Morality and Monopoly: The Constitutional Political Economy of Religious Rules

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Introduction

Moral philosophy and economic analysis have long been thought to be entirely separate and distinct undertakings. The modern theory of human capital has opened communication between these traditionally disparate areas. Moral character can be analyzed as a form of reputational human capital. An individual can expect to bear significant personal costs from a moral transgression, to the extent that his or her reputation as a trustworthy, morally responsible agent is jeopardized by the immoral act.

Unfortunately, moral rules are not entirely self-enforcing in this manner. Some moral rules tend to benefit society, even though the individuals following those rules may not themselves directly benefit. This dichotomy presents an intriguing problem.

Constitutional economics suggests that moral rules form a relevant portion of the infrastructure of economic society. Some moral rules constrain the behavior of individuals in economically efficient ways, benefiting society at large. Such rules function to minimize free riding problems by providing internal constraints on individual behavior. The available stock of moral capital is a vital prerequisite for an efficiently functioning market economy.

Throughout history, a major provider of this moral infrastructure has been organized religion. Adherence to moral regulations has for

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most individuals been related to their beliefs in the demands of theology. Stated simply, the belief in heaven and hell (or their equivalents in non-Christian religions) has been an important source of moral behavior.

Religious doctrine can be modeled as a kind of "economic good," provided to its "consumers" across a "market." By doctrine we mean both the system of theology per se, and the moral guidelines promulgated in connection with those theological beliefs. When confronting situations involving other, more ordinary, sorts of economic goods, we routinely assume that the structure of the market will have significant effects on the price, quantity, and quality of service provided. This paper examines the relation between market structure and morality, considered as the "output" of organized religion. We will argue that there is an unusual relationship between market structure and social welfare in this particular case. We normally expect monopoly provision of a good or a service to reduce social welfare. But monopoly in the market for organized religion may actually increase net social welfare.

Religion and the Provision of Moral Order

The modern economics of crime and law enforcement emphasize the measurable, and hence observable, costs and benefits associated with nonvoluntary transactions. The individual criminal engages in unlawful behavior only when he perceives the expected marginal benefit to exceed the anticipated marginal cost. This formulation, however, is seriously incomplete. After all, the actual risk associated with most forms of criminal behavior is probably quite small relative to the marginal benefits the criminal might expect to receive. For example, rates of apprehension, prosecution, and conviction of criminals are fairly low. Yet most people, most of the time, abstain from criminal acts; most transactions between individuals are voluntary.

Adam Smith noticed this apparent paradox, and concluded that part of the answer lay in the relationship between the income streams of individuals and their personal reputations for moral character. The profit opportunities available to a market participant are enhanced if he has a reputation for being a reliable, nonopportunistic potential transaction partner. This reputation is a valuable capital asset, and its increase in value rewards him for displaying honorable behavior. Therefore, the expansion of markets (and commercial interaction) tends to improve the moral character of individuals, i.e., those personality traits which tend to benefit society.

Adam Smith also argued that there was another critical constraint in addition to the market for reputational human capital. In his *Theory of Moral Sentiments* (1759), he described this internal constraint as the "impartial spectator." Certain features of an individual's own utility function might cause that person to prefer some forms of behavior and avoid others because of the predictable effects such acts might have on the welfare of other people.

Thus, Smith distinguished three distinct, but interrelated and mutually supporting, levels of constraints facing any individual's behavior toward the rest of society: (1) external law enforcement, i.e., the machinery of justice in society; (2) external incentives for control of opportunistic behavior in the form of the market for reputational human capital; and (3) the internal structure of the individual's utility function that performs self-monitoring against opportunistic individual behavior.

Douglass North (1981) has termed this last constraint "ideology"—using the term to refer not to a system of ideas but to systems of constraints internalized within individuals—and has argued that this internal self-monitoring function plays a vital role in motivating human economic behavior. David Gauthier (1986), David Levy (1982), and Viktor Vanberg (1988) all argue that this internalized self-monitoring process represents an important constraint on individual maximizing behavior that needs to be incorporated in economic models of individual action. Most writers refer to this internalized self-monitoring process as "morality."

Moral rules function as internal constraints on individual behavior, which provide for self-monitoring and self-enforcement against socially inefficient forms of behavior. The totality of relevant moral rules accepted by all individuals represents the moral constitution of a society. The set of moral rules a person has internalized represents that individual's personal moral constitution.

Vanberg (1988) argues that individual adherence to moral rules is motivated by two separate factors. Individuals have an incentive to protect the value of their reputational capital as trustworthy potential transactors (as noted by Adam Smith). But individuals also benefit from a personal moral constitution in that it allows them to minimize the costs of day-to-day decisions.

The moral choices of individuals also have repercussions for society as a whole. An efficient economic order will best operate in the context of an economically efficient set of moral rules. For example, assume that a moral rule allowing unrestricted theft ("it is moral to steal as long as you do not get caught") maximized individual wealth in the short-run for successful thieves. Unfortunately, individual moral choices that are efficient from the perspective of society may not be efficient from the standpoint of the choosing individual. To return to the above example, sometimes an individual might correctly perceive that the risk of being discovered as a thief is negligible, making a particular act of theft seem worth the cost, despite the fact that his thievery reduces the rate of return on productive investment and thereby reduces the net wealth of society as a whole. Moral choices made by individuals often imply this kind of public goods problem.

Some moral rules, held by different groups at various times in history, have undoubtedly hindered the operation of local markets. Competition between different societies that subsisted on different sets of moral rules— different moral constitutions—led to the systematic elimination, through natural selection, of moral rules that reduced economic efficiency and rewarded societies with different rules that contributed to efficiency. Therefore, over long periods of time, moral rules have tended to become more efficient because inefficient rules systematically failed to survive. Unfortunately, the "marketplace" of cultural evolution requires centuries, or even millennia, to clear.

Organized religions have provided most systems of moral rules accepted by individuals as the basis for systems of internal moral constraints. Moral rules are not necessarily religious in character, but systems of moral rules that individuals follow have most often been provided by religious organizations. Organized religions can be thought of as firms marketing systems of moral rules to individual consumers. Such "firms'" enjoy economies of scale in the production and marketing of moral rules, and combine such provision with other advantages (e.g., the club benefits enjoyed by members of the same church).

Religion provides an additional level of enforcement to moral behavior: the supernatural "police." Religions describe the systems of moral constraints they represent as expressing the will of the gods, or God, who threaten(s) to sanction malfeasance, either during the lifetime of the transgressor or in an afterlife (e.g., being consigned to hell rather than heaven). If omnipresent divine surveillance is a credible threat to potential sinners, fear of divine wrath may significantly raise the perceived cost of opportunistic behavior.

Throughout history, organized religions have collectively been a major provider of the moral constitution of society. The structure of the religious marketplace may have had significant effects on this process.

State-sponsored monopoly religion was roundly criticized by many classical liberals (e.g., Adam Smith and John Stuart Mill) as a violation of basic individual liberty, and also because the doctrines promulgated by such monopolies were thought to produce inferior moral constraints on individual behavior. Monopoly religions purportedly provide inferior services by tending to their flocks in a less diligent, more shirking manner. Social welfare suffers because the moral glue necessary for the efficient operation of the economic order is of lower quality. But competitive markets for religion and moral rules were thought to do a better job, much as competitive markets for any other good or service function to provide better quality at a lower price.

Consider, for example, Adam Smith's extensive discussion of the markets for religious services in *The Wealth of Nations* (see Anderson 1988). He argued that state-supported, monopoly religion produced inferior service for its consumers. Specifically, monopoly religion led to a relaxation in the effective moral standards promoted by clerics. This resulted from shirking on the part of clerics, who were left unconstrained by fear of competitive entry into the market for their services. According to Smith, monopoly in the market for religion tended to lead to a reduction in service quality (Smith [1776] 1976, p. 311).[1]

Smith neglected to consider an important aspect of the behavior of a religious monopolist, and may therefore have reversed the sign on the net effect of monopoly religion on the moral constitution of society. Monopoly in the market for religious services may actually tend to *improve* the utility of moral rules, viewed from the perspective of society as a whole.

Morals and Competitive Markets

If morality is defined as a set of logically coherent, mutually consistent internal constraints on behavioral choices, then a large number of distinct ethical systems are possible. Alternative sets of moral rules are potentially available to rational individual actors. However, some conceivable moral rules contribute to social efficiency, while others may have the opposite effect.

Under the assumptions of the competitive model, we expect that consumers of religion will be provided with the precise mix of ser-

[1]Smith ([1776] 1976, pp. 312–13) also suggested that a competitive market for religion might lead to excessive moral stringency from the standpoint of economic efficiency, as religious sects each attempted to convince consumers of their superior credibility by imposing more rigorous behavioral requirements on their adherents. He appears to have favored a basically free market for religion, with some minimal government regulation.

vices they consider optimal, subject to relevant cost constraints. The services of religion include the moral code associated with the religious belief. Religious firms will have a comparative advantage in the provision of sets of moral rules because the theological basis of such firms imparts credibility to the moral structure. A consumer has reason to rely on the quality of the given set of moral strictures because he believes that they have received divine sanction. This lowers the cost of marketing sets of moral rules to consumers and also lowers the cost of generating compliance. The same divine entity that guarantees quality provides for enforcement against moral transgressions (e.g., in the afterlife).

If religious doctrines achieve market success purely as a function of their ability to compete freely for adherents, the religions that survive will be those providing the most acceptable moral requirements. If we assume that all potential church members are members of the species *homo economicus*, then the best moral rules (from their individual perspectives) will be those that require them to do exactly what they would otherwise most prefer to do, other things equal. This does not necessarily imply that the list of rules will be an empty set; in fact, it might be consistent with immensely detailed moral strictures. Rather, it implies that however many nominal moral requirements there may be, they will collectively imply that the individual's behavior will be subject to no actual constraint over-and-above those constraints imposed by scarcity.

Moreover, in the long run, optimal sorting of individuals across available religions (each with its own peculiar moral strictures) by moral preferences will reinforce the nonbinding property of competitive moral rules. In other words, people will gravitate to religions that promote codes of morality producing the least impact on those particular individuals' actual behavior; people will tend to adopt systems of moral rules most consistent with their preexisting individual preference orderings.

The moral order—considered as the effect of, but separate from, the moral beliefs of individuals—is a pure public good. Rational wealth-maximizing individuals will act to protect the value of their reputations for being moral actors, but will tend to free ride and behave opportunistically in cases where they expect such malfeasance will remain undetected and unsanctioned. To a rational self-interested actor, behavioral (moral) restrictions are bads. Naturally, some individuals will be unaffected by some external restrictions. The costs of behavioral restrictions are a subjective phenomenon and may have no observable manifestation. But, in general, a rational individual will prefer fewer effective behavioral moral restrictions.

Competition in the market for religious services improves the efficiency of those markets in providing religious goods to consumers. These private goods include the insurance benefits (implicit and explicit) associated with church membership, the club gains, socializing, reputational advantages (Jane goes to church, so Jane is perceived to be more trustworthy by potential transactors as a result), and other effects. Such private goods will be available in larger quantities and at lower prices than would be the case if the religious market were monopolized.

But because consumers of different religions do not, other things equal, demand utility-reducing moral constraints to be imposed on themselves, moral order as a public good tends to be *underprovided* in a competitive market for religious services. Competing sects compete by improving service (and reducing price) to consumers—which includes producing and marketing more attractive (i.e., more liberal) moral restrictions. This process will tend to produce rule structures which are more congenial to those individual consumers.

This competition will not necessarily result in less stringent rules in any observable sense. Rather, a consumer of moral rules will prefer to join whatever religion offers a moral code of behavior that most closely resembles his or her underlying utility function. Thus, some religious sects or denominations may offer relatively complex and (superficially) strict sets of moral rules as requirements for membership, but that particular set of strictures may only reflect the pattern of preferences shared by members of that particular (individually self-selected) community independently of those rules.

Certainly, individuals often voluntarily join sects that nominally restrict their behavior in various ways. But a given nominal restriction may only reflect the pre-existing dislikes of the individual adherent. Many people simply do not have libertine preferences, but instead place high value on goals such as security and orderliness; they may also have preferences influenced (in the long run) by their economic circumstances. For example, many of the medieval heresies in Western Europe—that is, black market providers of illegal alternative religious doctrines—rejected material wealth, glorified poverty, and advocated extreme sexual abstinence. However, requiring the (already) poor to reject material wealth is hardly an onerous restriction, and many of the medieval heresies inspired their adherents to reduce the sinful material wealth of the rich by relieving such sinners of their property—another requirement likely to be highly attractive to many poor believers. Similarly, a rule requiring sexual abstinence was potentially a welfare-enhancing *relaxation* of a social norm of producing children, at least from the standpoint of women, to whom pregnancy and childbirth often had fatal consequences.

Monopoly Religion and Moral Order

A church can be thought of as a firm that markets a pure credence good. Consumers cannot sample the promised life-after-death and use that experience to evaluate the reliability of the church's advertised claims. Consumer acceptance of the church's product depends on their trust in the church's reliability. A firm marketing such an unusual product must carefully protect its brand-name capital by refraining from activities which might be taken as indirect evidence of insincerity or dishonesty. Otherwise, the demand for the services produced might disintegrate altogether.

Therefore, a profit-maximizing firm marketing a pure credence good will avoid activities that might be construed as evidence of opportunistic motives. Elaborate justifications will be developed for payments from consumers to the firm. The very profit-maximizing goal will be disguised for fear of causing consumers to question the validity of the intangible, nonobservable goods available for purchase.

Assume that one religious firm has achieved a pure monopoly, in the sense that competing entrants into the market for religious services are subject to harsh coercive penalties. The monopoly church then behaves like a typical monopolist, setting price by equating marginal cost with marginal revenue in order to extract monopoly rent from consumers.

Historically, churches have tended to extract rent (obtain net revenue) by structuring doctrines in such a way as to require individuals to pay fines "for the good of their souls" to the church. (The church in question typically describes the resulting revenues as destined for various "good works," such as aid to the poor, the glorification of God, or any other goal than the comfort and consumption of church officials.) While the monopoly church might have a number of revenue sources, other things equal, the greater the stringency of moral rules imposed on individual behavior, the greater will be the opportunities for revenue (i.e., fines imposed on sin) and therefore the larger the rent extracted. In a competitive market for religion, sects will face the loss of members to other sects if they implement policies that impose burdens on their present congregation, other things equal. As we noted previously, even some nominally strict requirements may actually impose a zero or negligible burden on particular individuals. However, if one organization holds a legal monopoly in the market for religion, this process is constrained. Consumers are prevented from shopping for the least-cost set of moral requirements. The welfare of individual consumers may suffer in the short run, but the effective restrictiveness of moral rules will tend to increase. This constraint, in turn, may enhance economic efficiency, if the monopolist has an incentive to produce efficient moral rules.

Further, the very existence of competing religious sects depreciates the credibility of all religious beliefs taken together. If God exists and provides for life after death and other nonobservable attributes, why does He permit the True Church to be challenged by interlopers? The existence of multiple competing sects therefore limits the extent of the market for religion in general. Detailed claims regarding behavioral restrictions and moral rules become more difficult to sell to consumers. Religiosity—the willingness of consumers to actually believe religious claims about the supernatural—represents a problem of the commons from the perspective of religious sects. The larger the number of competing religious sects, the greater the extent of "overgrazing" on the commons becomes. But a monopoly church is the sole owner of the religiosity commons and has an incentive to prevent overgrazing.[2]

Although religious sects often provide some collective goods to their members, the most basic services they ostensibly provide are purely *private* goods. These services involve the intercession on the believer's behalf with the divine power. For example, the principal service the Catholic Church purports to provide to its members is salvation, not bingo games or insurance benefits. Salvation is necessarily a purely private good, in which others play no role. (The official doctrine of the Catholic Church has long held that salvation was strictly a function of faith on the part of the individual, and good works only play a role insofar as they represent an expression of that faith.) In pagan religion, the gods were believed to reward their

[2]Lawrence Iannaccone (1989) offers a quite different analysis of the relationship between moral strictness and the structure of the religious market. He argues that religious sects tend to compete with each other by offering stricter rules and regulations. He postulates that such requirements allow competing sects to more efficiently control free-riding behavior, and therefore increase the attractiveness of membership. However, he models sects solely as providers of various forms of club goods to members, and implicitly assumes that divinity plays no role. But worship of the divine is the main purpose of religious participation. God (or, the gods) have almost always been portrayed by religious sects as omniscient, and extremely powerful when annoyed (and sometimes even omnipotent). In other words, the divine is the ideal monitor against free-riding. Shirking, insincerity, and other forms of malfeasance by members of the religious sect tend to be crimes punishable by divine intervention—either after death or even during life.

faithful servants with good fortune during life. But whether it takes the form of expected reward in an afterlife, or a more tangible reward in the here-and-now, the favor of the deity (or deities) is an ordinary private good (albeit with some extraordinary characteristics).

The case of the provision of moral rules by religion may be an example of the efficient provision of public goods as a by-product of rent seeking by a self-serving interest group. The monopoly church may provide a socially efficient bundle of moral rules as a by-product of its efforts to maximize rent extraction from consumers of religious services.[3]

Rent Seeking and the Provision of Moral Order

Under some circumstances, a rent-maximizing religious monopoly may tend to benefit from promoting certain kinds of moral rules even though those rules do damage to the overall economy. Such a monopolist may maximize its return in the short run by supplying moral rules that represent public bads in this sense.

For example, by ruling sinful certain forms of ordinary behavior that individuals otherwise find rewarding and that simultaneously serve economic efficiency (e.g., trading in the money economy for profit), a monopoly church might expect to obtain significant rents (in the forms of contributions, penalties, and so on). In such a case, commercial activity would probably decline, and those business activities that continued (although perhaps driven underground) would be a source of fines and other payments to the monopoly church, as transgressors sought forgiveness. Such monopoly rent-maximizing behavior could conceivably result in massive losses to the economy, as efficiency-enhancing forms of individual behavior were systematically reduced. This argument would seem to suggest that monopoly religion might tend to *oversupply* moral rules of an inefficient type.

This short-run model, however, neglects the monopoly religion's long-run incentive to maximize profit. If a monopoly religion benefits directly from economic growth, it will have an incentive to provide moral rules that promote economic efficiency. These direct benefits would take the form of tithes, bequests, and other contributions from believers who view their contributions as normal or even superior goods, which would tend to grow with the wealth of those contributors. Given this assumption, monopoly religious organizations will have a vested interest in economic efficiency, which implies that

[3]See Cowen, Glazer, and MacMillan (1990) for a recent general discussion of this problem. See Anderson, Rowley, and Tollison (1988) for an historical example.

the provision of economically efficient moral rules will be a wealth-maximizing strategy from the perspective of the rent-extracting monopoly religion.

Compare this vested interest in economically efficient moral strictures with the situation likely to occur under competitive conditions. Individual competing firms will benefit in the short run by providing moral rules their members find most congenial—despite the detrimental long-run effects some such rules could have on economic efficiency. But unlike the monopoly religion, which expects to survive indefinitely and hence has a very long time horizon and an incentive to maximize returns in the long run, competing sects do not expect longevity and thus have short time horizons and an incentive to maximize returns in the short run.

Competing religious sects face a problem of the commons: they will maximize short-run profits by consuming part of the moral capital of society. Any detrimental consequences to the overall economy will tend to be diffuse and borne by all. The short-term advantages of appealing to potential members by offering moral rules that adversely impact the moral constitution of the society will be concentrated and restricted to the opportunistic individual sect in question. In economic terms, moral externalities will fail to become fully internalized. But the monopoly religious firm will be a residual claimant of the gains to society from efficient moral rules and will consequently have the incentive to provide a more nearly optimal mix of moral regulations. The monopoly church will directly benefit from any activity that increases economic growth, because a larger population represents an expansion in its membership, and a richer society will be a source of more lucrative contributions.

Competing religious sects will tend to improve the moral services they provide to consumers by offering moral rules that minimize the moral burden on each adherent. These moral rules will tend to constrain individual behavior less, and justify individuals' preexisting preference orderings more. Religious sects in a competitive market will evolve toward clubs composed of individuals with similar economic interests and preference orderings. These clubs will provide various forms of insurance to their members, economies of scale in consumption of collective goods, and function as mutual protection societies for people of like preferences. Eventually, some of these clubs will specialize in appealing to individuals with socially inefficient preferences who find themselves rewarded by the peculiar moral strictures offered "for sale" by such organizations. The net effect of this race for the bottom could be that some forms of economically inefficient, opportunistic individual behavior are encouraged.

A Reinterpretation of the Rise of the West

Our model of religion may have significant implications for economic history. One possible illustration of the economic consequences of monopoly religion involves a reinterpretation of a premier historical conundrum: the rise of Christianity and the fall of Rome.

The triumph of Christianity over paganism in the late Roman Empire is one of the major events in world history and has been extensively studied for centuries. In 313, the Roman Emperor Constantine the Great issued his Edict of Toleration, providing legal protection of Christians from persecution. Over the space of the next 10 years, Constantine gradually made Christianity the official state religion. Finally, in 392, the Emperor Theodosius I made the practice of paganism effectively illegal (Huttmann 1967, p. 216). Christianity became the state monopoly religion of the Roman Empire.

The paganism that preceded Christianity in the Roman Empire was not one religion, but actually dozens—and possibly hundreds. While there was a Roman religion, with its peculiar pantheon of gods and lesser deities within the Empire generally, and even within Rome itself, many other religions were allowed to compete freely for adherents. Aside from occasional legal requirements that nominal respect be paid to the Emperor as a deity, none of the structure of worship of any Roman pagan sect was defended by legislation prior to Constantine the Great's reign (MacMullen 1984, p. 15).

In short, paganism referred to a highly competitive market for religion in the Roman Empire. Entry barriers were essentially nonexistent, and new religions were common. The Roman religion successfully accommodated foreign cults for centuries, by incorporating their deities into the Roman religion as alternative identities for Roman deities.

Pre-Christian paganism in the Roman Empire had the major characteristics the model presented here would have predicted. Most importantly, pagan cults normally had little or nothing to say in the form of ethical restrictions or moral rules. This was particularly true for the Roman religion itself. Religion was presented as a way of interacting with the divine entities who actually ruled the physical world, either to forestall their wrath or to seek their active support for mortal enterprises. As MacMullen (1984, p. 13) explains:

> From the divinity all good might be received: foreknowledge, safety in risky doings, good crops, and (attested above all else and espe-

> cially signalized in various points of cult) good health. Such were the universal expectations, so far as we can judge, outside of Judeo-Christian circles. The idea that any sort of day-to-day service or perpetual allegiance was owing to divinity had little currency. Neither was there the least uneasiness about the self-interested nature of worship. You only made offerings, or promises of offerings, in order to gain favor from powerful beings.

Pagan Roman religions did not, in general, preach hedonism, or libertinism (although there were some individual religions that did); rather, the answers to moral questions were not assumed to follow from religion. Moral codes were based on tradition, or law, or reason, but were not normally presented as the dictates of the gods. The gods were typically portrayed as quite uninterested in the day-to-day affairs of mere mortals, unless specific mortals had convinced one or more divine entities to pay attention temporarily—usually, it was assumed, because the gods in question thought that they themselves could expect to receive some tangible benefit. This minimal moral constraint is exactly the kind of outcome we would predict to be associated with a highly (if not perfectly) competitive market for religion. Competing sects would be forced to compete by offering potential customers higher quality products, including lenient constraints on personal behavior. Pagan cults attempted to attract new adherents by providing superior entertainment, and by attempting to convince the nonconverted that the cult's deity (or deities) provided better services to followers, and hence were worthy of allegiance (see MacMullen 1980, pp. 18–33).

The primitive Christian church, however, was an exception. Although Christianity in the early centuries stood for a plethora of competing sects and doctrines, the Church that achieved state monopoly status behaved predictably. Moral rules and other regulations on personal conduct were stringent and rigidly enforced. The Christian God was the one and only True God, and the Church condemned all other, competing divinities worshiped by other sects. The Christian God did not offer valuable services to potential adherents, but failure to accept Him was portrayed as leading to horrible torment after death (i.e., hell).

In fact, this intentional exclusivity (or "exclusionism") was what got the early Christian movement into trouble with Roman authorities. Christians were periodically persecuted, although the persecutions usually involved relatively small numbers of Christians. The only widespread persecutions of Christians occurred during the reign of Diocletian (284–305), and during the first decade of the 4th century preceding the Edict on Toleration. Christians were persecuted because they adamantly refused to acknowledge the divinity of other gods than their own. The Roman authorities had no complaint with any other aspect of Christian religion. Roman toleration of alternative sects did not extend to "atheists," which was the term Roman officials repeatedly used to describe the exclusivity of the Christians (see Chuvin 1990, pp. 17, 21). Furthermore, this attitude toward exclusivity was expressed not merely by anti-atheistic officials, but reflected the view of many Roman citizens. Petitions to the Emperor to initiate persecutions against Christians because of their alleged atheism have survived, and they provide strong evidence that many ordinary people were worried about Christian denial of the validity of other sects and the divinity of other gods (Smith 1976, p. 43).

Roman policy aimed against the exclusivity of Christianity was similar to their policies directed at the adherents of other religions that also claimed monopoly status for the divine, such as the doctrines of Mani and Judaism. Anti-atheist policy, then, was the equivalent of antitrust measures in the market for religion. Sects with a stated ambition to achieve monopoly status, which denied the divinity of the gods worshiped by other sects, were subject to legal sanction.

Naturally, these Roman policies resembled modern antitrust enforcement only imperfectly. There were many differences. Competing sects could not bring lawsuits against the would-be monopolists. There appear to have been no legal penalties for price-fixing, or restraint on trade, in the religious market. (We simply do not know if any significant amount of collusion took place between different sects, although it is well-established that relations between the various religions were ordinarily quite peaceable.) And of course, the Romans did not explicitly speak in terms of "regulating the religious marketplace." Still, the policies had the effect of pro-competition regulation.[4]

The Christian church began to rapidly acquire special governmental privileges with the Edict on Toleration (Milan 313). After Constantine's reign, the establishment of Christianity as a state monopoly religion continued steadily, albeit with occasional brief interrup-

[4]Additionally, some of the instances of anti-Christian persecution appear to have been at least partly motivated by the concern that Christians were potential traitors against the Roman state. There were two reasons for such a concern. The first was that Christians refused to acknowledge the Emperor as a divine entity, to refer to the Emperor as "Lord," or to take oaths on the "Emperor's Genius." The other source of concern about Christian loyalty involved the occasional outbursts of social unrest which were thought to have been led, or at least encouraged, by Christians (Smith [1776] 1976, p. 30).

tions. In 356 worship of images (a practice virtually universal in pagan religions) was technically a capital crime within the Empire, although the law was only sporadically enforced. From about 380 on, organized persecution of non-Christian sects, both by the government and with the governments's tacit or explicit consent, accelerated in frequency and intensity. By 407, "it could be fairly claimed that non-Christians were outlaws at last" (MacMullen 1984, p. 101). The same historian observes:

> From Rome in 407 issued a decree to the west, "If any images stand even now in the temples and shrines. . ., they shall be torn from their foundations. . . .The buildings themselves of the temples which are situated in cities or towns shall be vindicated to public use. Altars shall be destroyed in all places." Nothing could be more explicit. It was no longer enough to favor the church, no longer enough to forbid the murkier practices of pagan cults; now anything and everything to do with them must be annihilated [p. 101].

Since the publication of Edward Gibbon's *Decline and Fall of the Roman Empire* (1776–88), some historians have attributed the Roman Empire's demise partially to the rise of Christianity. Gibbon argued that the basically reasonable and down-to-earth Romans were transformed into irrational, other-worldly apocalyptics, and that this change somehow led to the weakening of Rome both militarily and culturally.[5] Although Gibbon's close friend, Adam Smith, does not discuss Roman paganism in his *Wealth of Nations*, Smith may have had this example of free-market religious competition in mind when he wrote his famous account of the advantages of religious competition in promoting reasonable beliefs and attitudes among the religious.

Gibbon bemoaned the fall of Rome, and claimed that the average person in the Roman Empire at its height was wealthier than his equivalent in late 18th-century England. But on this count, Gibbon was simply wrong. Real per-capita income in 18th-century England was many times higher than it had been in Rome even during the best of times. Moreover, Gibbon appears to have ignored the fact that a sizeable percentage of the Roman population were slaves. He chose to overlook the incessant and destructive civil wars that plagued the Roman Empire throughout its history; Roman government was highly unstable at the imperial level. Finally, Gibbon failed to note the stagnant economy of the Roman Empire.

[5]Gibbon described the early Christian church as dominated by the irrational and those who encouraged social discord, contributing to the breakdown of Roman reason and order. See Gibbon (1974, pp. 346–47) for a summary.

Per-capita income in the Roman Empire appears to have experienced very low growth. According to a recent survey of the problem, the Roman economy was "underdeveloped," and "the mass of the population lived at or near subsistence level"; the period of the Roman Empire "deserves to be categorized as one of relative stagnation" (Garnsey and Saller 1987, pp. 43, 63).

Compare this record with the history of the Christian West. Although older writers dismissed the Middle Ages as a period of stagnation, modern economic historians generally agree that the period beginning around 1000 until immediately before the Reformation of the mid-16th century—a period in which the market for religious services was dominated by the monopoly Roman Catholic Church—represents a period of sustained economic growth in Western Europe, interrupted by the Black Death of the mid-14th century (Cameron 1989, Jones 1989, and Mokyr 1990).[6] Thus, the modern period of very high rates of economic growth which began after the Protestant Reformation was a continuation, and acceleration, of a trend that was already 500 years old.

Any measurable influence on the moral constitution of a society exerted by a monopoly religion would presumably require a long period—possibly centuries—to take effect. The Edict of Milan did not lead to any immediate growth spurt in the Roman Empire, and the succeeding five centuries or so appear to have been economically stagnant. We suggest that this delay may have been, in part, a lag in the emergence of a new moral constitution, in addition to having been a period of prolonged civil strife caused by other factors.[7] Also, the monopoly power of the Roman church was significantly strengthened after about 1050 by the Papal Revolution and related events, and the previous centuries of less-effective monopoly may have muted the effects on the moral constitution (see Berman 1983, Morris 1989).

Our model of religious marketstructure has drastically different implications for economic development than does the well-known alternative argument propounded by Max Weber ([1904–5] 1948)

[6]Cameron (1989, p. 44) summarizes this consensus: "In fact, medieval Europe experienced a flowering of technological creativity and economic dynamism that contrasts strongly with the routine of the ancient Mediterranean world."

[7]On the other hand, recent economic historians have noted the impressive technological advances that occurred during the "Dark Ages." These included better and bigger water-wheels, horseshoes, the stirrup, the breast-strap and horse collar, the tandem harnessing of horses, the whippletree, the use of plaster, the use of soap, the use of fossil fuels, the development of chimneys, and others. All of these seemingly mundane but significant innovations originated before 900 (see Mokyr 1990, chap. 3).

and Richard Tawney (1926).[8] They maintained that the medieval Catholic Church greatly hindered the emergence of capitalism by purportedly teaching that profit-seeking was sinful and by restricting many growth-enhancing activities (e.g., usury); capitalism only emerged after the Protestant Reformation, when a more competitive market for religion allowed for the development of more liberal doctrines regarding business and commerce. This thesis is accepted by a number of recent writers (e.g., Rosenberg and Birdzell 1986).

Our response is that Weber and Tawney were seriously mistaken on several grounds. Two are germane here. First, medieval Europe was not the stagnant swamp they imply, but had a dynamic, growing economy in which capitalism (i.e., monetized exchange) began to develop very early. Second, the Catholic Church did not reject profit-seeking, but only opportunistic behavior (i.e., avarice); ordinary commerce was actively encouraged. Apparent exceptions, like the prohibition against usury, were actually implemented in ways that allowed easy evasion. The monopoly church rather than governments provided many public services vital to the functioning of a market economy, such as legal dispute resolution and charitable institutions.[9] Given the relevant constraints—both the undeveloped state of the overall economy and the comparatively primitive state of available science and technology—the church behaved in a manner that probably benefited economic growth and development.

Rates of economic growth in the period 1550 to 1850 (and, of course, to the present day) have been greater still than those evidenced during the Middle Ages, and coincide with the aftermath of the Protestant Reformation. Weber and Tawney, and many other historians, have shown a tendency to portray the Reformation as a great expansion in religious freedom and competition between sects. The Catholic Church did face increased competition across Europe, but in many countries the Reformation led to state-sponsored monopoly Protestant churches.

The foregoing account of the history of the later Roman Empire is intended as an interpretive illustration of the economic consequences of the superior provision of moral order by rent-seeking religious organizations protected from competition by governmental monopoly. We have provided only a brief sketch of the incredibly complex events that transpired in the centuries surrounding the rise

[8]Weber was not the first to make such an argument. Adam Smith offered a similar thesis, although it differed in some details (see Anderson 1988). Viner (1978, pp. 159ff.) found several earlier writers who made similar claims, some dating from the late 17th century.

[9]See Gilchrist (1969, pp. 122–40) for a general discussion of these matters.

of Christianity. Certainly, many other factors contributed to the relative stagnation of Rome (with its highly competitive religious marketplace), as compared with the economic dynamism of the Christian West. We merely propose that one important contributing factor was the superior ability of the (coercive) monopoly Christian church to provide an efficient moral constitution for economic growth and development. Unlike pagan religions, once the Christian church achieved a legal monopoly, it took steps to "enforce moral standards and to promote uniformity in theological expression" (Grant 1970, p. xii). Included in the package were those moral standards that enhanced economic growth.

This argument is not intended to imply that the monopoly effect on the moral order is the only, or even the primary, factor in economic development. In fact, it is likely to be more important in relatively less developed settings. As economic development proceeded in the West, institutions designed to minimize social transactions costs have greatly expanded. Formalized, external constraints on individual opportunistic behavior—such as police, law, courts, and capital markets—have become relatively more important, relieving the need for internalized constraints in the form of a moral constitution, whether provided by organized religion or otherwise. In other words, two of the three constraints on individual social behavior discussed by Adam Smith, namely law and human capital incentive effects, have become more important over time, while the third, the internalized monitor, has become less significant.

Conclusion

The consumption choices made by individuals in the market for moral rules collectively generate the moral constitution of society. This moral constitution represents the behavioral infrastructure necessary for an efficient economic order. The sets of moral rules chosen by individuals as guidelines in their personal lives are private goods, but the moral constitution that results from the collective effect of those individual choices is a public good. We have argued that competitive markets for religion may generate negative externalities for society because "profit"-maximizing, competitive religious firms will tend to improve the quality of the moral rules they offer for sale to individual consumers by decreasing the effectiveness of those rules as behavioral constraints. The presence of monopoly in the market for religion may tend to reduce the quality of moral rules from the standpoint of individual believers, but improve the quality of the moral constitution supporting a market society. This result may help explain why "The European Miracle" (Jones 1981), and other examples of sustained economic growth, have occurred when and where they did throughout history.

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