Smith 1937, p. 768)

Smith was highly optimistic about the social benefits of free competition in markets for preaching, with government maintaining a strictly laissez faire policy toward all religious sects. Rather than encouraging religious fanaticism, intolerance, and exploitation of a credulous public, "free markets in preaching tended to generate socially efficient doctrine" (Anderson 1988, p. 1073) and "to provide optimal religious institutions" (Anderson 1988, p. 1078).

In essence, Smith envisioned a long-run equilibrium in competitive religious "markets." He predicted that small independent sects would emerge, similar in several respects

to the small firms in perfectly competitive formal markets. No single sect "could be considerable enough to disturb the public tranquility," and "the success of no one teacher, or sect of teachers, could ever be very great" (Smith 1937, pp. 744-745). Religious competition would take the impersonal form characteristic of perfectly competitive markets. Each religious instructor, being virtually alone, would be forced to adopt a tolerant attitude of "live and let live" toward other sects.

Smith also predicted that the doctrines of all religious sects might be reduced to a "pure and rational religion, free of every mixture of absurdity, imposture, or fanaticism," reflecting "the most philosophical good temper and moderation" (1937, p. 745). That convergence of religious doctrines in a "pure and rational religion" suggests the homogeneity of outputs in perfectly competitive markets.

Anderson (1988) explained why the type of religious doctrine and institutions that Smith predicted would emerge spontaneously under "free markets in preaching" would be socially optimal (p. 1073 and p. 1078).

"Pure and rational religion . . ." is optimal in the sense that it is most consistent with the efficient operation of the economic system, because it tends to produce changes in individuals that facilitate their participation in the contractual order of the market economy. "Philosophical good

temper and moderation" are necessary prerequisites for the peaceful functioning of the division of labor; "the grossest delusions of superstition" . . . are inconsistent with the rapid progress in pure and applied science (Anderson 1988, p. 1074).

Anderson's investigation of the allocative efficiency implications of Smith's theory of competitive religious markets strongly complemented Rosenberg's earlier article (1960), which called attention to Smith's concept of optimal clerical incomes. Rosenberg dealt generally with Smith's interest in identifying institutional arrangements that would induce optimal intensity of effort on part of the human agents in the production processes while simultaneously guiding those efforts in socially optimal directions (pp. 559-560). Smith's view of individuals as driven by self-interest in a "constant, uniform and uninterrupted effort" to improve their own conditions is routinely noted in secondary literature. But Rosenberg observed that Smith also perceived individuals as being prone to slothfulness, indolence, and self-indulgence, "naturally deceitful and unscrupulous," tending to use "bad" rather than "good" instruments unless otherwise restrained by institutional structures (Rosenberg 1960, pp. 557-558).

The Smithian key to optimal productive efforts by the human agents is an institutional order that assures optimal incomes.

The ideal institutional order for Smith is one

which places the individual under just the proper amount of psychic tension. The individual applies himself with maximum industry and efficiency when the reward for effort is neither too low (slaves, apprentices) nor too great (monopolists, landowners) (Rosenberg 1960, p. 559).

Given the appropriate set of institutions, ". . . the conflicting forces which motivate men to act really establish an optimal income in all economic activities" (Rosenberg 1960, p. 558).

Smith's criterion for income optimality may be referred to as his principle of optimal rewards. A generalized expression of that principle appears in THE THEORY OF MORAL SENTIMENTS:

. . . Every virtue naturally meets with its proper reward, with recompense which is most fit to encourage and promote it; and this too so surely, that it requires a very extra-ordinary concurrence of circumstances entirely to disappoint it (Smith 1966, p. 236).

The most explicit statement and application of the principle, however, appear in WEALTH OF NATIONS in the section on financing religious instruction:

The proper performance of every service seems to require that its pay or recompense should be, as exactly as possible, proportioned to the nature of the service. If any service is very



much under-paid, it is very apt to suffer from the meanness and incapacity of the greater part of those who are employed in it. If it is very much over-paid, it is apt to suffer, perhaps, still more by their negligence and idleness (Smith 1937, p. 766).

Smith's evaluation of the relative merits of private versus public funding of religious instruction was guided by his own interpretation of how the principle of optimal rewards applied in the case of clergymen. That optimal incomes for religious instructors is required for long-run equilibrium in competitive religious "markets" is clearly indicated by Smith's declaration that: "Each (religious) teacher would no doubt find himself under the necessity of making the utmost exertion, and using every art to both preserve and to increase the number of his disciples" (Smith 1937, pp. 744-745). In Smithian theory, clergymen could be expected to make the "utmost exertion" only if their incomes were at optimal levels.

### III. Optimal Clerical Incomes

Smith's prediction of optimal outcomes in competitive religious markets rested on an expectation that (1) financial dependency upon voluntary contributions would somehow result in optimal clerical incomes, thus assuring optimal intensity of effort by religious instructors, and (2) the disciplinary forces of competition among the numerous small sects would direct clerical efforts in a socially optimal direction.

But for a theory that validates such an expectation, Smith needed to (1) define optimality with respect to clerical incomes, and (2) identify an institutional mechanism that would tend to optimize clerical incomes derived from voluntary contributions toward optimal levels.

Smith revealed the characteristics of optimal clerical incomes in reference to the established presbyterian churches in Scotland, Holland, and Switzerland. In contrast to his negative assessment of the behavior of the established clergy of the more affluent churches of Rome and England, Smith was rather profuse in his praise of the behavior of the presbyterian clergy. In all the presbyterian churches where the rights of patronage were thoroughly established, the clergy generally endeavored to gain the favor of their superiors by "nobler and better arts," by their learning, the irreproachable regularity of their life-styles, and the faithful and diligent discharge of their duties. Indeed, Europe was unable to present a more learned, decent, independent, and respectable set of men (Smith 1937, p. 762).

The factor responsible for the presbyterian success was the sizes of the benefices accorded the clergymen.

Smith seems to feel that the mode of payment devised by the Presbyterian clergy struck just that optimal balance between underpayment, which drove the mendicant orders to that excessive and misplaced zeal which Smith likened to a plundering

army and overpayment from large independent endowments, which was so often responsible for indolence, negligence, and 'contemptuous and arrogant airs' (Rosenberg 1960, p. 568).

In comparison to the benefices of the churches of Rome and England, the presbyterian benefices were small and relatively equal. But those characteristics proved virtually ideal. Differentials between benefices were not sufficiently large to tempt even the recipient of the smallest to resort to the "vile arts of flattery and assentation" in an effort to secure a better appointment from his patron. Smith was quite explicit in specifying that optimal clerical incomes must be relatively small:

A man of large revenue, whatever may be his profession, thinks he ought to live like other men of large revenues; and to spend a great deal of his time in festivity, in vanity, and in dissipation. But in a clergymen this train of life not only consumes the time which ought to be employed in the duties of his function, but in the eyes of the common people destroys almost entirely that sanctity of character which can alone enable him to perform those duties with proper weight and authority (1937, p. 766).

Smith described at some length the advantages of a structure of clerical incomes exemplified by the presbyterian churches:

Where the church benefices are nearly all equal, none of them can be very great, and this mediocrity of benefice, though it may no doubt be carried too far, has, however, some very agreeable effects. Nothing but the most exemplary morals can give dignity to a man of small fortune. The vices of levity and vanity necessarily render him ridiculous, and are, besides, almost as ruinous to him as they are to the common people. In his own conduct, therefore, he is obliged to follow that system of morals which the common people respect the most. He gains their esteem and affection by that plan of life which his own interest and situation would lead him to follow. The common people look upon him with that kindness with which we naturally regard one who approaches somewhat to our own condition, but who, we think, ought to be in a higher. Their kindness naturally provokes his kindness. He becomes careful to instruct them, and attentive to assist and relieve them. He does not even despise the prejudices of people who are disposed to be so favourable to him, and never treats them with those contemptuous and arrogant airs which we so often meet with in the proud dignitaries of opulent and well-endowed churches. The presbyterian clergy, accordingly, have more influence over the minds of the common people than perhaps the clergy of any other

established church (Smith 1937, p. 762).

Possibly it might be argued that Smith was merely comparing established churches, and found the presbyterian churches preferable to the churches of Rome and England.

The most opulent church in Christendom does not maintain better the uniformity of faith, the fervor of devotion, the spirit of order, regularity, and austere morals in the great body of the people than this very poorly endowed church of Scotland. All the good effects, both civil and religious, which an established church can be supposed to produce, are produced by it as completely as by any other (1937, p. 765).

Such an interpretation, however, misses the critical point in Smith's economic analysis of religious instruction. As Anderson (1988) explained, Smith perceived social merit in the maintenance of "the uniformity of faith, the fervor of devotion, the spirit of order, regularity, and austere morals in the great body of the people."

In fact, the outcomes achieved by the established presbyterian churches were strikingly similar to those predicted by Smith to emerge under conditions of free competition. Not only were the presbyterian clergy maximizing effort, but the doctrines were universally appealing, suggesting the pure and rational doctrine that Smith predicted in a competitive religious "market."

It is accordingly in presbyterian countries

only that we ever find the common people converted, without persecution, completely, and almost to a man, to the established church (Smith 1937, p. 762).

Even the Swiss laws requiring memberships in the established presbyterian churches, with non-members being obliged to leave the canton, reflected a lack of coercion necessary to retain members of those sects.

In the great part of the protestant cantons, there is not a single person to be found who does not profess himself to be of the established church. If he professes himself to be of any other, indeed, the law obliges him to leave the canton. But so severe , or rather indeed so oppressive a law, could never have been executed in such free countries, had not the diligence of the clergy before-hand converted to the established church the whole body of the people, with the exception of, perhaps, a few individuals only (1937, pp. 765-766

### III. Income Optimality in Competitive Religious -Markets'

Given Smith's conception of optimality in clerical incomes, his prediction of optimal institutions and doctrine ultimately rests on the presumption of an institutional mechanism in competitive religious "markets" which assures each clergyman an income optimally small and equal to incomes of all other clergymen. In formal markets for private goods, clerical incomes would be based on prices/wages established by supply and demand (i.e., prices

if clergymen are regarded as proprietors of the firms; wages if they are regarded as employees of the religious "firm.") But religious instruction provided through preaching is essentially a highly localized public good, and its financing by voluntary contribution is subject to the free rider problem. Smith's theory of free markets for preaching not only must explain why voluntary contributions will be forthcoming, but also why contributions to each independent sect would be exactly sufficient to assure optimal clerical incomes.

It can easily be argued that Smith's theory does meet the first requirement. Anderson (1988) noted that two monitoring mechanisms can be observed in Smith's economic analysis of religious instruction which would tend to discourage free rider inclinations on part of members of religious sects. One of those mechanisms involved external monitoring of individual members' activities by other members of the same sect.

Smith emphasizes that these 'small religious sects' are voluntary associations, whose chief form of sanction of their members is expulsion. He portrays these small sects as clubs that require their members to adhere to strict rules. These clubs serve to signal the upstanding moral character, trustworthiness, and honesty of their members and control free-riding by close monitoring of members' behavior (Anderson 1988, p. 1072)

In sufficiently small groups, external monitoring would induce members to make financial contributions. Failures to do so could be easily known and precipitate disciplinary actions, ranging from subtle peer pressure to the extreme of expulsion from membership in the sect.

In addition, Anderson (1988) noted that in *THE THEORY OF MORAL SENTIMENTS*, Smith described belief in God as constituting a kind of internal moral enforcement mechanism, as indicated in the following statements.

The sense of propriety too is here well supported by the strongest motives of self-interest. The idea that, however we may escape the observation of man, or be placed above the reach of human punishment, yet we are always acting under the eye, and exposed to the punishment of God, the great avenger of injustice, is a motive capable of constraining the most headstrong passions, with those who, by constant reflection, have rendered it familiar to them (Smith 1966, p. 241).

Elsewhere in *THE THEORY OF MORAL SENTIMENTS*, Smith speaks of the "all seeing Judge of the world whose eye can never be deceived and whose judgement can never be perverted" (Smith 1966, p. 187). As Anderson (1988) noted, this "Judge" is expected to reward virtue and punish vice, even if neither is recognized by fellow mortals (p. 1069).

This internal monitoring mechanism is of particular importance for the private financing of religious



instruction through voluntary contributions. Devout members of religious sects will tend to make financial contributions out of a sense of moral duty. Friedman (1986) explained the economics of this phenomenon in terms of religious radio programming, where the influence of external monitoring would be entirely absent.

If, as many radio preachers claim, donating money to their programs is a virtuous act, then the program is no longer, for those listeners, a pure public good. The preacher may not know which listeners help pay for the show and which do not, but God knows. One of the benefits produced by the program is an increased chance of a heavenly reward; you are more likely to get that benefit if you pay for it. Thus religion provides a solution to the public-good problem (Friedman 1986, p. 427).

The two monitoring mechanisms discernible in Smith's theory only serve to encourage financial contributions from individuals who either stand to gain reputation (investment in human capital) from membership in the particular religious sect or are devout believers. Neither mechanism provides a counterpart to the competitive bidding processes in formal labor markets that push wages in Smith's theory toward "natural" rates. Moreover, neither monitoring mechanism would cause clerical incomes across all the many small independent religious sects to stabilize at optimally small and equal levels.

For any particular sect, total contributions would be a function of the number of members and the amount contributed per member. Smith's expectations of relatively small memberships in religious sects under a policy of laissez faire was no doubt realistic for the 18th century in view of the primitive state of communications and transportation. But even if all churches were of similar size in terms of memberships, substantial differences in contributions would be expected for two reasons: (1) economic ability to contribute varies substantially from community to community, and among groups within any given community; and (2) individuals' willingness to contribute would be heavily influenced by the proficiencies of clergymen in the arts of proselytization.

Smith's expectation of optimal clerical incomes in free markets for preachers would be valid if congregations of all small religious sects were equally affluent and all religious instructors were equally proficient in the "arts of popularity and of gaining proselytes" (1937, p. 757). But Smith was keenly aware that such equalities did not exist. In his discussion of religious instructions in *WEALTH OF NATIONS*, he explicitly recognized economic class differences, noting not only clerymen's tendencies to emulate the affluent classes if their benefices were too high, but also that different sets of morals appealed to different income groups (1937, pp. 746-747). In addition, he explicitly commented on the differing degrees of skills

and talents in the art of proselytization among the various clergymen (1937, p.741 and p. 757). These difference into question not only his expectation of optimal clerical incomes in competitive religious "markets," but also his expectation of the emergence of a "pure and rational" religious doctrine.

Clergymen who are exceptionally proficient in the art of proselytization and hold appointments in churches with affluent members may successfully solicit substantial contributions with relatively little effort. Moreover, since the morals of the more affluent groups tended (according to Smith) to be more lax than those of the less affluent groups, these same clergymen would not be expected to direct their efforts toward maintaining the devoutness, regularity of conduct, and sober behavior that Smith found so commendable on part of the presbyterian clergymen. Instead, the clergymen of the affluent congregations may be able to gain even greater contributions by alleviating any sense of guilt on part of contributors over their looser morals and frivolous conduct.

In contrast, many clergy with less affluent congregations may be unable to induce contributions sufficient for optimal incomes even if they maximize their efforts. Moreover, clergymen who are less proficient in the arts of proselytization may be inclined to resort to fanaticism and hostility toward other sects (especially more affluent sects) in efforts to increase the intensity of

emotions of their followers, and hence, to persuade those followers to contributed more substantially. Thus, the negative aspects of religious competition which both Smith and Hume feared could not be predicted to disappear.

From a modern perspective, the rather common practice of intra-denominational transfers from affluent churches to less affluent churches contributes to some degree toward a leveling of clerical incomes. But Smith's theory can not predict the spontaneous emergence of intra-denominational redistribution of revenues. Rather, the practice represents discretionary decisions by the more affluent churches, which may vary greatly from church to church. Indeed, the existence of large denominations with centralized financial structures tends to be at odds with Smith's prediction of many small independent religious sects in competitive religious "markets."

#### V. Summary Statement

Our investigation of the theoretical basis for Adam Smith's prediction that free markets for preachers would lead to optimal religious institutions and doctrine can be summarized as follows:

- (1) Within the context of Smith's theory, optimal outcomes in competitive religious "markets" required that clergymen receive optimal incomes in accordance with the principle of optimal rewards.
- (2) Smith described the particular characteristics of

an optimal structure of clerical incomes, although, paradoxically, his reference was to the established presbyterian churches of Scotland, Holland, and Switzerland.

- (3) Smith failed, however, to identify an institutional mechanism which would tend to establish clerical incomes derived from voluntary contributions at optimal levels, thereby leaving his theory of competitive religious "markets" inadequately specified to generate predictions of optimal outcomes.

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