Adam Smith’s Economics of the Church
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Paul Oslington
Professor of Economics and Dean of Business, Alphacrucis College, Sydney, Australia.
Honorary Research Professor, Australian Centre of Christianity and Culture, Canberra, Australia.
Email: paul.oslington@ac.edu.au
Web: http://ac.edu.au/faculty-and-staff/paul-oslington

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Abstract
Adam Smith’s Wealth of Nations provides an economic analysis of the provision of religious education and aspects of the church, picking up on his friend David Hume’s discussion of church establishment in his History of England. Smith and Hume of course are not alone, for economic arguments about church establishment, toleration of other religious groups, financial support of clergy, and related issues, were deployed by Richard Hooker, William Warburton, William Paley, Josiah Tucker, Jeremy Bentham, Edmund Burke, Richard Whately, Thomas Chalmers, and others. Their philosophical framework and arguments, however are quite different to those employed in the contemporary rational choice economics of religion. Smith argues, against Hume, for the virtues of religious competition, for voluntary contributions alongside state support of religion, and limited democracy in relation to church appointments. A properly constituted religious market Smith suggests will generate benefits for society. Smith’s arguments about religious competition are connected to his larger philosophical framework, in particular his understanding of the fall and divine providence.
Introduction

In this paper I will examine Adam Smith’s economics of the church in Book V of the *Wealth of Nations* within the structure of the book, his 18th century Scottish context, as well as 18th century debates over church establishment, toleration of other religious groups, financial support of clergy, and related issues. I want to be particularly attentive to how the theological framework helps us to appreciate what he was doing in these passages.

Smith on Theology, Religion and Human Nature

In previous work (Oslington 2011a, 2011b, 2012) I have argued that Smith operates within the theological framework of the moderate Calvinism of the Scottish enlightenment. Newtonian natural theology is an important part of this framework, and such natural theology justified and nourished scientific enquiry, including Smith’s enquiries into emerging commercial society in 18th century Britain (Brooke 1991 is a fuller discussion of the role of natural theology in scientific enquiry in this period). Others such as Jacob Viner (1927), Anthony Waterman (2004) and Lisa Hill (2001) have made similar arguments about the importance of Smith’s theological background.

Consistent with this theological framework, Smith avoids discussion of particular doctrines such as the Atonement, the Trinity etc. The finer points of these doctrines were irrelevant to his purposes in the *Theory of Moral Sentiments* and *Wealth of Nations*, and a potentially dangerous distraction from those purposes. The examples of Thomas Aikenhead executed in Edinburgh for blasphemy, and the stalled university career of his friend David Hume, amply illustrate the dangers of engaging in doctrinal controversy in 18th century Scotland. Smith himself experienced this to lesser extent over the removal of a passage about the atonement from later editions of his *Theory of Moral Sentiments*. This lack of interest in doctrinal controversy is partly why many modern commentators miss the theological dimensions of Smith’s work.

More relevant for Smith’s purposes are a theologically based account of human nature, and the doctrines of the fall and divine providence. These doctrines are part of the framework of natural theology, and investigation of the natural world in conjunction with Scripture fills out their content. Many modern commentators are again misled by Smith’s attention to evidence from the natural world in constructing his view of human nature, believing this to be evidence that he is
like them, committed to scientific naturalism that leaves no room for God, when in fact the whole point of his attention to evidence from the natural world is that God is creator and that studying the natural world (including human beings who are the pinnacle of creation) reveals God and his purposes more clearly.

Human nature for Smith is a complicated mixture of self-love, benevolence, vanity, and many other things. We have a natural sociability which receives a great deal of attention in Smith’s work. As a Calvinist, the fallen nature of human beings is an important part of this picture, impairing both human moral and intellectual capacities. (Fuller discussions of Smith’s view of human nature may be found in Ross 1995, Winch 1996, and Fleischacker 2004. The role of the doctrine of the fall is discussed in Harrison 2007. Viner 1927 remains valuable on these topics)

We are naturally religious according to Smith. He is of course familiar with his friend Hume’s Natural History of Religion, which offers naturalistic account of the evolution of religious beliefs and institutions. At various places Smith offers something similar. Our religious feelings arise from our hopes and fears – relying on our imaginative capacities. Just as for Smith scientific investigation arises from our curiosity, nourished by our imaginative capacities.

Religion on the whole contributes positively to society (for instance through encouraging virtue and reinforcing our natural sense of duty). Smith’s is suspicious of “enthusiasm”, code for Methodism, and some of the extremes of his own Presbyterianism, and critical Roman Catholicism “superstition”. His ideal is “pure and rational religion” not perverted by fanaticism (Smith 1776 V i f 50 p793).

For Smith’s purposes it is mostly appropriate to view religion instrumentally, that is to enquire into causes of variation in religious behaviour and its consequences for society. The truth or otherwise of religious beliefs is mostly beside the point for his purposes.

Despite Smith’s interest in the social utility of religion, he does not offer utility as an explanation of religious beliefs and behaviour. Nor should we expect him to, for us many commentators have pointed out he is not a utilitarian in his philosophy - quite distinct from contemporary such as William Paley and Jeremy Bentham. (Discussed more fully by Ross 1995 and Fleischacker 2004)
Much of the recent literature on Smith’s discussion of religion in book V of the *Wealth of Nations* sees it as a precursor to the contemporary economics of religion. Larry Iannaccone for instance begins his survey of the contemporary economics of religion with a quip about the gap between the first and the second publications on the economics of religion. “With two centuries separating its first and second publications, there is no denying that the economics of religion got off to a slow start” (Iannaccone 1998 p1465). His seminal paper on the consequences of religious market structure for religious participation begins from Smith’s discussion of the topic: “In a largely ignored chapter of *The Wealth of Nations*, Adam Smith laid the foundation for an economic theory of religious institutions. Smith argued that self-interest motivates clergy just as it does secular producers; that market forces constrain churches just as they do secular firms; and that the benefits of competition, the burdens of monopoly, and the hazards of government regulation are as real in religion as in any other sector of the economy” (Iannaccone 1998 p156). Other surveys Iannaccone and Berman (2008) and Iannaccone (2012) take a similar approach. Larry Witham’s (2010) study of the rise of the economics of religion makes constant reference to Adam Smith as the founder.

We must be careful however to distinguish Smith’s approach from that of the contemporary economics of religion. There are several strands of the contemporary economics of religion literature, but the main strand has its roots in Gary Becker’s account of economics where rational individuals with given tastes maximise subject to income and time constraints. This strand of the economics of religion extends Becker’s account beyond human capital, the family, crime to religious behavior. Smith has a radically different view of human nature and human behaviour to the contemporary economists of religion. He does not begin from in individual maximization, and has a much broader view of human motivation, including features that would seem irrational to Becker and his Chicago colleagues. And which sit just as uneasily with the Virginia/Alabama branch of the economics of religion that focuses on religious rent seeking.

**Economic Discussion of the Church in Early Modern Britain**

Contrary to the impression created in much of the recent literature, Smith was not alone in applying economic tools to religious behavior. Instead he was part of a long-running British

For all of these writers the established Church of England dominated the religious landscape, and writers such as Hooker and Warburton constructed elaborate justifications of its position. Establishment meant legal privileges such as its own system of courts, state enforced monopoly control of university education, state support of its clergy, exemption from taxation, and so forth. Religious tests for public office gave the established church enormous influence over the state. Toleration granted to Roman Catholics and Protestant dissenters varied over time. Note that the situation in Smith’s Scotland was somewhat different with the Presbyterian Church dominant rather than the Church of England, and a greater degree of toleration granted to dissenters.

The principle of establishment was questioned by some writers (notably by Richard Whately’s anonymous *Letters on the Church by an Episcopalian*) but of the whole taken as beneficial and something that would continue in England for the foreseeable future. Debate centred on toleration of dissent, tests for various types of public office, the role of the established church in education, and mechanisms of state support such as the tithe system. As we will see in Hume and Smith’s discussion the economic explanation of and justification of church establishment absorbed the minds of participants.

**Smith’s Economic Analysis of Religion**

It is important to understand where the religion passages fit in the overall structure of Smith’s *Wealth of Nations*. The first two books of Smith’s work cover topics that a contemporary economist would recognise as economic theory; opening with his well-known discussion of the division of labour, and proceeding to discuss pricing, returns to labour and capital, and the accumulation of capital. The third book deals with the progress of opulence in different nations, what we might recognise as economic history. Then Smith’s discussion in the fourth book of different systems of political economy, including his criticism of the mercantile system and advocacy of free trade.

The discussion of religion comes in the fifth book of the *Wealth of Nations* on the revenue of the sovereign or commonwealth, a discussion which are contemporary economist might classify as
public finance. Smith proceeds through a discussion first part of the chapter of the financing of defence, then the system of justice, to the third part on public works and public institutions. An important section describes the deformation of the character of workers flowing from the division of labour, which I will quote at length: “In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country, he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war … But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.” (Smith 1776 V i f 50 p781-2)

This sets the scene for the discussion of education, for Smith sees education as a partial remedy for this deformation flowing from the division of labour. Note that the emphasis is on the working poor in the passage, an emphasis which flows through Smith’s discussion of education including the discussion of religion.

I will pass over Smith’s fascinating and insightful discussion of university education (in his terms institutions for the instruction of youth), where the incentives for practitioners, and questions of financing are central,

The discussion of religion in the third part of chapter I (entitled institutions for the instruction of people of all ages) is connected to the previous discussion of education by the observation that: “The institutions for the instruction of people of all ages are chiefly those for religious instruction” (Smith 1776 V i g 1 p788).
He quickly moves to the question of financing and its connection to the incentives participants face. Religious educators “may either depend altogether for their subsistence upon the voluntary contributions of their hearers; or they may derive it from some other fund to which the law of their country may entitle them; such as a landed estate, a tythe or land tax, an established salary or stipend. Their exertion, their zeal and industry, are likely to be much greater in the former situation than in the latter.” (Smith 1776 V i g 1 p788). Smith then observes that their behaviour has a great bearing on their appeal to the people, especially the inferior ranks who make up the majority of the people.

This has prepared the ground for the introduction of Hume’s view of church establishment, which Smith will criticise in developing his own position. He quotes large portions of Hume’s *History of England*, without naming the philosopher, though the popularity of Hume’s work plus Smith’s attribution of the passages to “the most illustrious philosopher and historian of the present age” (Smith 1776 V i g 3 p790) leaves no doubt about Hume’s identity.

Hume begins by asking the reader to “reflect a moment on the reasons, why there must be an ecclesiastical order, and a public establishment of religion in every civilized community” (Hume 1759 p134). He observes that for some professions there is a divergence between the interest of individuals and the interest of society. The reader of a chapter on the ecclesiastical state might now be expecting an argument that the clergy provide something of great value to society which is inadequately recompensed, and hence must be subsidised to increase its supply. Hume however, with delicate irony suggests, that the divergence goes the other way and that there is an oversupply of certain types of clerical exertion which promote “superstition, folly, and delusion.” He elaborates: “Each ghostly practitioner, in order to render himself more precious and sacred in the eyes of his retainers, will inspire them with the most violent abhorrence of all other sects, and continually endeavour, by some novelty, to excite the languid devotion of his audience. No regard will be paid to truth, morals, or decency in the doctrines inculcated. Every tenet will be adopted that best suits the disorderly affections of the human frame.” (Hume 1759 p136). Fortunately a remedy is at hand, which is “to bribe their indolence, by assigning stated salaries to their profession…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” (Hume 1759 p136). It is important for Hume’s argument that the salary from the state exhausts profitable opportunities for the clergy, and he illustrates with the example of Catholic priests in
other lands who though receiving support, retain the power of enriching themselves from the faithful, and thus retain an incentive for exertion that has pernicious effects.

Smith’s points out against Hume’s position that establishment typically comes from an alliance between a particular political group and religious group, with establishment being the spoils for the religious group when the political group it supports wins power. Establishment does not generate indolence, but corruption and violence. Both corruption and violence when a church is originally established, and later when other religious groups eventually challenge the established church, which in its enfeebled state must enlist the state to help it put down the challenge.

Smith’s alternative to bribing the indolence of the clergy is religious competition. The state should treat all sects equally, intervening only “to hinder them from persecuting, abusing, or oppressing one another.” (Smith 1776 V i g 16 p797). Such intervention will seldom be necessary because competition between “the great multitude of religious sects” for adherents will promote “good temper and moderation” and deliver “pure and rational religion, religion, free from every mixture of absurdity, imposture, or fanaticism” that both Hume and Smith seek (Smith 1776 V i g 8 p792-3).

Smith differs from his friend in believing that competition has a moderating effect on clergy, rather than the pernicious effects that Hume describes. The very large number of sects Smith envisages is essential for Smith’s difference of opinion. To ensure good temper and moderation though Smith also recommends encouraging the “study of science and philosophy” for “science is the antidote to the poison of superstition and enthusiasm” and encouraging “frequency and gaiety of public diversions… painting, poetry, music, dancing” (Smith 1776 V i g 14 p796) as an antidote to fanaticism.

He reinforces his point about the dangers of religious monopoly, in language familiar from his criticism of other types of monopoly earlier in the Wealth of Nations. (Smith 1776 V i g 17 p797) “The clergy of every established church constitute a great incorporation. They can act in concert, and pursue their interest upon one plan and with one spirit, as much as if they were under the direction of one man; and they are frequently too under such direction. Their interest as an incorporated body is never the same with that of the sovereign, and is sometimes directly opposite to it.”
And like his friend, he is not averse to a bit of Catholic bashing – especially after a passage like the one just quoted that might be taken by readers to be a criticism of the Presbyterian church. He writes “the church of Rome may be considered as the most formidable combination that ever was formed against the authority and security of civil government, as well as against the liberty, reason, and happiness of mankind, which can flourish only where civil government is able to protect them.” (Smith 1776 V i g 24 p802)

One question which arises at this point is where Smith got his vision of sects competing in a free market, and the most likely source is America. He was a close student of American affairs and while what he describes is not identical to the American situation, it is much closer than anything he observed in Europe.

In relation to the patronage system, which effectively denied most parishioners their choice of clergy Smith’s position is quite conservative. Fears about incentives for perverse behaviour by clergy exploiting the ignorance of their parishioners in relation to appointments, similar to his friend Hume’s fears about perverse behaviour by clergy to extract money, turn him away from democracy within the parish. Perhaps the incentives for perverse behaviour are stronger where clergy honour is at stake than when money is at stake, a theme that runs through Smith’s work. Perhaps democracy at the parish level is an impossible ideal when the people “act almost always under the influence of the clergy” (Smith 1776 V i g 36 p808).

Smith continues with an account of how economic development can weaken the power of the clergy, and how the Protestant Reformation can be seen as a popular movement undercutting an incumbent clergy.

The other interesting part of his discussion of religion is of clergy pay. He admires the equality of authority and pay among the Presbyterian clergy which creates incentives for the right kind of diligence. “The proper performance of every service seems to require that its pay or recompence 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 by 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 1776 V i g 42 p813)
And so “There is scarce perhaps to be found anywhere in Europe a more learned, decent, independent, and respectable set of men, than the greater part of the Presbyterian clergy of Holland, Geneva, Switzerland, and Scotland.” (Smith 1776 V i g 37 p810)

In terms of the contemporary debates Smith does not directly attack the principle of establishment, though he points out some of the dangers of religious monopoly, and sketches an alternative of free competition between religious groups which has benefits. His clearly in favour of toleration of a multiplicity of religious groups, though this does not extend to the Catholic Church.

In relation to previous discussions of church establishment Smith is much clearer on the connections between the financing of religion (including incentives for clergy) and the patterns and character of religion that we observe. Smith is the first in my view to have a clear conception of a market for religion. It would have interesting to know Hume’s view of Smith’s discussion of religion, but of course Hume died the year the Wealth of Nations was published, and there is nothing in the published correspondence other than Hume’s letter of congratulations to his friend, with general comments that do not extend to the religion passages.

**Literature on Smith’s Economics of the Church**

The modern literature on Smith’s economics of the church begins with a paper (Rosenberg 1960) which uses it as an example of the impact of different kinds of institutional arrangements on human behaviour. This remains in my view one of the best discussions of the religion passages in Smith’s *Wealth of Nations*, alongside work of Donald Winch (1996) and Ian Simpson Ross (1995).

A long-running debate, carried on mostly in the pages of the journal *History of Political Economy* was begun by Gary Anderson (1988). This paper makes some large claims, including that Smith offered an “economics of religion” where religion had a demand side that was about individuals enhancing the human capital, and a supply-side with clergy populated religious firms. Although Anderson notes that Smith is uninterested in theology or belief, he claims that “free markets in preaching tended to generate socially efficient doctrine” (p1073). Much of Anderson’s interest in Smith seems to come from his observation that in passages on religion Smith comes closest “to arguing in favour of free market anarchism” and that a free market in religion will “provide
optimal religious institutions” (p1074). These claims are hard to reconcile with Smith’s texts, for Smith emphasises the role of the state in regulating competition between the sects, and appreciates the benefits of the established Presbyterian church in his native Scotland. Nowhere in Smith’s work is he concerned with optimality, and certainly not in the religion passages.

Charles Leathers and Patrick Raines (1992, 1999) offer a very different account of Smith’s religion passages, where Smith’s gives qualified support to contributions from recipients of religious instruction in the context of state support of religion. They emphasise Smith’s positive statements about church establishment alongside his critique of religious monopoly.

Ekelund, Hebert and Tollison (2005) attempt to find a deeper consistency in Smith’s commentary on religion. They claim this consistency is to be found in appreciating that Smith’s maximand in religious markets was consumer sovereignty, and that religion is not a homogenous good. Leathers and Raines (2008) give their attempt pretty rough treatment, rightly in my view, and use it as an example of the dangers of reading Smith through the lens of contemporary economists concerns and theoretical constructs, with little attention to his 18th-century Scottish context and concerns. Peterson (2009) adds little that is original to this discussion.

Conclusions

Smith’s discussion of religion flows from his theologically framed account of human nature, and the novelty lies in his application of connected ideas of markets and competition developed earlier in the Wealth of Nations to religion. While is not a full economic model of the church or religious markets, it offers some raw materials for one. It would be a much richer economics of religion than the contemporary rational choice economics of religion could generate. Avoiding anachronistically reading a particular view of rational choice and utilitarian ethics back into Smith allows the richness of his analysis to emerge. Recognising the natural theological framework of his analysis allows us to avoid misreading his naturalistic account of religion as an attack on the truth of Christianity.

What is surprisingly absent from Smith’s discussion of religion is his view that we see in other parts of the Wealth of Nations that markets generate a beneficent harmony, a view that has its roots in the doctrine of divine providence. There are hints of a providential harmony in the historical parts of Smith’s discussion of religion but I cannot see that clergy self-interest is
worked into good outcomes for society in the way that the self-interest of participants in other markets is worked into good outcomes for society. Just as Smith’s discussion of education lacks the beneficent harmony theme. These omissions may or may not be significant. Perhaps he sees education and religion working differently. Or perhaps he sees no need to repeat the providential material when discussing these particular markets.

References


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