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The Economics of Religion: A Symposium

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Economics of Religion: Debating the Costs and Benefits of a New Field

Laurence R. Iannaccone, George Mason University

In the immortal words of Dr. Frankenstein . . . *"It's Alive!"*[1]

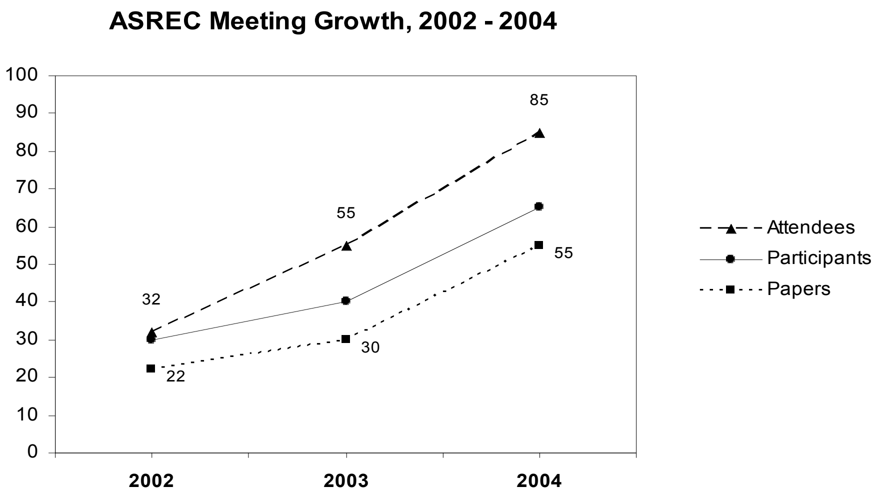
To the horror of some and the surprise of nearly everyone, a new creature roams our journals and meetings—the economics of religion. A field that scarcely existed prior to 1990 can now claim hundreds of papers, scores of contributors, a yearly conference, an international association, a major grant initiative, centers at major universities, and an official AEA subject code.[2, 3]

Consider for example the meetings of the "Association for the Study of Religion, Economics, and Culture"—a new international association and conference that has met annually since 2002. As you can see from figure 1 (over), the ASREC conference has rapidly grown from about 30 attendees in 2002 to more than 80 in 2004 (and nearly 100 in 2005). Growth has been especially pronounced among young and international scholars. (I am, of course, personally inclined to project continued exponential growth—and thus look forward to 2012 when ASREC will overtake the AEA. But even if attendance stabilizes at current levels the ASREC's success remains an amazing development.)

Moreover, the ASREC meetings are but the tip of the iceberg:

- Within the economics profession as a whole, scholars have become increasingly interested in the relationship between religion and socio-economic outcomes.[4]
- Within sociology, leading scholars now advocate "market models" and "rational choice theory" as "a new paradigm" for study of religion.[5]

Figure 1



- Throughout America, demand for information about religion has surged—among students, journalists, and the general public.[6]
- Funding for research on religion has grown even as the cost of such work has dropped thanks to new data and archives.[7]

What are we to make of these developments? Coming from me this surely sounds like a rhetorical question. After all, I have been promoting the economic study of religion for nearly 25 years. And if this were a standard meeting of secular economists or sociologists, I surely would have my speech down pat. I would limit myself to issues that arise within standard subfields of economics and sociology; I would speak as a social scientist rather than a person of faith; and I would promote the study of religion as a legitimate subset of mainstream economic research.

But this is *not* a standard AEA or ASA session; it is a meeting of the Association of Christian Economists. And thanks to a panel of participants with deep appreciation of *both* economics *and* religion we can address questions that I for one have repeatedly ducked in the past. For example:

- Does the economics of religion advance the (academic) study of religious belief and behavior?
- Does it promote our appreciation of religion?
- Should religious scholars and students be encouraged to study the economics of religion?

- What are the downside risks—for personal faith, religious institutions, economic scholarship, and social policy?

We can add many other questions to this list, or we can re-frame them in terms of Christianity alone. In any case, they force us to think outside the box of standard academic inquiry.

Despite the shift in focus to faith-oriented *questions*, I am not suggesting a shift to faith-oriented *economics*. The economics of religion is, and should remain, separate from religious economics. In fact, the two subjects are almost polar opposites. Whereas the former analyzes religion and its consequences from social and economic perspectives, the latter evaluates social and economic action from the perspective of sacred truth.[8, 9]

Out on a Limb

A panel is no fun unless it features disagreement and debate, so I shall cast aside academic caution and boldly go where no economist has gone before. Here, in a nutshell, are my views on the economics of religion:

1) I remain convinced that economic approaches to the study of religion are theoretically sound and empirically fruitful. They explain and integrate much of what is already known about religious participation, generate new predictions that suggest new avenues for empirical research, yield policy implications about the welfare effects of government intervention in the religious marketplace, and forge links between religious research and a growing body of economic research on culture, institutions, social networks, and "non-market" behavior.
2) I am equally convinced that economists cannot travel this path alone. Fruitful models spring from a marriage of abstract theory and empirical insight. Economists often can supply the theory, but the results tend to be uninteresting (and even absurd) if they ignore the work of non-economists. I especially value the work of sociologists, who have spent decades amassing data from surveys, interviews, textual sources, and direct participation in religious groups.
3) I believe that people of faith are, for the most part, better equipped to do good research on religion than are their non-believing counterparts. One cannot simply assemble models of religion from the bits of information that others provide; one needs a "feel" for religion when choosing what to emphasize and what to ignore—and feeling comes hard for those who (like Max Weber) are "religiously unmusical."[10]
4) Although I used to warn graduate students *not* to pursue the economics of religion unless they genuinely relished the prospect of unemployment, the market has changed quite noticeably in recent years. Some expertise

on religion (and especially on religious extremism) may actually strengthen your job prospects at liberal arts colleges, especially those that are religiously affiliated—and keep in mind that there are several hundred such schools in America.

5) Finally, I am increasingly convinced that *mainstream* economics needs the economics of religion. Throughout the heartland of applied micro-economics, scholars are seeking to understand the impact of beliefs, norms, culture, values, self-control, social capital, social networks, and institutions. This is of course the traditional realm of religion.

Moreover, even where traditional religions appear absent we cannot afford to ignore the cultural systems that *function* like religions and are thus amenable to the same sort of analysis. Communism is of course the prime example of a "secular religion," and contemporary secular-liberalism retains the same quasi-religious flavor. But David Brooks (2003) probably had it right when he recently observed that *most* modern nation-states "draw powerfully on spiritual as well as material support" (p. 6). They bind people together with shared "eschatological visions—powerful ideas of where history is going and is supposed to go, what righteous rule means, and how to bring about that rule and spread it around."

Over the past forty years, economists have devoted tremendous effort to the study of political behavior—and as a faculty member at George Mason University, I am contractually bound to sing the praises of Public Choice—but I wonder how many more elections must occur here in the United States and how many more conflicts must ravage other nations before we get serious about studying religion's role in politics, law, and economic development.

Out on a Twig

And while I am at it, why not risk *all* academic credibility? Here is yet another argument for the economic study of religion:

Premise #1: Since the 1960s, American academics have embraced secularism as never before. Universities have abandoned their religious traditions while establishing a new multicultural orthodoxy of "race, class, and gender." This flight from Judeo-Christian faith was neither justifiable nor healthy. It denies the role of religion in Western history, ignores its continuing importance in current events, and denigrates the faith embraced by millions of our students and citizens.

Premise #2: The disciplines most suited to redress the errors of radical secularism are the very ones that led the assault on tradition. But serious study of our culture's moral and spiritual foundations will not start in today's departments of anthropology or sociology. Nor will renewal come from our departments of English, history, psychology, or political science, and especially not philosophy and religious studies.

Premise #3: In contrast, the field of economics *can* sustain free and fresh studies of religion, in large part because it has so little invested in *anti*-religion. No other social science is as broad as economics. None is as free of anti-religious sentiment. None enjoys as much influence and support both in and beyond the academy. And the economic study of religion has already earned respect and attracted attention across the social sciences.

Conclusion: By promoting the economic study of religion, we therefore maximize the prospects for healthy renewal in *all* disciplines. We start where interest in religion (now) runs high but opposition remains low. We avoid early confrontations in disciplines where secularism reigns supreme. And we build a solid foundation for serious, sustained, and scholarly inquiry.

Serious, sustained, and scholarly—that phrase is critical. I am in no way suggesting that we bias our studies in favor of religion. This is *not* an attack on secular research or secular researchers. Nor is it a strategy designed to advance advocacy organizations that harness religion in the service of policy goals, religious organizations that work to spread the gospel through charitable economic activities, or scholarly associations committed to a particular religious tradition.

And yet I am convinced that religion deserves much more attention and respect than it currently receives in most academic departments. Since coming to George Mason University in the fall of 2002, I have been involved in the launch of a new association, a new yearly conference, and a new center. The larger goal is to bring together an international network of scholars who will promote research; enhance graduate training; teach undergraduate courses; and disseminate findings among journalists, policy makers, and the general public. The network already includes people from more than a dozen nations, and among them are Protestants, Catholics, Jews, Moslems, Hindus, and non-believers. They share the conviction that religion remains a powerful force in our world (both for good and ill) and that university teaching and research must devote more attention to the social causes and consequences of religious belief, behavior, and institutions.

Toward a Sustainable "Ecology"

So there you have it. My vision goes well beyond the creation of a subfield "niche" within economics. I am aiming (and praying) for nothing less than a new and self-sustaining "ecology"—scholars, students, and institutions working to advance our understanding of religion across the social sciences. That may sound far-fetched, but recall the figure displayed at the start of this talk.

Consider also the extent to which the key ecological elements already exist. At the base of the food chain sit hundreds of religiously-oriented colleges anxious to provide undergraduate training that compares favorably to that of high-quality secular schools yet also integrates religion in distinctive ways. For such schools, the economic study of religion may prove attractive to both students and donors. But that means hiring economists with training in the economic study of religion, and which boosts demand in Ph.D. programs (where interest in religion is already growing). Those economists must in turn be trained researchers specializing in the field. Every step of this process appeals to well-educated entrepreneurs who want very much to support education that promotes strong academic training *and* serious attention to religion. And meanwhile, government agencies are increasingly anxious to fund research on the role of religion in conflict, economic development, the rule of law, demography, and more.[11]

I must stop here in the interest of time. I leave it to you and my fellow panelists to weigh my claims, highlight my shortcomings, and perhaps bring me to repentance.

Endnotes

1 Source: the movie Frankenstein (1931), with Colin Clive as Dr. Frankenstein and Boris Karloff as the monster.

2 For a fairly complete list of papers and contributors, see www.EconomicsofReligion.com. The same website describes the Association for the Study of Religion, Economics, and Culture and includes past programs for the association's annual conference. The new university centers include George Mason University's Consortium for the Economic Study of Religion; Harvard's Center for the Study of Religion, Political Economy, and Society; University of Southern California's Institute for Economic Research on Civilizations; and the Economics and Religion Research Group in Australia. The major research initiative was launched by the Templeton Foundation. The AEA subject code for research on religion is Z12.

3 The field can also claim its share of critics, including Steve Bruce (1999) whose recent book *Choice and Religion: A Critique of Rational Choice Theory* seeks to "drive a stake through the chest" of the economic approach. For similar sentiments and analogous rhetoric,

see Yamne (1997) and Hadaway and Marler (1996). Other critiques include Robertson (1992), Demerath (1995), Marwell (1996), Chaves (1995), and Neitz and Mueser (1997).

4 Examples include studies of terrorism and conflict, economic development, family behavior, civil society, the rule of law, social capital, and health and happiness.

5 Rodney Stark and Roger Finke have argued most forcefully for the economic approach. See, for example, *The Churching of America* (Finke and Stark 1992) and *Acts of Faith* (Stark and Finke 2000). Other sociologists advocating market models or rational choice include Darren Sherkat, Andrew Greeley, Stephen Warner, William Bainbridge, and many younger scholars.

6 The September 11 attacks and subsequent "war on terror" are part of the reason, of course, but the growing salience of religion versus secularism in western political debate is another reason, and the rapid growth of conservative Christianity throughout the less developed world is yet another.

7 The Templeton foundation has launched a $2.5 million "spiritual capital initiative" aimed at encouraging economists to create new centers and research initiatives for the study of religion and religious entrepreneurship. Government agencies have become increasingly interested in research on religion and economic development, religion and social capital, and above all religion and terrorism.

8 Economics of religion includes:

- Studies of how religion affects economic growth, moral development, scientific discovery, technology progress, and social change.
- Economic studies of religious beliefs, behavior, and institutions (e.g., theories of conversion and commitment that emphasize choice and rationality rather than irrationality and indoctrination; and rational explanations for the success of "extreme," "fundamentalist," and "conservative" groups and weakness of more "liberal," "mainstream" groups).
- Theoretical and observed differences between different forms of religion (e.g., religion versus "magic," and monotheism versus polytheism; why Christianity displaced Greco-Roman paganism; and why polytheism is less morally constraining than monotheism).
- Studies of religious "markets" (e.g., alternatives to traditional "secularization" theory that emphasize the centrality of innovation, entrepreneurship, and competition in the "religious marketplace;" market-oriented explanations for America's religious vitality versus Europe's religious decline).

- Studies of how religious commitment and religious groups influence the well-being of individuals, families, youth, communities, and nations.
- Studies of religious trends, the personal and social determinants of religiosity, and the relationship between religious and political/social/economic attitudes.
- Policy implications regarding the state regulation of religion, religious liberty, church-state relationships, the treatment of minority and deviant faiths, etc.

9 Religious economics is at least as old as the books of Moses. Contemporary examples include theologically-oriented arguments concerning private property, income inequality, tax policy, income redistribution, workers' rights, interest rates, banking laws, entrepreneurship, government regulation, international trade, debt relief, unionization, entitlement programs, and much more. Although religious economics remains an area of lively debate among religious leaders and religious economists (including many members of ACE), it falls more within the realm of theology than social science. Among the many fine introductions to this literature are books by Oslington (2003) and Gay (1991), review articles by Siddiqi (1981) and Waterman (1987), and journal articles in *Markets & Morality* (published by the Acton Institute, www.acton.org) and *Faith & Economics* (published by the Association of Christian Economists, www.gordon.edu/ace/FandEindextopical.html).

10 The great economist and devout Quaker, Kenneth Boulding, captures the problem when describing Adam Smith's treatment of religion in *The Wealth of Nations*. Boulding (1970) rightly observes that nothing "so witty and penetrating has ever been written on the economic sociology of religion," but he also recognizes that "nowhere [in Smith] do we find any deep understanding of the content of religion:"

> Neither the transports nor the dark night of the soul have a place in this pellucid eighteenth century air. Adam Smith could never have had any real knowledge of the mind of the Wesleys. Mystical experience of any kind he would have dismissed as "fanaticism and enthusiasm." He is in some sense almost the ideal of the "good" intellectual; a very good, very moral, admirable, almost one might say a pious man. Yet there is clearly a realm of experience into which he does not penetrate.… Only those who have in some measure walked the road to Emmaus know how far it stretches through history… (pp. 189–190).

11 There is, of course, much more to this argument. Interested readers are invited to request copies of a planning document and grant proposal that describe CESR, George Mason University's new "Consortium for the Economic Study of Religion."

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Comments on the Economics of Religion

Derek Neal, University of Chicago

I speak on this panel as a consumer and not a producer of work in the economics of religion. Nonetheless, I hope that my participation on this panel proves to be beneficial for you and for me. My approach to this topic is quite different from that of several of the other panelists. When I think about the economics of religion, the first thought that comes to my mind is "this field needs better research."

By better, I do not mean based on a different research paradigm or grounded in different epistemological assumptions. I mean that this field needs work that is done with greater care and diligence. I am not an expert on this field, but I have read or seen presentations of many different economics of religion papers over the years. Graduate students wrote some of these papers. Scholars with established publication records wrote others. However, in the vast majority of cases, the papers were not carefully crafted or precisely argued.

I realize that I have seen only a small portion of the growing literature on the economics of religion. I also realize that most papers presented at workshops and conferences have problems. And, I realize that even if my assessment of the current state of research on the economics of religion is correct, important progress in this area may yet be right around the corner.

Nonetheless, these comments are offered in a gathering of Christian academics, and my fixation on the quality of economic research on religion grows out of my frustration with another aspect of my life as a Christian who happens to be a scholar. While I realize that Christians do not have a monopoly on bad research and that bad research on the economics of religion and many other topics can be found among scholars from all different religious backgrounds, I often find it particularly hard to engage other Christian scholars in a serious discussion about our faith and the quality of our work.

I have been involved in numerous conversations and a few workshop panels over the years with other Christian academics who held strong views on the integration of faith and scholarship, and these exchanges usually left me wanting to pull my hair out. It seemed that I was constantly listening to people make proclamations about how a proper Christian worldview should specifically transform the paradigm for research, the research agenda, or the links between research and public policy in a given field. However, I never found the exegetical arguments for these grand new paradigms to be even remotely persuasive, and I usually felt that scripture was being used as pretext for a pre-set agenda.

Further, I found these encounters all the more frustrating because I felt that no one was willing to talk about basic principles of Christian living that are more obviously grounded in scripture. I often thought about how the discussion would differ if I were attending a workshop or luncheon where Christian plumbers discussed integration of their faith and work. Would these plumbers launch into grand proclamations about the need for a Christian understanding of plumbing? Or would they discuss concrete examples of issues that scripture does directly address and that they encounter daily? My guess is that they would talk about honesty and how they deal with customers who may be ill-informed. My guess is that they would discuss the temptation to be less attentive to details when doing work for customers who do not offer the opportunity for repeat business. My guess is that they would spend significant time discussing how they treat their employees and co-workers.

However, Christian academics often seem completely uninterested in talking about how their faith informs the nuts and bolts aspects of their work. Topics like whether or not we actually do excellent, careful, and honest work or how we treat the graduate students who work for us seem too mundane for those who revel in these integration discussions. However, scripture has much to say about these issues.

I will leave the topic of how we treat our students to another time and place, but I will note that this topic may be infrequently discussed in gatherings like this, in part, because we would likely be so convicted by a serious discussion of this matter. With respect to our lives as scholars, I firmly believe that the most important biblical admonition for a Christian scholar is the clear prohibition against bearing false witness. Yet, this topic is rarely given serious attention is public discourse on faith and scholarship.

Economics is a social science that embraces a specific (but flexible) paradigm for research, which involves building and testing abstract models of human behavior. For those working within this paradigm, bearing false witness can take many forms. One can describe an economical model as providing predictions or insights concerning behavior in a particular market setting when in fact the model does not map into the setting in question at all. One can set up tests of a model's predictions that do not really differentiate the model from obvious alternative theories, or one can set up tests of a model that are, in truth, not informative because the data available to the author do not provide information about the variables that are the key driving factors in the model. And, all of these errors amount to bearing false witness, especially when the author of the paper writes that her work provides evidence in favor or against some hypothesis concerning human behavior even when this is simply not true.

The economics of religion is not the only field where scholars face the temptation to falsely promote their results as “important, path breaking, definitive, etc.” However, I focus on this issue today because I think the temptations facing both Christians and non-Christians who work in the economics of religion are particularly acute for at least two reasons.

First, those who study religion as social scientists encounter serious measurement problems. For example, I have often thought that one way to improve research on the economics of religion would be to model religious beliefs using the technology of matching models. Persons in such a model would encounter potential matches with various religious belief systems. Individuals would then choose to accept a given system and possibly invest in a deeper understanding of it, or they would reject a given system and invest in search for new matches. From this starting point, it might be possible to construct models of how beliefs spread in societies that differ in their openness or how belief systems evolve over the life cycle of individuals. Further, one might even be able to model how the distribution of adherents to various belief systems within a society affects social and economic outcomes in the society. However, it takes only a small amount of introspection to realize that the chore of measuring crucial variations in religious belief and assigning people to categories might be impossible.

Second, bearing false witness about the meaning and significance of one’s results may be a greater temptation when one feels a deep personal interest in the outcome of the research. I often return from workshops on the economics of education feeling that I need to take a long shower because it is an area where many of the researchers have taken very public positions on what the best education policies are and these researchers have a personal stake in how the results turn out. Given my Baptist upbringing and my exposure to some recent data sets that Robert Barro has collected, I fear that the combination of difficult measurement problems and researchers who feel they have something deeply personal at stake in the outcome of the regressions that they are running will generate a paper claiming that religious belief does enhance economic growth but only in societies where most Christians practice believers baptism by immersion!

This ridiculous scenario is offered, in part, as comic relief, but I hope it also makes a point. The danger for the Church in Larry Iannaccone’s vision of the economics of religion becoming a large field of research that is populated—at least more than other areas of economics—by people of faith is that Christians involved in this enterprise may become a stumbling block because they become known as a group of people who do poor research, or worse, research that is intellectually dishonest.

I think the most important guard against this outcome is a healthy respect for the limits of social science. Although I am a social scientist and will go so far as to say that I am called to be one, I feel strongly that part of this calling is recognizing the limits of the talents and skills that I have developed over the years. As the economic study of religion grows, we may find that the tools of economics do not provide avenues for making real progress on some incredibly important questions. When economists working in this area encounter this situation, I contend that the proper response may well be to simply work on other questions. How well economists discern which questions are and are not well matched with their research skills will determine the extent to which the growth of the economic study of religion actually results in a better understanding of the world we live in or just a great deal of sophistry dressed up in the clothes of social science. ■

Religion and Economics

Peter Boettke, George Mason University

I graduated from high school in 1978 and headed off to Thiel College to play basketball the following September. I suffered a severe ankle injury in October of that year which put me out of basketball for the season. I lacked academic ambition, and without basketball I had little discipline or direction, and no reason to be in college. However, I was befriended by the assistant basketball coach—a man named Glen Salow—who had played for Athletes in Action and ran the campus meetings for The Fellowship of Christian Athletes and I believe Campus Crusade for Christ. Glen visited me in my dorm room, invited me to campus meetings, and looked after me. I was raised in a Presbyterian household, but until that time prayer was something I only did before sporting contests in search of extra strength and some good luck. Glen introduced me to Jesus as my Lord and Savior. He would also persuade me to transfer to Grove City College (GCC), where I started my college career afresh.

I entered Grove City in the fall of 1979 after experiencing a summer of gasoline shortages and the queuing system for gasoline that was instituted in New Jersey. This would have great significance in my life because the experience proved to make me susceptible to the logic of economic analysis in a way that I might not otherwise have been. I went to GCC with the intent of playing basketball and becoming a high school coach just as I had when I entered Thiel a year earlier, but I now also had an appreciation for what a college education could offer and I was eager to take advantage of that opportunity. Glen had provided me with introductions to both the coaching staff (who actually helped me get accepted as a transfer freshman) and to Professor Reed Davis, who was in charge of Christian Fellowship activities at GCC and was my professor for first year religion and philosophy. I learned several important things at GCC over the next four years. I changed my major from education to economics with a minor in philosophy and my career aspiration shifted from becoming a high school basketball coach to striving to be an academic economist. My experiences at GCC have shaped my subsequent life in numerous ways.

For the topic of today's meeting, the most important lessons I learned at Grove City College were with respect to religion:

1. Spiritually—that Jesus Christ is Lord and Savoir and that one must commit to a personal relationship with God and to strive to live a Christ-centered life.

2. Historically—the role of the Christian Church in the development of Western Civilization.
3. Intellectually—the philosophical and epistemological importance of Christian presuppositionalism.

With respect to economics and political economy I learned the following:

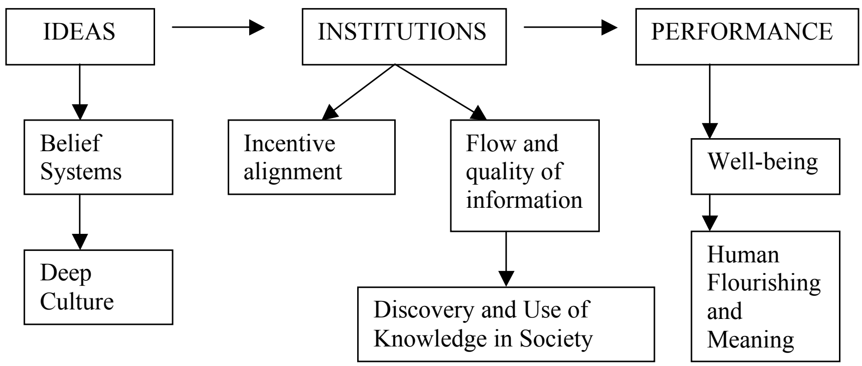
1. Ideologically—the classical liberal and libertarian tradition of private property, freedom of contract and free trade, and how economic freedom and political freedom are inter-related.
2. Historically—the role of markets in generating material progress and economic development, and the destructive role of government intervention and planning by distorting incentives and information.
3. Analytically—the logic of economic reasoning and the importance of supply and demand analysis for understanding the real world.

At Grove City College my professors tended to keep religion and economics separate, except for those occasions when my main economics teacher Hans Sennholz would blend Christian morality into his economic sermons and when one of the Christian existentialist philosophers would question the virtue of the capitalist society in my religion and philosophy courses. But despite the tensions that sometimes surfaced, there was something of an affinity between the two subjects I studied that I noticed from the beginning. The critique of scientism that I learned when I read F. A. Hayek and Michael Polanyi seemed to be similar to the defense of Christian presuppositionalism that I was taught in my religion and philosophy courses. The defense of individual liberty that I heard in my economics courses seemed to resonate in the teachings I received about covenant theology and the teachings in Paul's letters. Grove City emphasized classic readings in both religion and philosophy and economics—as a freshman in a mandatory course in Religion and Philosophy I read Augustine's *City of God*, Calvin's *Institutes of Christian Religion*, as well as Plato and Locke, and in economics during my sophomore year I read Adam Smith, David Ricardo, J. B. Say, J. S. Mill, and eventually in a senior seminar would read the complete works of Menger, Bohm-Bawerk and Mises.

In my mind, classical political economy, classical liberal political philosophy, and classical covenant theology were aligned and this alignment was responsible for the great wealth and freedom we took for granted in the United States and the countries of Western Europe. Unfortunately, this fact was disregarded by the intellectual elite; thus I feared that the way of life we had enjoyed would be increasingly under threat as public policies were adopted that moved against this alignment. So I decided to attend graduate school in economics and become an academic economist who sought to study the relationship between ideas, political and economic institutions, and economic performance. By specializing in the fields of comparative economics and also the history of economic ideas and methodology I was able to combine my interests from Grove City College in economics, philosophy, religion and ideology.

My research and teaching interests have consistently sought to delve into this relationship between ideas, institutions and system performance, which I tend to think of as a linear and causal one—at least for framing my research interests—as represented in Figure 1.

Figure 1



With regard to the relationship between religion and economics there have been at least three distinct research programs that scholars have pursued vigorously:

1. How alternative religious ideas impact economic and political institutions and how that in turn impacts economic performance and well-being. This research program is associated with Max Weber, but could be gleaned today in the work of Timur Kuran.
2. Using the tools of economic science, analyze the organization of religious activities and assess the efficiency of different practices. This research program was inspired by the work of Gary Becker and can be seen in the work of Larry Iannaccone, Robert Barro and Edward Glaeser.
3. How and why did economics as a discipline become the modern day religion with its gospel of economic growth? This research program is pursued in the work of Robert Nelson.

As with most things that are valuable in economic research, each of these strands of research can claim Adam Smith as a predecessor. My own line of research has tended to focus on questions related to the first strand, but I have also written a few papers dealing with the third strand. But, especially over the past few years, I have been following the developments in the second strand with increasing interest. However, my main interest remains in the first strand—how alternative religious ideas impact economic arrangements and performance.

The failure of real-existing socialism in East and Central Europe and the former Soviet Union, and the persistence of failed policies in the under-developed world, have highlighted the costs associated with bad public policies and the belief systems which legitimize them. Add to this mix our attempt to understand and respond to the terrorist threat to the Western world since 9/11, and you can see that this first strand of research on the relationship between religion and economics has plenty of work. Marxism is a secular religion, and Islam is a religion that has claimed secular authority from its inception.

In conclusion, I would like to make an argument by analogy and an appeal to economists who are entering into the field of economics and religion. First my analogy. In the 1960s the field of law and economics was born, and it became a thriving subdiscipline by the 1970s, but in the process of becoming an accepted field in economics it underwent a subtle, though very real, transformation. There are Coasean and Posnerian ways to conduct legal research in an economic way of thinking. Coase sought to examine how alternative legal arrangements affect economic performance. Posner, on the other hand, sought to use the tools of economics to assess the efficiency of existing legal practice and rules. As Posner's text came to embody the *Economic Analysis of Law*, the Coasean project was crowded out. What made this transformation that much more ironic was that the Posnerian advance often invoked Coase's analysis of social cost as the quintessential example. I have some reservations about Posnerianism, but it is not tragic that this form of law and economics has changed legal education and legal decision making. However, it is tragic that the Coasean style of research was crowded out by the "model and measure" mentality of economic imperialism. It would be, in my opinion, even more tragic if religion and economics followed the Posnerian line of research to the exclusion of Coase.

Religion is at the core of who we are and how we understand ourselves. The economic way of thinking can clearly aid in our intellectual endeavor to come to appreciate how religious belief systems and religious organizations legitimate and coordinate our social interactions with one another to promote either peace and prosperity, or conflict and poverty. Religion is the carrier of the traditions which define the societies we find ourselves living in; if we are to be economists who can explain why some nations are rich while others are poor, we will not make much progress on such questions unless we adequately account for the power of religious ideas in shaping human perception, behavior and institutions. ■

Importing Religion into Economics

Deidre McCloskey, University of Illinois at Chicago

I apologize to you all for not being here for this very interesting session. I am at a Liberty Fund conference about the philosophy of Robert Nozick with a bunch of professors of philosophy, held at a dude ranch in Arizona. We are eating very well and riding around the desert on horses. Occasionally we chat. Tough assignment, but someone has to do it.

Let me tell you about Robert Nozick. He was until his premature death in 2002 a libertarian philosopher at Harvard. Being a libertarian philosopher at Harvard might sound like a contradiction in terms—but Nozick pushed the limits and redefined his field, somewhat in the fashion of my colleagues here on this panel.

Robert Nozick and John Rawls are forever linked. They both brought economics to bear on the study of political philosophy, using notions such as Pareto optimality and Harsanyi's approach to expected utility. They are part of the vibrant export trade in economics to other fields that started in earnest in the 1970s: historical economics (which was first), law and economics, rational-choice political science, game-theoretical evolutionary biology, rational-choice sociology, and now at last the rational-choice study of religion. Rawls was a left liberal of a moderate sort, Nozick a free-marketer of a not-so-moderate sort. My own conversion from Harvard-trained left liberal to Chicago-employed libertarian was completed by Nozick's most famous book, *Anarchy, State, and Utopia*, published in 1974.

Nozick's final book is called *Invariances: The Structure of the Objective World*, published in 2001. We have read it for the Liberty Fund conference. We are to compare it with *Anarchy, State and Utopia*. *Invariances* is a piece of technical philosophy, with headache-inducing statements like "If it is determinate at place-time *st* that [it is determinate at *st* that], then it is determinate at *st* that *p*." Got that? If you think only the mathematical sciences are mentally tough, you have not read enough philosophy or theology or literary criticism.

I have not at this writing (Monday evening of this week) quite grasped what pages 1 through 235 of the book are saying. The best I can give you now, before that three-hour flight to Tucson in which I pray it will all become clear, is that Nozick is advocating an epistemology rather similar to his political philosophy. That is, he is arguing for a *procedural* rather

Author's Note: *I want to thank P. J. Hill for reading the paper at the session.*

than *end-state* theory of Objectivity. I think I agree, as a rhetorician and a philosophical pragmatist and above all as a fellow-traveler of the Austrians and their case for a spontaneous order.

But I think I understand pretty well pages 236 to the end of the book at page 301, and with those pages I do *not* agree. The title of the section, “The Genealogy of Ethics,” caught my attention, because I have recently finished a long, long book called *The Bourgeois Virtues*, to be published in spring of 2006 by the University of Chicago Press, for which I had to take at least baby steps in ethical philosophy and theological ethics. As Nozick notes, attention is the chief scarce resource.

The title of the section refers to Nietzsche’s book *The Genealogy of Morals*, but is very far from Nietzschean. In fact, it is economistic. As in his book 30 years earlier, Nozick is trying to make a part of philosophy lie down on an economic view of the world. He thinks of ethics as being centrally about “cooperation to mutual benefit,” that is, Pareto optimality. “Here,” he says, “are the rules and principles mandating respecting another (adult) person’s life and autonomy, forbidding murder and enslavement, restricting interference with another person’s domain of choice” (p. 280). He spends almost all his time elaborating on this bit of economics, using evolutionary psychology (hence “genealogy”) and the theory of the core of games. He admits there is more to ethics than Pareto optimality, three more “higher layers.” But these, he declares, “are matters of personal choice or personal ideal” (p. 281). *Laissez faire, laissez passer.*

All this will strike an economist as very familiar. What does it have to do with the economics of religion? This. Nozick has here made a big mistake, a mistake characteristic of modern ethical philosophy, by which I mean philosophy since Hobbes and certainly since Kant. The mistake is to take ethics to mean exclusively “behavior towards *other people*.”

If that doesn’t sound to you like a mistake, then you are yourself entangled in the modern and economistic and definitely non-religious view of ethics. The modern view mistakenly ignores ethical responsibilities to *oneself* and to a *transcendent*, a transcendent which we might as well for this audience call “God.” Aquinas wrote that “The principal ends of human acts are God, self, and others, since we do whatever we do for the sake of one of these” (*Summa Theologiae*, Ia IIae, q. 73). Precisely. The Divine Doctor got all this exactly right, as he got much else exactly right.

Until Kant and Bentham, that is, almost everyone in the West (and in the East, by the way), including the Blessed Adam Smith, believed that “ethics” was about “the best life for a person.” The technical term in ethics is “human flourishing.” In Abrahamic theology it is the good of the soul.

It involves *all three levels* of the classical seven virtues, the self-oriented virtues of Temperance and Prudence, the other-oriented virtues of Courage and Justice and secular Love, and the transcendent-oriented virtues of Faith, Hope, and spiritual Love.

After Kant, by contrast, everyone started assuming that all that matters is what my behavior does to *other people*. In such a view the only constraint on a vulgar form of self-interested Prudence is a thinly-defined Justice toward others. And modern economists are always trying to reduce Justice to a species of Prudence. Nozick tries, for example.

That the behavior corrupts me, as one of God's creatures, or violates God's plan, is set aside. The prudent maximization which economists since Samuelson have become so fascinated with does not have the context or support of the other virtues. Being intemperate, for example, or lacking in faith, a life of Prudence has no *point*. Those who die with the most toys, win. Those who attend church reveal that they prefer it. Such a utility function is hollow. As the Anglican Bishop Joseph Butler noted in 1725, "the very idea of an interested pursuit necessarily presupposes particular passions or appetites. . . . Take away these affections and you leave self-love absolutely nothing at all to employ itself about" (*Sermons*, Preface).

I ask again on your behalf: what does all this have to do with the economics of religion? This: If we do not start from an adequately full theory of "the principal ends of human acts" *we will do the economics wrong*. If religion, for example, is viewed simply as a particular sort of club, then sometimes you are going to misunderstand the price and income and substitutes and complements and all the rest of the economic variables that determine religious behavior.

You are like me religious, indeed, Christian people. Good. Suppose then I *pay* you $500 to stop praying? Not enough? OK: $5,000. All right; this is my last offer: $50,000.

Suppose you are like me an Anglican. *Very* good. Then you will listen to Richard Hooker:

> Man doth seek a triple perfection: first a sensual . . . then an intellectual. . . . Man doth not seem to rest satisfied . . . but doth further covet . . . somewhat divine and heavenly. . . . For although the beauties, riches, honors, sciences, virtues, and perfections of all men living were in the present possession of one; yet somewhat beyond and above all this there would still be sought and earnestly thirsted for (*Of the Laws of Ecclesiastical Polity*, 1593, First Book, XI, 4, pp. 205–206).

I have a sense, that I wish you all would think about, that if we go on grinding away with Max U we will miss the point. We will not be using religion as a social scientist should, as an exploration also of the *limits* of rational choice. In particular I want to counsel you not to explore over and over again the limits merely of vulgarity, the reduction of every human end to the Profane Only.

I know it is *fun* to show again and again and yet again that the Sacred can be reduced to the Profane. I earned my living doing such stuff for the first half of my career. But it is boyish and silly when carried to the level that, say, Bob Barro carries it. You can if you wish do regressions from the outside of religion, so to speak, and show that belief in hell or heaven matters for economic development—or matters for success in the World Cup or the quality of the red sauce or whatever. Or to be exact you can "show" this if you have a defective econometric theology that accords value only to fit and ignores oomph. But the main point is that Bob, whom I have known since he was a boy fresh from Cal Tech, shows no sign, no sign at all, that he grasps what religion is *about*. Never has. He shares this problem with many day-trippers into the study of religion (I am one of those, alas; but at least I think I do understand my own faith; maybe).

The problem is that what religion is *about* is an essential part of its effects. Meaning matters here in a way that it does not in the consumption of ice cream—I except certain quasi-religious experiences of ice-cream eating, such as a double scoop of amaretto at Sweet's on Nassau Street in Princeton. In fact, it is the entire point of the "triple perfection," as Hooker put it, that the third, transcendent level gives meaning to the rest.

You know who Frank Knight was. He was not a religious man in the conventional sense, though raised in a Campbellite sect. In fact he was extremely hostile to organized religion. It is said that the only time the University of Chicago has actually refunded money to a student was to a Jesuit who took Knight's course on "the history of economic thought" and discovered that it was in fact a sustained and not especially well-informed attack on the Catholic Church. But Knight realized that life is given meaning by that third thing, the transcendent, and that an economics failing to attend to it will go astray. "We are impelled," he wrote as a young economist in 1923, "to look for ends in the economic process itself, and to give thoughtful consideration to the possibilities of participation in economic activity as a sphere of self-expression and creative achievement" ("Ethics of Competition," 1923, p. 51). Knight believed even then that even ordinary desires could be reduced "in astonishingly large measure to the desire to be like other people, and the desire to be different" (1922, in

Knight, *The Ethics of Competition,* 1935, p. 22). Paul Tillich called them "participation" and "individualization," and noted that there is a "courage to be as a part," that is, to participate (*The Courage to Be*, 1952).

Knight concluded in 1934 that "Rigorously speaking, there is no such thing as an economic interest, or a material interest," no human with Profane-Only motivations, because

> economic interest is never final; it is an interest in the efficacy of activity, and the use of means, in promoting . . . final interest. And these final interests do not inhere in particular physical things . . . but are all, at bottom, social interests. Even the food interest, the "most" material of all, is in concrete content overwhelmingly a matter of social standards ("Economic Theory and Nationalism," 1934, p. 306f).

Or a matter of religious meaning, Knight would have reluctantly conceded. Knight, who was philosophically sophisticated for a modern economist, would have been aware that "final" in "final interests" is the Latin for Aristotelian "having to do with the *telos,* the end or purpose."

In other words, I want to make a case *against* keeping the economics of religion and what Larry Iannaccone calls religious economics separate. I made the case a couple of months ago to my colleagues in economics at UIC—which by the way has the largest number of economists studying religion of any department in the world—and did not get very far. I wanted them to include a little theology in our new graduate program in the economics of religion. Maybe later they will become persuaded.

I want there to be for the good of economics and our immortal souls an *import* trade into economics from religion. I want to follow Adam Smith in declaring that the end of trade must be consumption, not production itself.

I want people to see, in short, that economic life has an end, a *telos,* and that even an economic man or woman doth seek a triple perfection. ■