Introduction
This paper explores Adam Smith’s model of competition and monopoly as applied to religious denominations. After briefly considering the nature of the times in which Smith was writing, his logic and the conclusions he drew regarding denominational competition are discussed. Smith argues that in order to appeal to the common person, new sects entering an open religious market tend to be more religiously (morally) conservative than longer-lived established denominations. Without low barriers to entry and competition, the majority of denominations tend to become liberal in their values. Subsequently, current evidence on the accuracy of Smith’s model is reviewed, and finally, consideration is given as to whether the existence of such competition furthers the Kingdom of God.

The conclusion is that as it does in product and resource markets, competition has a positive effect in the market for religious denominations, increasing church attendance, particularly among persons seeking church communities with more evangelical and fundamental Christian doctrines.

The Setting
Many economists are weak theologians, and many theologians are weak economists. Like most theologians, Martin Luther is a weak economist. In writing about trade and usury, for example, Luther singles out merchants whose common practice is to sell goods as dear as they can. For Luther, this “occasion is given for avarice, and every window and door to
hell is opened.” Obviously, such merchants do not care for their neighbor and have abandoned Christian love for greed. Luther believes merchants especially overcharge those persons whom they perceive must have their wares and/or buyers who are poor and need the goods.

Luther proposes to put these merchants and this trade on what he believes to be a fair and Christian basis. How will this be accomplished? Well, “... the best and safest way would be to have the temporal authorities appoint ... wise and honest men to compute the costs of all sorts of wares and accordingly set prices which would enable the merchant to get along and provide for him an adequate living.” He flirts with “price ceilings” and prices based upon labor invested (later the view of the classical economists). Luther’s “policies” regarding just prices exhibit the characteristics that made the socialist economics of Eastern Europe unsuccessful—a reliance on government, the temporal powers, as the source of “fairness.” Luther trusts that there are “wise and honest men,” uncorrupted by human nature, not now or ever susceptible to a bribe, uninfluenced by friendships and family relations that extend into various industries.

He assumes that these men know which commodities should be priced dear and which should be priced near costs and that these price decisions will have no impact on the future willingness of merchants to supply these goods.

Does Luther call for the guilds to be abolished so that the supply of candle makers or weavers can increase and drive down the price of these goods? Does Luther call for the abolition of customs duties on agricultural goods and other commodities brought into the town from other regions? Does he advocate lowering government taxes on essential goods and services so that the quantity supplied will rise? The answer is no.

This is not so much to criticize Luther, writing in the 1500s, as it is to emphasize what a departure Adam Smith’s views were from centuries of thinking on economic issues (many of Luther’s ideas extend back at least to Aristotle). Smith advocated competition as the key to keeping profits low and prices representative of the opportunity costs of the resources used in production. Smith did not disagree with Luther regarding the avaricious human nature of merchants and the business class, who continually conspire to raise prices to the unsuspecting public. His solution was far different, however—to achieve just prices, grow the class of entrepreneurs, remove barriers to entry to markets, reduce customs fees, and permit individuals access to education and financing. In other words, facilitate competition.

In his classic work, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Smith applies his competitive model to religious denominations. Is competition among religious denominations to be desired? The following section details Smith’s position.

**Competition and Religious Instruction**

In his day, Smith considered religious institutions to be the primary institutions for instruction of people of all ages and classes. His major distinction among denominations is the length of their existence (rather than, for example, financial support of a denomination from government), pitting the long established churches against the upstarts. The behavior of the two groups is significantly different, in part as a result of the differences in their self-interests.

If a denomination is successful enough to be dominant among the citizenry, it becomes advantageous for the political factions to align themselves with the denomination. Those denominations that are most successful in gaining influence and authority over the great body of people can then negotiate from a position of strength with the civil authorities. Their first demand is that the king or magistrate “should silence and subdue all their adversaries.”

Religious denominations see the value of monopoly as clearly as any merchant. Second, they want “some share in the spoil.” After all, like any merchant, the established denomination is “weary ... of humoring the people and of depending upon their caprice for a subsistence.”

Denominations depend for their subsistence upon the voluntary contributions of members and/or funds obtained through the law of their country such as a land tax, stipend, or established salary. The clergy of well-established and “well-endowed” denominations, especially those supported generously by the state, “frequently become men of learning and elegance” and “gradually lose the qualities, both
good and bad, which gave them authority and influence with the inferior ranks of people ... which had perhaps been the original causes of the success and establishment of their religion.” They have become “very learned, ingenious, and respectable men; but they have in general ceased to be very popular preachers.”

This tendency toward aristocracy of the ministry certainly rings true from Scripture where Christ tells us:

Then Jesus spoke to the multitudes and to His disciples, saying: “The scribes and the Pharisees sit in Moses’ seat. Therefore whatever they tell you to observe, that observe and do, but do not do according to their works; for they say, and do not do. For they bind heavy burdens, hard to bear, and lay them on men’s shoulders; but they themselves will not move them with one of their fingers. But all their works they do to be seen by men. They make their phylacteries broad and enlarge the borders of their garments. They love the best places at feasts, the best seats in the synagogues, greetings in the marketplaces, and to be called by men, ‘Rabbi, Rabbi’ (Matthew 23:1-7, NKJV).

The officially dominant religion of Christ’s day most certainly tried to keep itself in a self-serving relationship with the secular authorities:

Then the chief priests and the Pharisees gathered a council and said, “What shall we do? For this Man works many signs. If we let Him alone like this, everyone will believe in Him, and the Romans will come and take away both our place and nation” (John 11:47-48, NKJV).

The multitudes in the crowd, stirred up by the Sanhedrin, followed suit:

But they cried out, “Away with Him, away with Him! Crucify Him!” Pilate said to them, “Shall I crucify your King?” The chief priests answered, “We have no king but Caesar!” (John 19:15, NKJV).

New denominational entries, on the other hand, tend to evidence more exertion, zeal, and industry toward the common people, because they are dependent upon voluntary contributions. (New entrants to a marketplace can’t rest on their oars!) They are especially successful in building their denomination because they focus on the art of gaining proselytes. As with the hussars, for these denominations it is generally “no plunder, no pay.” While the established denominations have “the advantage in point of learning and good writing ... the arts of popularity, all the arts of gaining proselytes, are constantly on the side of ...” the new denominations. Having been entrenched for two centuries or more, the established denominations are even “incapable of making any vigorous defense against any new sect which chose to attack its doctrine or discipline.”

In Adam Smith’s time, the dissenters, the Methodists and mendicant orders of the Catholic church, represented these new sects.

The moral codes tend to differ between the established and emerging denominations. While the emerging denominations tend to be “strict or austere,” the established denominations tend to be “liberal” or “loose.” According to Smith, people of fashion tend to favor the established denominations where the vices that tend to arise from great prosperity are treated with tolerance. “Luxury, wanton and even disorderly mirth, the pursuit of pleasure to some degree of intemperance, the breach of chastity ... are generally treated with a good deal of indulgence, and are easily excused or pardoned altogether.” This is natural because people of rank are “very apt to consider the power of indulging in some degree of excess as one of the advantages of their fortune ... as one of the privileges which belong to their station.”

In fact, for the politician or sovereign, Smith observes there is great advantage in bribing the indolence of the clergy through state salaries and the like. This renders it superfluous for the clergy to be active among their flocks. “And in this manner ecclesiastical establishments, though commonly they arose at first from religious views, prove in the end advantageous to the political interests of society.” In countries where there “is an established or governing religion ... (t)he sovereign can ... never be
secure, unless he has the means of influencing in a considerable degree the greater part of the teachers of that religion. The clergy of every established church constitute a great incorporation. They can act in concert ....” Princes who try to ride rough shod over the authority of the established church risk the disfavor of the people, can be charged with heresy, and cannot be sure of the loyalty of an army drawn from the ranks of the common people. Likewise, the threat of force, violence, and persecution merely tends to rally the people around the church. Co-optation (both financially and spiritually) and persuasion seem to be the most fruitful course. “... [H]ow precarious and insecure must always be the situation of the sovereign who has no proper means of influencing the clergy of the established and governing religion.” Smith observes that fear only serves to irritate, and persuasion and inducement tend to be the most attractive course.

The emerging denominations, however, spring from the ranks of the common people and tend to advocate a strict and austere system of morality. Although some may carry this to an extreme in order to gain a larger market niche, generally these denominations are drawing upon longstanding Christian tradition for their moral framework. Consequently, “In little religious sects ... the morals of the common people have been almost always remarkably regular and orderly; generally much more so than in the established church.”

One of the powerful advantages of the emerging denominations during Smith’s time was with regard to the migrants who were pouring from the countryside into England’s cities. Taking the case of an honorable man who leaves the country, Smith comments, “But 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.” But by becoming a member of a small religious denomination, our friend is received into a community where he and his conduct are considered of importance and where he will be held accountable for his behavior.

Adam Smith is arguing that those denominations that are directly dependent upon the “customer” tend to be less liberal and more fundamental than the established denominations. The newer denominations are working closely with the common people while the established denominations gravitate toward the secular centers of power and wealth of their day. In fact, Smith would argue, any government subsidies of religion will lead to a disregard for “truth, morals, or decency” and merely “prove in the end advantageous to the political interests of society.” Let the tub stand on its own bottom.

If politics removed itself from the aid of religion, the result, says Smith, would be competition and a multitude of denominations. There may be two or three hundred different denominations where preachers would be “obliged to learn that candor and moderation which is so seldom to be found among teachers of the great sects” is essential to discipleship.

The teachers of each little sect, finding themselves almost alone, would be obliged to respect those of almost every other sect, and the concessions which they would mutually find it both convenient and agreeable to make to one another might in time probably reduce the doctrine of the greater part of them to that pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men have in all ages of the world wished to see established ....

Each denomination is “too small to disturb the public tranquility,” and competition in religion is better for the average person than oligopoly or monopoly.

These ideas can be traced back to Smith’s first book in 1759, *The Theory of Moral Sentiments.* While firm in his belief that humans act out of self-interest, in *Moral Sentiments* Smith contemplates why people also engage in acts of benevolence, performing various deeds of kindness with no expectation of reward. Smith clearly disregards the argument of Romans 1 that God’s eternal power, divine nature, and righteous decrees are known by all, and thus rejects the idea of an innate moral sense.

Smith proposes the concept of the “Impartial Spectator.”

Humans engage in acts of kindness and charity in order to win the affection and praise of their companions. But ultimate satisfaction can only be achieved when the individual also gains personal self-respect. Individuals...
thus function as an Impartial Spectator of their own conduct. If we can love ourselves, we can then love our neighbor, argues Smith. It is through the Impartial Spectator in each person that God impacts human affairs, while “the administration of the great system of the universe ... is the business of God and not of man.”

It should also be noted, as Smith demonstrates so thoroughly in *The Wealth of Nations*, that society can function quite harmoniously in the absence of mutual benevolence among persons, as individuals perceive it is in their self-interest to accommodate one another (“it is not from the benevolence of the butcher or the baker ...”).

In his analysis of the competition among denominations, Smith has clearly continued the application of the Impartial Spectator. The conduct of clergy, the tolerance of immorality by clergy and denominations, and the doctrine of denominations are all influenced by the companions with whom each denomination travels. New entrants depend upon the voluntary contributions of their hearers and appeal to commoners by advocating a strict and austere system of morality. Established denominations, on the other hand, well-endowed with accumulated wealth and, in some instances, receiving government subsidies, neglect to keep up the fervor of the faith and devotion in the great body of the people.

Led by the Impartial Spectator, clergy are simply adapting their systems of values to the company in which they travel. Thus, Smith suggests that new sects and denominations would be expected to be more morally conservative while established denominations would tend to be more morally liberal.

Smith believes that the beginning of the end for the single dominant established denomination, most particularly the Church of Rome, came through the Industrial Revolution. Before that time, bishops of each diocese, who at one time were elected by the populace, were elected by the clergy and had absolute authority over them. The Church was independent of the sovereign and amounted to an independent state or an army of occupation. What served most to keep peace was that the estates of the clergy, together with tithes, became a major source of hospitality and charity for the people, living out the love of Christ. This earned the Church the “highest respect and veneration among all the inferior ranks of people ....” However, “the gradual improvement of arts, manufactures, and commerce ... destroyed the whole temporal power of the clergy.” As the clergy entered the world of commerce, trading their foodstuffs and crude products for other goods and services, their hospitality became less liberal and the support of the people weakened. “The inferior ranks of people no longer looked upon (the Church)” as “comforters of their distress” and instead were “provoked and disgusted by the vanity, luxury, and expense of the richer clergy, who appeared to spend upon their own pleasures what had always before been regarded as patrimony of the poor.”

Beginning in Germany, the Reformation was a force for increased competition in the market for religious denominations. While not as learned as their opponents in the established denomination, Reformation upstarts had the edge in popularity and the gaining of proselytes through the “austerity of their manners” and “the strict regularity of the conduct.” Added to the general hatred and contempt of the established clergy, the passion of the upstarts resulted in considerable success. The most obvious was Henry VIII’s overthrow of the Church of Rome in England.

In countries where new denominations took root and grew, Smith claims the evidence is that such denominations were “favorable to peace and good order, and to submission to the civil sovereign.” Some denominations, such as the Calvinists, even permitted the people of each parish to elect their own pastor. The rights of patronage were abolished in the Presbyterian church in Scotland, and all Presbyterian clergy were considered equal. Thus, the cleric who wished to advance was “obliged to follow that system of morals which the common people respect the most.” The influence of the “vile arts of flattery and assentation” had been rendered impotent.

Finally, Smith notes that under the more competitive...
system of denominations there will be less funds for any one cleric. If such persons are underpaid, then churches must expect the clergy to move on to employment in which they can receive compensation more in keeping with their learning. Salaries that are too low will attract clergy of incapacity, while salaries that are too high may encourage negligence and idleness.

**Does It Ring True Today?**

Just as Martin Luther was a weak economist, Adam Smith was generally a weak theologian (e.g., *The Theory of Moral Sentiments*). Nevertheless, Smith’s views on the impact of entry and competition in the market for religious denominations appear to ring true. Charles Glock and Rodney Stark, writing in 1965, argue that the church is an adaptive institution in society, an institution prone to compromise with the dominant secular point of view, a point of view which tends to be morally liberal. The church tends to take positions which will not alienate the majority of parishioners. Glock and Stark support the theory of H. Richard Niebuhr to explain the rise and evolution of new religious sects in society. In addition to converts, the new sects receive members who have broken away from the compromising tendencies of the established denominations. The sects “assume an uncompromising posture toward the world, they gainsay a professional clergy, they insist on a conversion experience as a condition of membership, and they adopt a strict and literalist theology.”

In his comprehensive review of the literature on the economics of religion, Iannaccone concludes that “throughout the world, fast-growing religions tend to [be] strict, sectarian, and theologically conservative.” In the research literature, Iannaccone finds a positive correlation between denominational conservatism and such measures of religious involvement or commitment as attendance, contributions, and beliefs (especially doctrinal orthodoxy such as the divinity of Jesus, the inerrancy of the Bible, and the existence of a literal heaven and hell).

Roger Finke and Rodney Stark’s book *The Churching of America 1776-1990: Winners and Losers in Our Religious Economy* uses census data to demonstrate that the “mainline churches” in the United States have been in decline. They suggest that as they reach a certain size and age, the mainline (established) churches integrate more of society’s established mores; they lose their appeal to new proselytes; and new, more fundamental denominational entrants begin to gather converts. Moreover, they demonstrate that this is a life cycle which has been repeated over the centuries. “Since at least 1776 the upstart sects have grown as the mainline American denominations have declined. And this trend continues unabated, as new upstarts continue to push to the fore.”

The earliest new entries to the American denominational market in the 19th century were the Methodists and Baptists, who were competing with the established Congregationalist, Presbyterian, and Episcopalian churches. The market share enjoyed by the established denominations fell from 55 percent in 1776 to 19 percent by 1850. The market share of the Methodists and Baptists moved in exactly the opposite direction, reaching 55 percent by 1850. Between 1940 and 1985 the market share of the established denominations (e.g., now Methodists, Presbyterian, Episcopal) fell 50 percent while the market share of the evangelical denominations (e.g., Assemblies of God, Church of the Nazarene) rose 48 percent. Today, according to Finke and Stark, it is such new denominations as the Assemblies of God and the Church of God in Christ who are poised to move past the “faltering” Episcopalians and Presbyterians.

In his review of Finke and Stark’s book, Walter Sundberg demonstrates how new denominations have helped to sustain the overall growth in U.S. church attendance. Siding with Adam Smith, he says, “In modernity, monopoly is as bad for church growth as it is for a commercial economy .... Evangelicals ... provide (ordinary) people with a concrete understanding of the transcendent in daily existence. They inculcate temperance, frugality, a passion for holiness, the sanctity of family life, and self-esteem. Above all, they deliver intact across the generations the fundamental truth of salvation through Christ alone.” Apparently, churches that move counter to the broader culture, who do not accommodate themselves to the world, attract the young, more evangelical seekers.
In The Empty Church: The Suicide of Liberal Christianity, Thomas Reeves clearly documents the decline over the past three decades of America’s mainline Protestant “seven sisters”: the American Baptist Churches in the USA, the Christian Church (Disciples of Christ), the Episcopal Church, the Evangelical Lutheran Church in America, the Presbyterian Church (USA), the United Church of Christ, and the United Methodist Church. The Episcopal Church, down to 1.6 million members, is described as being in “free fall.” The Methodist Church has lost 1,000 members every week for the last three decades.30 Meanwhile, the Southern Baptist Convention is adding 750 members and five churches a week, moving toward a total of 16 million members.31

The Southern Baptist Convention is a good example of an established denomination that has avoided decline as a result of standing on Scripture and not accommodating itself to the prevailing morality. The survey data in Table 1 evidences the significant belief differences between the Southern Baptists and other established denominations. Stark and Bainbridge note that compared to the denominations which fall toward the left side of the Table, the members on the right attend church less regularly, give much less money to the church (despite substantially higher incomes), and place less importance on their church membership.32

The evidence indicates that many established denominations have dabbled with the secular religions of the Enlightenment, Marxism, and scientism. The common theme here is that humans can save themselves, human nature is basically good, that we can place faith in our own intellect, and that social engineering will bring peace on earth. While there are strong evangelical movements and individual churches within all the mainline denominations, the appearance is that the focus of the hierarchy of the mainline churches has become government programs and social activism within the structure of moral and cultural relativism.

For Reeves, these factors strike at the heart of the decline facing the mainline denominations.34 Despite recent hypotheses by observers of these trends, it’s not urbanism, not the baby boom, not the over-committed two-wage-earner household, not the Supreme Court nor MTV.

Numerous polls and studies point to an important fact: great numbers of people stay away from churches simply because they do not see them as relevant to their lives. Liberal Protestantism in particular has become so secularized and indistinct that it cannot compete successfully with an abundance of causes and activities that many find more valuable.35

Our spirits crave the Spirit of God and His truth, unvarnished, without the rough edges sanded. This speaks to our deepest needs. Second-rate goods, like sermons with the popular morality of the day and scant theological and biblical foundations, may have value but do not revive. Wade Clark Roof found that while the liberal Protestant denominations are losing membership, the conservative Protestant churches have actually been able to grow by attracting conservative dropouts from the other more liberal branches.36

In recent surveys of adults who had been confirmed in mainline Protestant churches during the 1960s, Johnson, Hoge, & Luidens found that the single best predictor of church participation was orthodox Christian belief, “especially the teaching that a person can be saved only through Jesus Christ.”37

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<td>I know God really exists and I have no doubts about it.</td>
<td>99</td>
<td>96</td>
<td>63</td>
<td>60</td>
<td>41</td>
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<tr>
<td>Jesus is the Divine Son of God and I have no doubts about it.</td>
<td>99</td>
<td>97</td>
<td>59</td>
<td>54</td>
<td>40</td>
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<td>It is “completely true” that “the Devil actually exists.”</td>
<td>92</td>
<td>90</td>
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Concluding Remarks

Adam Smith was on the mark in his analysis of the market for denominations. So long as competition among denominations is possible, barriers to entry are low, and advertising and reaching out to the public are relatively unregulated, there is ample opportunity for new, more morally conservative denominations to win converts and take members away from more liberal established denominations. Church membership rolls provide a market test of relevancy.

Where Smith misses the mark, in my estimation, is in his theology. His rejection of the innate indwelling of God’s righteous decrees in The Theory of Moral Sentiments leads to his argument that new sects are conservative and established denominations are liberal primarily on the basis of the impact of the atonement of Christ. The end is peace.

The attraction of the newer denominations and the more scripturally-literal established denominations is the power of the absolute truth of God and the forgiveness we can have daily through Christ. Social scientists, whether political economists like Smith or sociologists like Stark, are unable to put their calipers to such works of the Spirit, and so they maneuver around it as best they can.

All said and done, Smith’s support for free markets for religious denominations is one Christians can readily support as well. In international research, Iannaccone found low church attendance in countries with a single dominant denomination and much greater attendance in countries for which no denomination dominated.

As Stark and Bainbridge noted, “The most singular fact about religion in the U.S. and Canada is diversity.” Today, attendance is about 2.2 percent in the government-subsidized Church of England on an average Sunday. At the time of the American Revolution, only 17 percent of the U.S. adult population belonged to a church. After peaking in the 1960s, U.S. church attendance on a given Sunday is 48 percent today. Apparently in America, with our potpourri of denominations, a significant portion of the populace is actively seeking the Kingdom of God. While we may grieve at some of the aberrant paths chosen by members of various sects, since the Garden of Eden God’s way has always been to let persons choose. Easy entry and competition, as we have seen, guarantee that there will continually be morally-conservative Christian denominations from which individuals can choose. So hurrah for open markets for religious denominations!

ENDNOTES

1 I would like to express my appreciation to the numerous reviewers whose comments and suggestions have enormously improved this paper.
4 Adam Smith, 313.
5 Adam Smith, 309-310.
6 Adam Smith, 310.
7 Adam Smith, 316.
8 Adam Smith, 313.
9 Adam Smith, 319.
10 Adam Smith, 320.
11 Adam Smith, 317.
12 Adam Smith, 317.
13 Adam Smith, 319.
16 Adam Smith, 324.
17 Adam Smith, 325.
18 Adam Smith, 326.
19 Adam Smith, 328.
20 Adam Smith, 330.
21 Adam Smith, 333.
22 Adam Smith, 333.
24 Glock and Stark, 243-44.
27 Finke and Stark, 237.
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