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## **Religion and the Wealth of Nations after 250 Years**

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# Religion and the Wealth of Nations after 250 Years\*

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## Abstract

This chapter explores the intersection of religion and economics on the 250<sup>th</sup> anniversary of Adam Smith's *The Wealth of Nations*, first published in 1776. While Smith is often viewed as a secular figure in economics, his work was deeply influenced by the moral philosophy of his time, which was shaped by Christian thought. I discuss how economists think about the religious themes in Smith's work in the 21<sup>st</sup> century and review what we know today about the connection between religion and economic outcomes.

*JEL codes:* B1, B2, N3, N9, P5, Z12.

*Keywords:* Adam Smith; religion.

## 1 Introduction

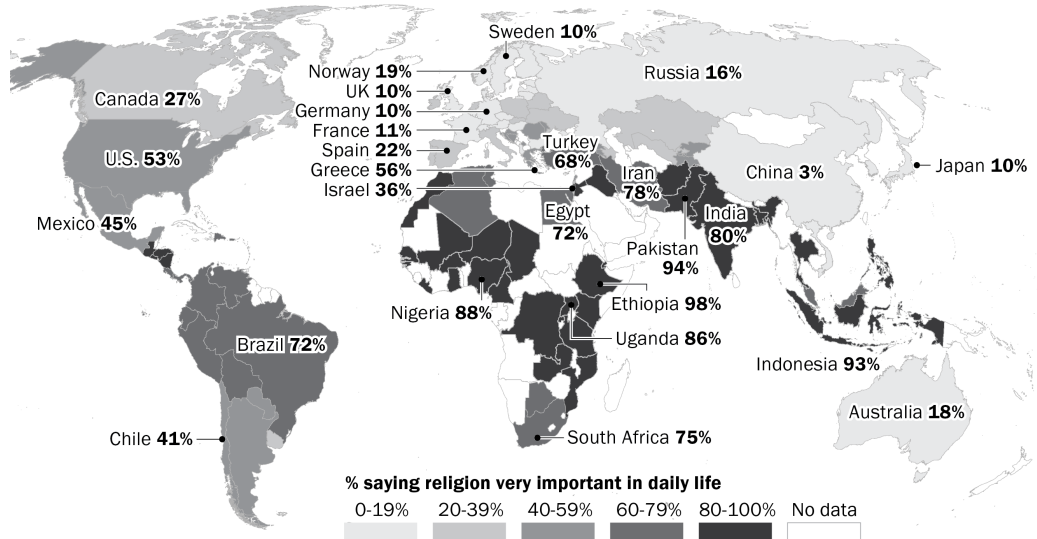
When Adam Smith published *The Wealth of Nations* (Smith, 1976 [1776]), religion permeated European economic life. Churches collected tithes, provided welfare, ran schools, and shaped the moral expectations that largely governed

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Figure 1: Religion around the world

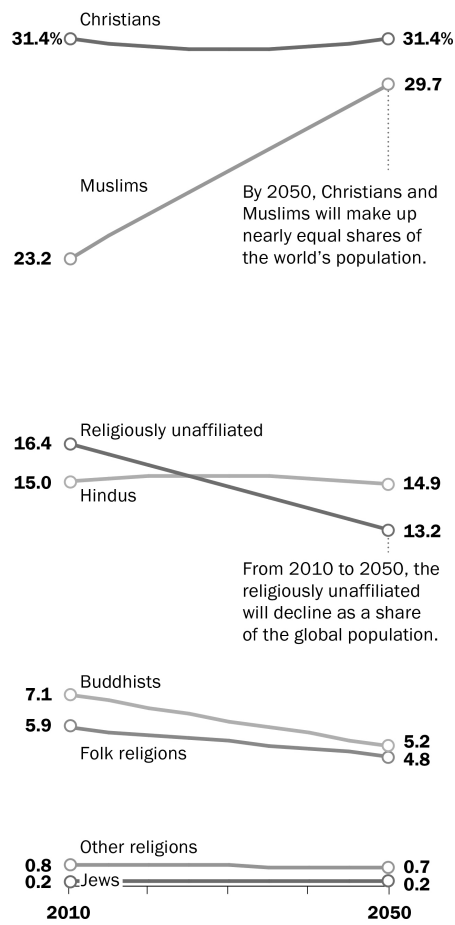


*Note: Percentage of people in each country who say religion is very important in their lives. Figure reproduced with kind permission of the Pew Research Center (2022).*

behaviour. As Smith had already developed in *The Theory of Moral Sentiments* (Smith, 1976 [1759]), morality underpinned much of his analysis of the market economy. Today, in large parts of Western Europe, that world seems distant. In the UK, a mere 10% of respondents in 2022 said that religion was very important in their lives. That is among the lowest numbers anywhere in the world, according to Figure 1 (Pew Research Center, 2022). The number of people identifying with ‘No religion’ jumped by over 8 million in the UK, from 25% to 37% between 2011 and 2021. Christians are now a minority in UK Census results for the first time. 52% of UK respondents say that religion has a *less* ‘important role in our country’ over the past 20 years (see Figure 2) while 21% say it has a more important role and 21% think its role is the same as 20 years ago.

Does this suggest that what Adam Smith wrote about religion in *The Theory of Moral Sentiments* or in *The Wealth of Nations* is no longer relevant for academic research today? Far from it. International comparisons highlight the fact that religion still plays in important role in many societies around the globe. But even if religion may no longer *seem* to be central to many

Figure 2: Religions over time



*Note: Percentage of global population. Figure reproduced with kind permission of the Pew Research Center (2022), 'The Future of World Religions: Population Growth Projections, 2010–2050'.*

people's lives, different aspects of today's societal norms and institutions were shaped long ago, when religion played a stronger role in the lives of many. In the United Kingdom, church-run schools remain central to the educational infrastructure, and the 21 most senior bishops of the Church of England still sit in the House of Lords. Also, the role of religion in people's lives is by no means bound to further *decrease* – religious revivals have happened again and again over the centuries. In the UK, the Welsh Revival in 1904/05, in which around 6% of adults converted to Christianity – has recently been studied by Lowe (2020), demonstrating how it brought down crime rates. There is even news of a revival in more recent years according to *The Guardian* (Mohdin, 2025).

What is clear is that the research field focused on the 'Economics of Religion' is thriving. Many authors refer back to Smith's *The Theory of Moral Sentiments* and *The Wealth of Nations* as one of the founding fathers of research in this area, alongside Emile Durkheim and Max Weber. The American Economic Association, in its alpha-numeric Journal of Economic Literature (JEL) Classification System has the code Z12 dedicated to Religion. The most-cited journal in Economics, *The Quarterly Journal of Economics*, recently started a Religion & Economics Collection on its website to highlight top-cited research in this research area. Similarly, *The Economic Journal*, the flagship journal of The Royal Economic Society, has a virtual issue dedicated to Religion and Economics.<sup>1</sup>

In this chapter, I will review key themes from Smith's major books, *The Theory of Moral Sentiments* and *The Wealth of Nations* and connect them to academic research in economics and neighbouring social sciences over the past few years. Since thousands of papers have been written on the link between religion and economics, and since space in this chapter is limited, this overview will necessarily be eclectic. Readers interested in more comprehensive reviews of this research area can take a deeper dive by looking at several major surveys.<sup>2</sup>

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<sup>1</sup>These are, respectively, available at <https://academic.oup.com/qje/pages/religion-and-economics-collection> and <https://academic.oup.com/ej/pages/religion-and-economics>.

<sup>2</sup>Iannaccone (1998) and Iyer (2016) are surveys on the economics of religion; Becker,

## 2 Religious themes in Smith's work

While this volume celebrates the 250<sup>th</sup> anniversary of *The Wealth of Nations*, an earlier work of Smith's speaks even more to the role of religion (and culture more broadly) in economic activity. Smith believed that a nation's prosperity was not solely dependent on material wealth but also on moral and social factors. In his 1759 work, *The Theory of Moral Sentiments*, Smith emphasized the role of virtues like prudence, justice, and benevolence in fostering economic activity. A society's cultural values, which influence people's behaviour, play a key role in sustaining trust, cooperation, and fairness – all of which are necessary for a functioning market economy. But how, precisely, does religion shape these values? Anderson (1988, p. 1069) captures a key mechanism: 'The belief in God constitutes a kind of internal moral enforcement mechanism. The cost of external monitoring of every individual's behaviour all the time is extremely high. Religion provides the basis for a system of internalized monitoring that represents an efficiency-enhancing adaptation to this problem.'

The 'impartial spectator', as developed in the *The Theory of Moral Sentiments*, is Smith's metaphorical means of internal monitoring and offers a bridge between internal and external mechanisms of social control. The impartial spectator represents an internalized, idealized social judge – what Smith calls 'the man within the breast' (*TMS*, VI.i.11) – whose approbation or disapproval guides individual behaviour. This mechanism is not strictly supernatural; rather, it is a social-psychological construct shaped by the values and norms of society, many of which were historically defined by religious institutions.

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Pfaff and Rubin (2016) compile the literature on causes and consequences of the Protestant Reformation; Kuran (2018) studies historical and contemporary links between Islam and economic performance; in *The Wealth of Religion*, McCleary and Barro (2019) show how religious beliefs and practices can influence the wealth of nations; Becker, Rubin and Woessmann (2021) look at the role of religion in economic history; Becker, Rubin and Woessmann (2024) use the elements of a macroeconomic production function – physical capital, human capital, labour, and technology – together with standard growth models to frame the role of religion in economic growth; Becker, Panin et al. (2025) survey research on religion and economic development: past, present and future. Becker, Bentzen and Kok (2025) look at the link between religion and gender.

The Scottish Enlightenment context in which Smith worked is essential for understanding how this mechanism operated in practice. Scotland in the mid-eighteenth century experienced a remarkable flowering of intellectual life – in philosophy, history, political economy, and the natural sciences – centred on Edinburgh and Glasgow and taking place in institutions such as the ancient universities, the professions, and the church. The Kirk (the Church of Scotland) played a significant role in shaping norms, providing social force to values such as freedom and tolerance. As Broadie (2012) notes, the Moderate wing of the Presbyterian church was a major driving force behind the Enlightenment in Scotland, with figures like Hugh Blair serving as both academic and minister, actively supporting Smith’s work and the broader intellectual movement. The interplay between religious institutions and Enlightenment values helped create a system in which self-interest was constrained by internalized societal expectations, rather than by external monitoring alone.

In *The Wealth of Nations*, Smith was primarily focused on economics, markets, and the division of labour. He discussed religion in relation to its effects on social stability. He saw organized religion as playing both positive and negative roles in economic life: on the positive side, religion can promote moral behaviour, trust, and social cohesion. This helps economic transactions because trust reduces the need for costly enforcement mechanisms. On the negative side, Smith was wary of the potential for religious institutions to become economically burdensome. He criticized the close connection between church and state in some countries, as religious establishments could divert resources from productive economic activity and manipulate political power.

Smith also believed that a multiplicity of religious ‘sects’ in a society could lead to greater religious *tolerance*, as competition among them would reduce fanaticism and intolerance, contributing to a more stable and productive society.

In short, Smith viewed culture and religion as intertwined with economic activity. While culture influenced people’s economic behaviour through moral norms, religion could either support or hinder a nation’s prosperity depending on its role in society.

*The Theory of Moral Sentiments* and *The Wealth of Nations* together constitute a ‘system’ that involves self-imposed constraints on self-interested behaviour that arise from societal pressures (the approbation of the impartial spectator and its internalized ‘man within the breast’). So, welfare-maximizing outcomes arise from decentralised self-interest, but that self-interest is itself internally regulated by the likelihood of societal disapproval.<sup>3</sup>

Since the ‘economics of religion’ in *The Wealth of Nations* has been discussed in detail by Anderson (1988), the focus of this chapter will primarily be on an eclectic selection of modern-day research that *builds* on the religious themes in Smith’s work. It aims to show the vibrancy of this research area two and a half centuries after Smith made the link between religion and economics salient. Since the research in this area fills tens of thousands of pages, I will mostly focus on research about Christianity and economics, as this is the ‘world’ Adam Smith considered in his work. Footnote 2 lists extensive surveys with a broader scope.

### **3 21<sup>st</sup> century research on the religious themes in Smith’s work**

The research surveyed in this section employs distinctively economic approaches to religion. Economists approach religion differently from theologians or sociologists. Rather than asking whether religious beliefs are true or what they mean to believers, economists ask how religious institutions behave when facing constraints and incentives. Churches, in this framework, can be analysed as organizations that supply services (spiritual guidance, community, moral structure) in exchange for resources (tithes, donations, time, loyalty).

This economic lens has proven remarkably productive, particularly when combined with insights from other disciplines. Psychologists have illuminated how religious beliefs shape behaviour and cooperation. Historians have traced how religious institutions evolved in response to competitive pressures. Sociologists have examined how religious communities provide insurance and

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<sup>3</sup>I thank Alex Trew for sharing these insights.

social capital. The economics of religion draws on all of these perspectives, asking how religious values influence work and education, how competition between faiths affects tolerance and innovation, how churches and states interact, and how religious organizations function as communities. What unites these diverse inquiries is the economic focus on incentives, trade-offs, and institutional design.

### **3.1 Cultural psychology, religion and prosocial behaviour**

Smith argued that moral constraints – many of them shaped by religious institutions – are essential for markets to function. Modern research in cultural psychology provides substantial support for this view, while revealing the specific mechanisms involved. Norenzayan and Shariff (2008) and Norenzayan, Shariff et al. (2016) broadly support Smith’s idea that religion reinforces morality and socially beneficial behaviour. They argue that ‘Big Gods’ – deities perceived as omniscient and morally concerned – emerged in the process of cultural evolution because they help enforce cooperation, especially in large, anonymous societies.

Enke (2019) makes a complementary point: societies with different kinship structures develop different moral systems. In tightly knit, kin-based societies, moral systems are more parochial and group-oriented, while in more individualistic societies, moral systems are more universalist and impartial. A corollary is that as societies scale up and kinship ties weaken, institutions – including religions with universal moral rules – help internalize cooperation and trust beyond the kin group.

Another strand of the literature highlights the role of the Catholic Church in shaping norms and values in Western Europe. The medieval Catholic Church’s marriage regulations prohibited close-kin marriages and effectively dissolved Europe’s clan-based societies, fostering profound psychological, institutional, and economic transformations across the continent. Schulz et al. (2019) investigate how the Church’s marriage regulations and loosening kin networks influenced human psychology, contributed to decreased obedi-

ence, increased individualism, and a shift towards an impersonal pro-sociality. These psychological changes are pivotal in differentiating Western, Educated, Industrialized, Rich, and Democratic (‘WEIRD’; Henrich, Heine and Norenzayan, 2010; Henrich, 2020) from non-WEIRD populations and help to explain variations within Europe itself – regions Christianized later retain stronger kin-based institutions and less impersonal-individualist psychology. The authors combine data on 24 psychological outcomes with historical measures of both Church exposure and kinship and find support for these ideas in a comprehensive array of analyses across countries, among European regions, and among individuals from different cultural backgrounds. In a follow-up study, Schulz (2022) shows that the Church-family association persisted for a long time: longer Church exposure still (negatively) predicts cousin marriage in the 20<sup>th</sup> century, facilitating the rise of political participation and the emergence of national democracies.

### 3.2 Religious competition and the market analogy

Smith saw religious competition as a good thing for societies. The theme of religious competition alongside a market analogy has been studied by modern research on the economics of religion. Anderson (1988) highlights Adam Smith as an early ‘economic imperialist’ who extended economic reasoning to nonmarket exchange problems, including religious behaviour. Smith explained the behaviour of clergy as suppliers of religious services from an economic perspective. Crucially, Smith argued that free markets in preaching tend to generate socially efficient religious doctrine. He believed that competition would restrain religious fanaticism and intolerance, leading to a ‘pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism’ that fostered ‘philosophical good temper and moderation’ (*WN*, V.i.g.8).

Smith saw the clergy of an established church as a ‘great incorporation’ (*WN*, V.i.g.17) or interest group, acting in concert to pursue their interests, much like guilds organized around other occupations. The Roman Catholic Church, prior to the Reformation, was analysed as a monopoly supplier of religion that systematically persecuted competitors, analogous to the East

India Company monopoly. He argued that such monopolies reduce the quality of the ‘product’ (religion) supplied to consumers, combined with increased prices, leading to a ‘significant loss to society’ and reduced welfare.

Overall, Smith viewed state-sponsored monopoly religion as performing less efficiently than free competition, thus linking religious freedom to economic freedom.

Several scholars have extended this economic approach to analyse the medieval Catholic Church and the Protestant Reformation. Following *The Wealth of Nations*, Ekelund, Hébert and Tollison (2002) frame the medieval Roman Catholic Church as a firm that provided religious and legal services and used its market power to extract rents. Their core argument is that the Catholic Church, through ‘doctrinal manipulation, the exclusion of rivals, and various forms of price discrimination, ultimately placed members seeking the  $Z$  good “spiritual services” on the margin of defection. This monopolistic practice encouraged entry by rival firms’. The authors assert that the Catholic Church engaged in sophisticated forms of price discrimination (e.g., charging different prices for indulgences and marriage dispensations based on income) to extract monopoly rents.

Protestantism is presented as a rival ‘firm’ offering a ‘modified product’ or a ‘less costly pricing scheme’ for redemption. It did so by simplifying dogma and eliminating the need for a priest as a middleman, thereby reducing mechanisms for rent extraction and ‘making salvation much cheaper’. The success of Protestant entry is linked to supply-side factors: it was facilitated in emergent entrepreneurial societies with more fluid wealth distribution (e.g., where primogeniture was ineffective or absent) and repressed in more homogeneous, rent-seeking societies with concentrated wealth. Following Scribner (1994, pp. 219–20), Ekelund, Hébert and Tollison (2002) argue that the Reformation was largely an ‘urban phenomenon’, as rapidly growing towns with dispersed and unstable wealth distributions were ‘ripe for Protestant entry’.

Bercea, Ekelund and Tollison (2005) describe the medieval Roman Catholic Church as a monopoly controlling religious services that practiced price discrimination, creating conditions ‘ripe for entry’ by Protestants. The authors

argue that the Church employed rational entry control policies, specifically using cathedral building as a ‘limit pricing strategy’ to forestall entry. ‘Limit pricing’ is defined as an incumbent firm setting its price and output to leave insufficient demand for another firm to enter profitably. Cathedrals, in this view, were ‘signaling devices of brand name capital’ that indicated excess capacity for the Roman Catholic religion and membership, attempting to convince potential entrants that entry would be unsuccessful. The sheer ‘awe and grandeur’ (height and size) of cathedrals served as a measure of this signalling capital.<sup>4</sup> Bercea et al. find empirical support that areas with larger and taller Catholic cathedrals tended to remain Catholic, suggesting these structures acted as an entry barrier.

In summary, all three papers employ Smith’s market analogy to analyse religious institutions, viewing the Roman Catholic Church as a monopolistic firm and Protestantism as a competitive entrant. They collectively argue that the Catholic Church’s use of price discrimination and its attempts to deter competition (including through strategic investments like cathedral building) created conditions that eventually invited the Protestant Reformation, which offered a lower-cost alternative for spiritual services in a competitive religious market.

These studies treat the pre-Reformation Catholic Church as an incumbent monopolist. But what happened after the Reformation introduced competition? Looking at the same theme of the Protestant Reformation as a fundamental transition from the monopoly of the Catholic Church to a more competitive religious landscape in Europe, Cantoni, Dittmar and Yuchtman (2018) argue that the Reformation altered the balance of power between secular and religious elites: secular rulers – particularly in Protestant regions – seized vast wealth from dissolved monasteries. This redistribution of resources had far-reaching effects. First, it redirected ‘upper-tail human capital’: graduates of Protestant universities increasingly pursued secular, especially

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<sup>4</sup>As Johnson (1980, p. 22) notes: ‘... the cathedrals were almost out of scale with their times; it is impossible for us to conceive the extent to which, in a literal sense, they loomed large in the lives and vision of medieval people, reducing all else (including themselves) to insignificance and providing inescapable and ocular evidence of the power of the majesty of God. They were awesome and overwhelming.’

administrative, careers. Their studies shifted toward secular disciplines, particularly fields preparing students for public service, rather than theology aimed at church roles. Second, it transformed the sectoral composition of fixed investment.

Religious competition also played out in colonial contexts, where Catholic and Protestant missionaries often operated in the same territories. Gallego and Woodberry (2010) use regional data for roughly 180 African provinces. They confirm earlier research that historical Protestant missionary activity is more strongly associated with present-day schooling outcomes than comparable measures of Catholic missionary activity. Yet, in areas where Catholic missionaries faced direct competition from Protestant missionaries and had to compete for students, Catholic missionaries were innovative and pushed for the very same aspects that were absent in their work in Catholic countries.

In a similar vein, the Catholic Church engages in strategic ‘saint-making’ to fend off Protestant competition (Barro and McCleary, 2016). For centuries, the Catholic Church has recognized saints through a two-step procedure: beatification followed by canonization. Since the early 20th century, beatifications have increased in response to competition between Catholics and Protestants.

While much attention has been paid to the competition between Protestantism and Catholicism, it is important to recognize that competition within Protestantism itself was also significant. One recent example of academic research on this matter is the work by Becker and Won (2024) who study the competition between Methodist and Presbyterian missionaries in colonial Korea. They show that the Presbyterians, who put more emphasis on empowering local churches, were more successful at attracting members, and fostering literacy, than the Methodists with their more hierarchical structure. In fact, already in Adam Smith’s time, the fragmentation of Protestant sects in 17<sup>th</sup> and 18<sup>th</sup> century Europe created an environment of religious pluralism. In Scotland, the particular form of Protestantism most relevant for Smith was the Moderate wing of the Presbyterian church, which embraced Enlightenment values and promoted intellectual independence.<sup>5</sup> This intra-Protestant

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<sup>5</sup>Broadie (2012) writes: ‘It was through their efforts that the Kirk was on the side of

competition further contributed to the development of religious tolerance and the flourishing of Enlightenment thought.

Do these historical patterns support Smith's broader claim that religious competition benefits society? Using cross-country data, Boettke, Hall and Sheehan (2020) show that countries that have more competition in religion appear to regulate religion less and leave more room for economic actors to pursue actions for productive specialization and cooperation. The authors consider this to be evidence that Adam Smith's ideas on religious competition are correct. Since previous studies have shown that religious liberty is positively correlated with economic development (e.g. Gill, 2013), these findings further suggest that religious competition itself is beneficial for economic development.

Summarizing their work over two decades, McCleary and Barro (2019) find empirical evidence that religious competition raises both belief and participation, consistent with Smith's 'market for religion' idea. Yet, they give a more nuanced view of 'religious zeal' by distinguishing between what they call believing (e.g. in heaven and hell) vs. belonging (church attendance, or more broadly religious participation). While Smith tended to treat religious zeal as tied to participation, McCleary and Barro's data show that belief and attendance are only loosely connected – and that belief may be more economically relevant than attendance. In fact, they argue that belief in heaven and hell is linked with internalized moral enforcement mechanism, which in turn correlates with higher economic growth. This aligns with Smith's view that religion can reduce 'bad' behaviour by shaping internal incentives.

Arguably, Smith's work is consistent with there being a third category beyond 'believing' (internalized faith) and 'belonging' (community participation): institutional belonging that actively promotes intellectual independence. The Moderate wing of the Scottish Kirk, discussed earlier, exemplified this possibility – a religious institution that actively supported inquiry. In this framework, religious authority does not simply constrain behaviour through

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the Enlightenment, and indeed was a major driving force behind it. There is no doubt that the Moderates exercised considerable power in Scottish society.'

moral enforcement or community pressure but also enables individuals to think and act independently. This perspective highlights the enabling role of religious institutions in fostering environments where scrutiny of belief and institutional authority is encouraged, rather than merely enforced.

The studies discussed so far focus on competition *between* religious groups. But there is also competition between religious and secular activities for people's time and attention. Gruber and Hungerman (2008) examine how changes in the opportunity cost of religious participation affect behaviour, using U.S. 'blue laws' that restricted Sunday retail activity. Many states have repealed these laws, increasing the opportunity cost of attending religious services. Using multiple datasets, they find that repeals reduce religious attendance, donations, and spending, without comparable declines in secular organizations.

### 3.3 Religious values and economic behaviour

Max Weber's 'Protestant Ethic and the Spirit of Capitalism' (1904/05), another classic work tying religious values to economic behaviour, is highly compatible with Smithian themes. The validity of the link between Protestant traits and economic behaviour has been statistically probed in various ways in recent years. Spenkuch (2017) finds that work hours in modern-day Germany are higher in historically Protestant areas. This is in line with Weber's Protestant Ethic but also relevant to Smith's views on industriousness and moral motivation.

Interestingly, Weber's thesis has even earlier antecedents than the Reformation itself. Weber singled-out the Catholic order of the Cistercians as encompassing values with a clear forerunner to the Protestant ethic. Andersen et al. (2017) present convincing empirical evidence that, indeed, locations with a historical presence of Cistercian monasteries instilled thrift and work ethic.

Yet not all evidence supports this Protestant work ethic story. Arruñada (2010) develops an alternative interpretation using broader cross-country evidence. Using data on individuals in 32 countries from an international

survey (the ISSP) in 1998, he does not find significant differences in working hours between Catholics and Protestants. However, he finds strong differences in attitudes such as support for impersonal institutions or mutual social control, which he sees as consistent with Protestants having a higher *social* ethic than Catholics.

If Protestants do not work longer hours than Catholics, what might explain their historical economic advantages? One influential answer focuses on education rather than values. A broad strand of literature has highlighted differences in education between religious groups as key drivers of differences in economic outcomes. Economists have long been fascinated by the fact that Jews are the most educated religious group. One candidate explanation was the idea that being uprooted by force or expropriated increases the subjective value of investing in portable assets, in particular in education (e.g. Brenner and Kiefer, 1981) and Jews, who have been persecuted again and again over the centuries, would have been particularly prone to invest in education as a result. Botticini and Eckstein (2010) have shown that one way the trend can be explained is due to the requirement to read religious texts, dating back well before Jewish people were forcibly expelled for the first time.

Similar to religious norms in Judaism about reading religious texts, there might be an alternative Protestant Human Capital story explaining the economic success of Protestants relative to Catholics which was at the starting points of Weber's (1904/05) observations. In fact, Becker and Woessmann (2009) show that counties with a Protestant majority in the second half of the 19<sup>th</sup> century Prussia have higher literacy rates than Catholic majority counties. The differences in literacy rates alone is able to explain a large part of the income differences between Protestant and Catholic majority counties. But why would Protestants be more educated than Catholics? This can be traced back to Luther's (1520) pamphlet 'To the Christian Nobility of the German Nation Concerning the Reform of the Christian Estate' where he writes: 'Above all, the foremost and most general subject of study, both in the higher and the lower schools, should be the Holy Scriptures, and for the young boys the Gospel. And would to God that every town had a girl's school also, in which the girls were taught the Gospel for an hour each day... Ought not

every Christian at his ninth or tenth year to know the entire holy Gospel. . . ?’ In this and various other ways, Luther urged political leaders to build and maintain schools and parents to send their children to school. While his motivation may have been to educate children to read the Bible, the resulting literacy was helpful for broader, also economic, uses. Importantly, the higher literacy of Protestants pre-dates the Industrial Revolution in Prussia (see Becker and Woessmann, 2010). Protestants were educated before the ‘modern economy’ technically required it.

What is also fascinating is that, in line with Luther’s request ‘that every town also had a girls’ school’, many Protestant towns also maintained girls’s schools, an early investment into gender equality in education. Becker and Woessmann (2008) show that Luther’s desire for relative gender equality in education had long run effects, as can be seen in 1871 Prussian census where Protestant majority counties had smaller gender gaps in literacy.

Similar findings have emerged across various contexts. For example, Boppart, Falkinger and Grossmann (2014) analyse 19th-century Swiss data drawn from mandatory pedagogical examinations of military conscripts. These standardized tests – covering reading, essay writing, mathematics (both written and oral), and knowledge of Swiss history and the constitution – were aggregated at the district level across more than 160 districts. Protestants not only excelled in reading but also outperformed others in multiple cognitive areas.

In a related study, Boppart, Falkinger, Grossmann et al. (2013) investigate how the impact of Protestantism on education varies by local conservatism. They measure conservatism using voting outcomes from three historical federal referenda: easing restrictions on civil marriage (1875), implementing the Factory Law including child labour prohibitions (1877), and reintroducing the death penalty (1879). Their results indicate that Protestantism positively influences educational spending and conscripts’ test scores only in conservative districts, with no significant effect in progressive areas.

Together, these studies suggest a direct link between Protestantism and human capital formation, at least within central Europe. This emphasis on education resonates with Smith’s own concerns. He worried that extreme

specialization could dull workers' minds, and saw education – often provided through religious institutions – as a counterweight.<sup>6</sup>

The link between religion and education was not unique to Protestantism, nor did it begin with the Reformation. Notably, certain religious groups promoted education well before the Protestant Reformation. Akçomak, Webbink and Weel (2016) examine the Brethren of the Common Life, a religious community founded in the late 14th century in the Netherlands. Rather than fostering cultural change in the Weberian sense, the Brethren advanced local human capital by establishing schools, translating texts into the vernacular, and producing books. Their efforts helped the Netherlands achieve significantly higher literacy rates than most of Europe by 1600.

These European patterns raise a question: did religious institutions have similar effects on human capital elsewhere? Social scientists have extensively studied the role of Christian missionaries in this regard. Valencia Caicedo (2019b,a) shows that that in a context where only Catholic missionaries were present (South America), Jesuit missions had a positive effect on human capital accumulation. Woodberry (2012) links Protestant missionaries to democracy which aligns with Smith's views on liberty, moral philosophy, and institutions fostering economic progress. Missionary work was not always beneficial: Cagé and Rueda (2020) note that while missionaries pioneered modern healthcare in Africa, Christian teachings also influenced sexual beliefs, increasing HIV risk. These are just a few examples of a vast literature in the social sciences that has studied the role of missionaries in economic development. Some more work is covered in Becker, Panin et al. (2025).

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<sup>6</sup>For Smith, education was not only important for basic human capital formation but also as a means to counteract the potential deadening effects of extreme division of labour. He worried that repetitive, specialized work could dull the mind and diminish individuals' capacity for rational judgement and civic engagement (*WN*, V.i.f.50). Religious systems, by shaping educational institutions, played a crucial role in fostering intellectual capacity, independence, and the ability to engage with the broader interests of society. In this sense, religious institutions did not merely enforce moral norms but also enabled critical thinking and scrutiny of both belief and institutional authority – an aspect that Smith valued highly.

### 3.4 Risk sharing in religious communities

Several recent studies have highlighted the role of economic risk in fostering religious communities. Ager and Ciccone (2018) find that places with greater agricultural risk (rainfall risk) in the 19<sup>th</sup> century United States had a greater share of their population organized into religious communities. They propose that the primary mechanism is that religious communities insure each other against idiosyncratic risk, and therefore the demand for belonging to such a community should be higher when the risk is greater. This shows that religious communities may be stronger when the local context requires it.

This pattern extends to other forms of economic risk. Ferrara and Testa (2023) show a similar role of religious communities also in the context oil-rich communities in the U.S. South during the twentieth century. Known oil abundance predicts higher rates of church membership. This link is stronger the greater oil price volatility, while greater access to credit, state-level social insurance, and private insurance crowd out effects. Religious communities reduce increases in unemployment following a negative oil price shock by about 30 percent. Religious communities not only form in response to risk – they also aid recovery from shocks. Hasan, Manfredonia and Noth (2024) show that religious communities foster speedier recoveries after negative economic shocks. While the 2005 hurricane season in the Southeastern United States had adverse effects on establishment-level productivity, counties with higher rates of church membership saw a significantly stronger recovery in terms of productivity for 2005–10.

### 3.5 Church and state

Smith’s view that state-sponsored religion would perform less efficiently than free competition, clearly links to the theme of how church and state interact. Research on church-state interactions has been very active over the past few years.

There are many fascinating themes. Rubin (2011, 2017) discusses how *religious legitimacy* substituted for state capacity. Greif and Rubin (2024, p. 294) define political legitimacy as ‘the internalized belief that a political

authority has the right to govern and have its demands obeyed.’ In their framework, legitimacy is generated by legitimating agents – elites capable of shaping public beliefs about who holds rightful authority. Historically, religious elites have been especially effective in this role, with long-run consequences: Bentzen and Gokmen (2023) show that regions where rulers historically relied on religion to legitimate their rule tend to have more institutionalized religion today. Religious leaders can confer political legitimacy because, in many faiths, their authority stems from an exclusive connection to the divine – a status not shared by others. In religious societies, this makes them highly influential allies for political rulers and helps shield those rulers from challenges to their power.

If religious elites gain influence by legitimating rulers, they have reason to protect that role. This may make them resistant to changes that would diminish their authority. Religious authorities may then also have a limited interest in modernization, to preserve their influence. Belloc, Drago and Galbiati (2016) find that bishoprics were particularly slow to adopt self-governance, a delay exacerbated by earthquakes. Interpreted by Christians as divine signals requiring authoritative interpretation, earthquakes strengthened bishops’ authority to frame their meaning, enabling them to preserve autocratic control and further postpone political reforms.

Similarly, the church might have a natural antipathy towards science. Bénabou, Ticchi and Vindigni (2022) attribute this to the inherent tension between religious beliefs and scientific advancement, as science can undermine religious doctrines. In their model, a society’s religious culture interacts with its political institutions to either foster science – thereby weakening religious belief – or to restrain scientific activity and instead invest in public goods that complement religion. The presence of multiple equilibria – stable patterns that, once established, tend to persist – accounts for why societies with varying levels of religiosity and reliance on religious legitimation display divergent patterns of scientific and technological development.

In the wake of the Protestant Reformation, the Catholic Church actively tried to extinguish the fire lit by Luther and his followers. One strategy the Church used to counter the Reformation and preserve its ‘monopoly position’

was the suppression of books through the Index Librorum Prohibitorum (Index of Prohibited Books). Becker, Pino and Vidal-Robert (2021) show that the Index effectively reduced the output of banned authors. They also find that cities which ignored the Index experienced faster growth and became magnets for prominent individuals.

The historical examples above show religious authorities resisting state encroachment. But the relationship can also run in the other direction: in modern times, the state has sometimes tried to reinvigorate religious institutions. Bentzen, Pizzigolotto and Sperling (2025) study the introduction of so-called Faith-Based and Community Initiatives in US states during the late 1990s and 2000s. Their tax-exempted status made the expansion of faith-based public charities attractive. The authors show that those initiatives strengthened religiosity and conservative-religious social views, such as attitudes against homosexuals.

### 3.6 Religious conflicts and religious tolerance

Religious competition, as discussed earlier, can have beneficial effects. But religious differences can also generate violent conflicts and even wars. Social scientists have studied the role of economic incentives to either keep peace or engage in conflicts.

Social scientists have long emphasized the role of the division of labour as a key determinant of the quality of inter-religious and inter-ethnic relations (see Bonacich, 1972). When different groups specialize in complementary economic activities, they have incentives to cooperate; when they compete for the same economic opportunities, tensions are more likely. Jha (2013), for example, shows for the Indian subcontinent that complementarities between medieval Hindus and Muslims – where each provided unique, non-replicable services, coupled with mechanisms to share the gains from exchange – generated a lasting legacy of tolerance in South Asian towns.

Becker and Pascali (2019) investigate how the Protestant Reformation (beginning in 1517) altered the dynamics of anti-Semitism in cities that adopted Protestantism relative to those that remained Catholic. They begin

from the observation that, prior to the Reformation, Jews held an advantage in moneylending due to higher literacy rates and the Catholic ban on usury. Since Protestant views on moneylending diverged from Catholic orthodoxy, Jews lost this advantage in Protestant regions. As a result, the geography of anti-Semitism shifted: anti-Jewish publications and persecutions became more common in Protestant areas, particularly in cities where Jews had been active moneylenders before the Reformation. The authors interpret this shift as a consequence of intensified competition between Jews and the Christian majority in financial services. Evidence from nineteenth-century Prussian counties reinforces this interpretation: in Catholic regions, Jews made up a larger share of the population and were more specialized in banking, whereas in Protestant areas, support for the explicitly anti-Semitic party was stronger. These findings suggest a persistent reconfiguration of regional patterns of specialization and hostility following the Reformation.

The benefits of religious tolerance extend beyond peaceful coexistence to include economic dynamism. Cinnirella and Streb (2017) focus on Prussia during the Second Industrial Revolution, to study whether tolerance and diversity foster technological creativity and innovation. They show that spatial variation in innovation can be traced to differences in religious tolerance that had developed in continental Europe since the Peace of Westphalia in 1648. Using a novel dataset on religious tolerance in 1,278 Prussian cities matched with records of valuable patents from 1877–1890, they find a strong positive association between tolerance and innovative activity. Religious tolerance is proxied by measures of religious diversity – of the population, churches, and preachers/teachers.

### **3.7 Religious organizations as clubs or platforms**

Smith did not develop an explicit model of how religious organizations function internally, but modern economic theory provides useful frameworks. Iannaccone's (1992) seminal contribution described religious organizations as clubs providing a collective good – such as the quality of worship or ritual – in exchange for an 'entry fee'.

More recently, Seabright (2024) has argued that the club model, while useful, misses a key feature of how religious organizations actually work. In his platform model, members are not merely passive consumers of a good supplied by the club. Rather, they are active contributors to the good itself and, through their participation, to the welfare of other members. What they pay for is not simply access to a generalized collective good, but access to fellow members of a certain quality, which the church credibly promises to provide.

These models help explain why religious organizations have persisted even as their doctrinal claims have come under increasing scrutiny – the social and communal benefits they provide may be as important as the theological content.

## **4 Religion and Smith’s *The Wealth of Nations* at 300: looking ahead to the year 2076**

In our modern context, many of the institutional mechanisms that once provided clear systems of social approbation – such as religiosity, close-knit communities, and local social networks – have weakened or disappeared. This has led to a more diffuse and unpredictable system of societal disapproval, raising questions about the effectiveness of internalized constraints on self-interest in the absence of strong institutional support. The case of Fred (‘the Shred’) Goodwin – the Royal Bank of Scotland CEO whose reckless expansion led to the bank’s 2008 collapse and the largest bailout in British banking history – illustrates the challenges. Goodwin, who reportedly admired Smith’s *The Wealth of Nations* but was not effectively constrained by societal disapproval, illustrates the challenges of maintaining Smith’s system of self-regulation in modern, less cohesive societies. It is possible that the absence of clear religious or communal roles in society may eventually lead to a resurgence of interest in non-secular sources of meaning and constraint, as individuals seek new forms of social and moral guidance.

These modern challenges raise a question about this chapter's own future relevance. By the time Smith's *The Wealth of Nations* turns 300, in 2076, will there be much to report on the role of religion on academic research? It seems likely there will be. Predictions of religion's decline – or even its demise – have been made for centuries. Already in the Bible's Old Testament, the prophet Elijah (ca. 900 BCE) despaired: 'I have been very jealous for the Lord God of hosts; for the children of Israel have forsaken Thy covenant, thrown down Thine altars, and slain Thy prophets with the sword. And I, even I only, am left; and they seek my life, to take it away' (1 Kings 19:10).

The Protestant Reformation unfolded against a backdrop of widespread religious indifference. In much of Northern Europe, Christianity had only taken root centuries after its spread through the Roman Empire, and by the early sixteenth century the Catholic Church struggled to exert meaningful influence on popular belief (Becker and Voth, 2024). Even the reformers themselves often failed to instill deep piety. As Parker (1992) notes, the evidence points to a 'widespread inability [...] to create an acceptably pious laity.' Church visitations revealed pastors preaching to empty pews, clergy ignorant of basic doctrine, and congregations unfamiliar with the most elementary teachings (Strauss, 1975). Martin Luther's own frustrations were vivid: 'Dear God help us, what misery have I seen! The common man, especially in the villages, knows absolutely nothing about Christian doctrine; indeed, many pastors are in effect unfit and incompetent to teach. Yet they are all called Christians, are baptized, and enjoy the holy sacraments even though they cannot recite either the Lord's Prayer, the Creed or Commandments. They live just like animals ...' (quoted in Parker, 1992).

Later intellectuals were equally skeptical of religion's durability. Marx (1844, p. 72) dismissed it as 'the opium of the people,' predicting that once material conditions improved, religion would lose its function as a source of consolation for the oppressed. Nietzsche, in turn, declared that 'God is dead' (Nietzsche, 1974, p. 108), arguing that belief in the Christian God had become untenable, and with it 'the whole of our European morality' was destined for collapse (p. 343).

Religion has repeatedly outlived predictions of its decline. So long as

individuals seek answers to existential questions, those answers will often take the form of supernatural claims that shape behaviour and institutions. Smith understood this – his analysis of religion’s role in economic life was never premised on whether religious claims were true, but rather on how religious institutions function in society. That insight remains relevant in 2026 just as it was in 1776, and his ideas will continue to inspire scholarship.

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