

TSE M1 – Semester 1

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Understanding Real World Organizations

Week 6:

Churches, religions and charities



Churches, religions and charities

- Adam Smith on religion
 - Sociology, anthropology and the secularization hypothesis
 - The anomalous United States
 - The “new” anthropology and economics of religion
 - Religion and social trust
 - The multiple facets of religious institutions
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Adam Smith on incentives and the division of labor:

It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest.....

The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education. When they came into the world, and for the first six or eight years of their existence, they were perhaps very much alike, and neither their parents nor playfellows could perceive any remarkable difference. About that age, or soon after, they come to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till at last the vanity of the philosopher is willing to acknowledge scarce any resemblance. But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted. All must have had the same duties to perform, and the same work to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talents – *Wealth of Nations*, Book 1, Chapter 2


Adam Smith on religion:

The [clergy] may either depend altogether for their subsistence upon the voluntary contributions of their hearers; or they may derive it from some other fund to which the law of their country may entitle them; such as a landed estate, a tythe or land tax, an established salary or stipend. Their exertion, their zeal and industry, are likely to be much greater in the former situation than in the latter. In this respect the teachers of new religions have always had a considerable advantage in attacking those ancient and established systems of which the clergy, reposing themselves upon their benefices, had neglected to keep up the fervour of faith and devotion in the great body of the people; and having given themselves up to indolence, were become altogether incapable of making any vigorous exertion in defence even of their own establishment. The clergy of an established and well-endowed religion frequently become men of learning and elegance, who possess all the virtues of gentlemen, or which can recommend them to the esteem of gentlemen; but they are apt gradually to lose the qualities, both good and bad, which gave them authority and influence with the inferior ranks of people, and which had perhaps been the original causes of the success and establishment of their religion. – *Wealth of Nations*, book 5, chapter 1.

Anthropology, sociology and secularization:

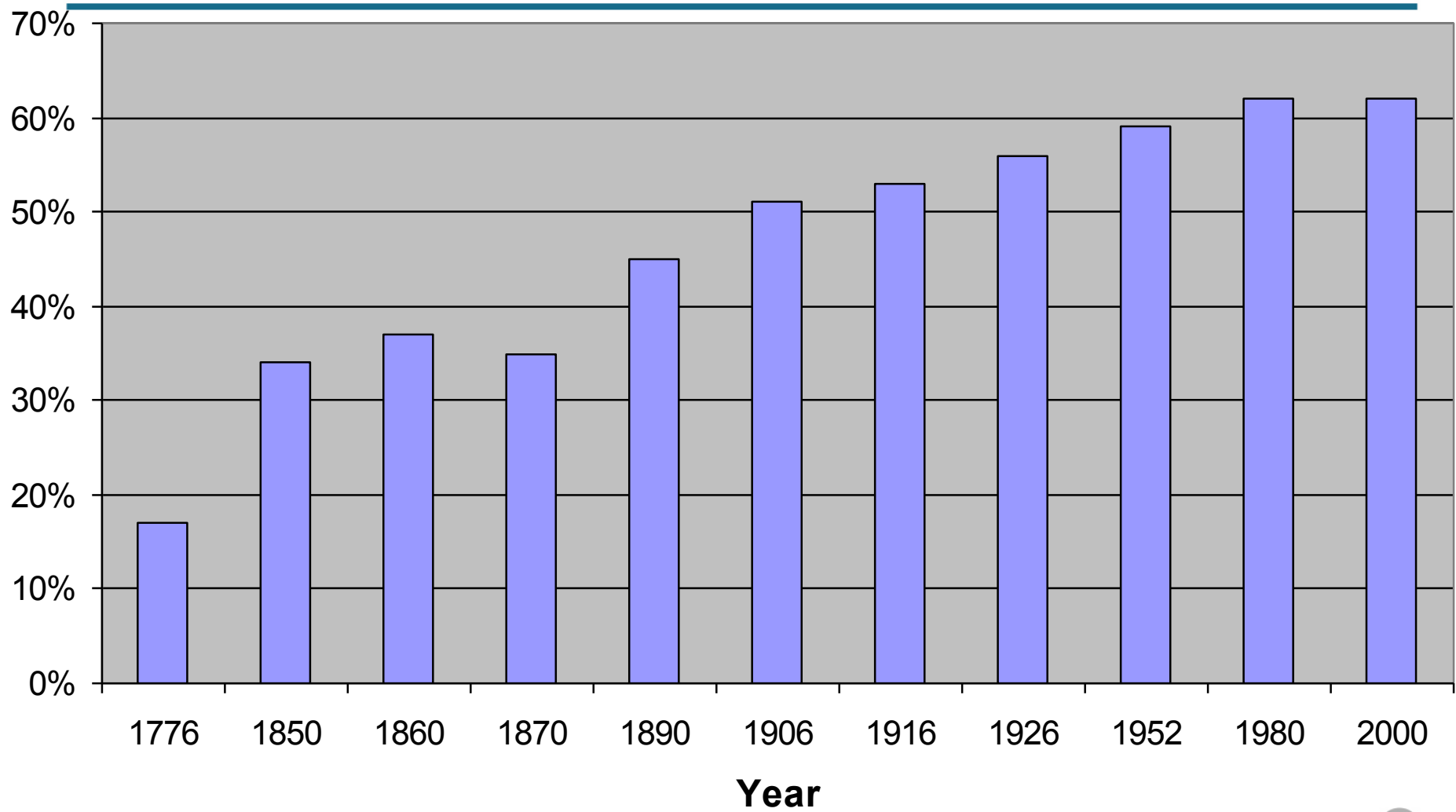
- James Frazer's *The Golden Bough* (1890)
- Max Weber's *The Protestant Ethic and the Spirit of Capitalism* (1904)
- Durkheim's *The Elementary Forms of the Religious Life* (1912)
- Though many differences, shared conviction that economic development involved "disenchantment of the world", and that religion represented an intermediate state between magic and science
- The decline in Church attendance in European countries during the 20th century seemed to bear out this view

But the United States did not fit the pattern...

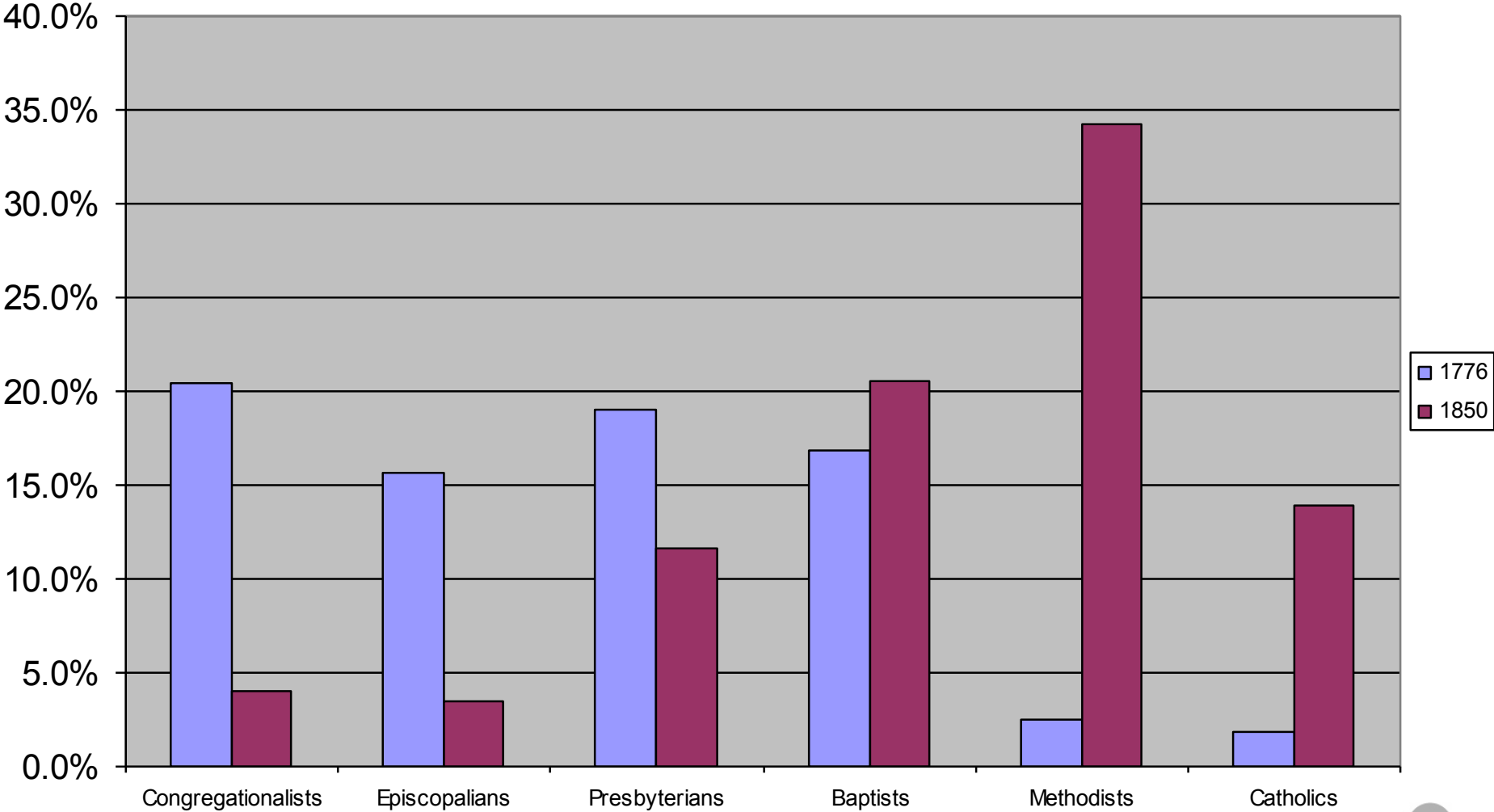
- Roger Finke and Rodney Stark (2005) have tried to explain what they call the “churching of America” – the paradox of growing US religiosity at a time of European secularization
 - They attribute this to competition, and to the superior incentive structure of the more successful denominations
 - An interesting parallel with the competition between the Hudsons Bay Company and the North West Company in the 18th and 19th centuries
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Rates of Religious Adherence, United States

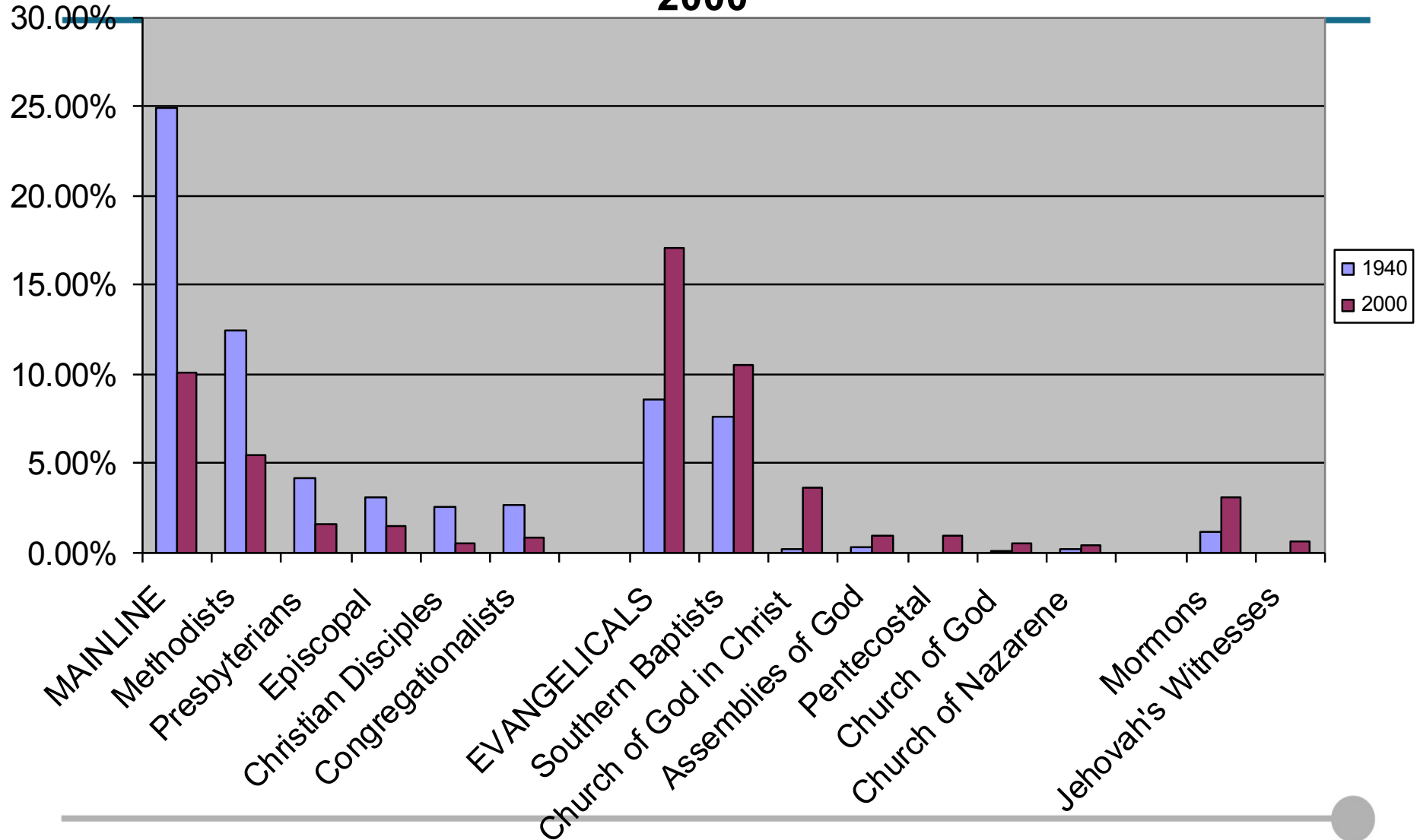
(source: Finke and Stark, 2005)



Shares of Religious Adherents by Denomination, 1776 to 1850



Shares of Church Members by Denominations, 1940 and 2000



Average ministerial salary, US, 1906

Denomination	Average salary
Baptists	\$536
Methodists	\$784
Congregationalists	\$1042
Presbyterians	\$1177
Unitarians	\$1653
Roman Catholics	\$703
All	\$663

Pluralism and Participation in US rural areas, 1923-25 (source: Finke & Stark 2005)

	Number of churches per 1000 population			
	One	Two	Three	Four
% belonging to a church	27.4	36.0	34.8	43.4
% enrolled in Sunday school	15.8	22.3	25.2	37.4
% with resident minister	55.7	46.3	38.7	30.1

The new evolutionary anthropology:

- Many contributors, including
 - Pascal Boyer (*Religion Explained*, 2002)
 - Scott Atran (*In Gods We Trust*, 2002)
 - Ara Norenzayan (*Big Gods*, 2013)
- Religions have an ethnographic structure
- They are counterintuitive but not arbitrarily so
- They are explicable by natural selection
- The aptitude for religion would have created cooperation for groups that were in competition with other groups

The new economics of religion:

- Since the early 1990s, a growing convergence between rational-choice sociologists of religion (Like Finke and Stark) and economists (Iannacone, Gruber...) that religions compete to satisfy demands
- Some contributors take demands as given
 - Some are intrinsic to religion
 - Some are also supplied by other institutions (eg finance, insurance)
- Others suppose religion satisfies a derived demand for institutions to reinforce trust
- The importance of trust has been a growing theme in economics in recent years

The scale of religious activity

- In Sub-Saharan Africa more than 50% percent of the population of certain countries, including Ghana, profess adherence to Neo-Pentecostal churches (Pew Research Center (2011)).
- Churches are also economically important: Within African Neo-Pentecostal churches, many (sometimes very poor) people regularly give 10 to 15% of their income to the church
- If even 50% of Ghanaian neo-pentecostalists are tithing 10% of their income, this means Church revenues are around 1bn USD, or 2% of GDP.
- What are they paying for?



The contribution of religion to social trust (i):

- What is religion? Very difficult to define
- Three elements commonly cited – none either necessary or sufficient
 - Belief in the existence of invisible spirits that intervene causally in the world and that can be influenced by appropriate appeals from human subjects
 - Importance of ritual activities, both collective and individual
 - A distinction between the sacred and the profane

The contribution of religion to social trust (ii):

- Religions potentially have characteristics that enable their members to have more mutual trust
 - Opportunities to observe the behavior of others; sharing of information
 - Sanctions (exclusion etc) in case of breaches of trust
 - Faith as a signal of belief in the presence of supernatural norms and sanctions

The contribution of religion to social trust (iii):

- How to avoid hypocrisy? The answer: costly signaling
- The genuinely trustworthy must be more willing than others to pay the cost of religious membership
- Three kinds of mechanism
 - Payments for membership (tithes etc)
 - Behavioral restrictions (diet, lifestyle)
 - Supernatural beliefs, genuinely held and impacting individual decisions

The contribution of religion to social trust (iv):

- Empirical questions:
 - Can we tell genuine from non-genuine religious adherents?
 - Are genuine religious adherents more trustworthy than non-adherents? If so:
 - Does religion change individual behavior or does it attract more trustworthy people?
 - Are they more trustworthy towards everyone or just towards their co-religionists?

If religious adherents are more trustworthy than other people, four possible cases:

	Religions lead their adherents to behave in a more trustworthy way than they would otherwise	Religions attract adherents who behave in a more trustworthy way in most contexts
Religious adherents are more trustworthy just towards co-religionists	Theory of clubs	Theory of coevolution of altruism and xenophobia
Religious adherents are more generally trustworthy, not just towards co-religionists	Theory of social norms sustained by natural or supernatural sanctions	Theory of costly signaling



The multiple facets of religious institutions (I):

- Many churches fulfil multiple roles. See Jerry Falwell:

“Business is usually on the cutting edge of innovation and change because of its quest for finances. Therefore the church would be wise to look at business for a prediction of future innovation. The greatest innovation in the last twenty years is the development of the giant shopping centers. Here is the synergetic principle of placing at least two or more services at one location to attract the customers. A combination of services of two large customers with small supporting stores has been the secret of the success of shopping centers”.

The multiple facets of religious institutions (II):

- One line of research sees churches as private clubs that provides exclusive services to their members screened by high financial and behavioral costs of membership (based on Iannaccone, JPE 1992).
- Recent work has described religious institutions as helping to smooth consumption, particularly in the absence of an extensive welfare system (Scheve-Stasavage, QJPS 2006; Gruber-Hungerman, JPubE 2007; Dehejia et al., JPubE 2007; Chen, JPE 2009).
- However, costs of membership seem high compared to benefits, and to price of secular alternatives available.
- Many churches make large profits, which seems incompatible with absence of entry barriers

The multiple facets of religious institutions (III):

- An alternative view: Religious organizations are platforms: value of services offered to members depends on characteristics of other members.
- These include not just numbers but also quality: High prices can increase quality of members - a screening mechanism.
- In traditional platform literature, platforms charge low prices to some users to "get them on board"; however, effect of high prices on user quality can outweigh adverse impact on quantity.
- More precisely, religious adherents pay high prices for two reasons:
 - the high price screens high-quality adherents.
 - the high price reflects, for any given adherent quality, an enhanced willingness to pay to interact with other users.

A simple model of a two-sided platform with quality screening

- 1 A platform supplies two kinds of service, A and B , at prices p_A and p_B .
- 2 Both are also supplied by a competitive market at a constant outside value normalized to zero.
- 3 The platform can invest in quality q_A of service A at convex cost $C(q_A)$.
- 4 Continuum of potential users i and j of services A and B , of types θ_i and ϕ_j , with a uniform distribution normalized to $[0, 1]$ and $[0, M]$.
- 5 Users i derive gross utility $\theta_i \cdot q_A$ from consuming service A and users j derive gross utility $\phi_j \cdot q_B$ from consuming service B .
- 6 n^* and m^* are equilibrium numbers of purchasers of A and B .
- 7 Thus $n^* = \frac{q_A - p_A}{q_A}$ and $m^* = \frac{M(q_B - p_B)}{q_B}$.

How is quality of service determined?

- 1 Average quality θ^* of users of A is determined by $\theta^* = \frac{1-n^*}{2}$.
- 2 Probability that user j can match with a user i is given by $\frac{n^*}{m^*}$.
- 3 So overall quality of the service B is $\frac{n^*(1-n^*)}{2m^*}$.
- 4 This yields $m^* = \frac{Mn^*(1-n^*)}{n^*(1-n^*)+2p_B}$.
- 5 Differentiating yields $\frac{\partial m^*}{\partial n^*} = \frac{Mn^*(1-2n^*)}{[n^*(1-n^*)+2p_B]^2}$
- 6 Note that this is negative for $n^* > 0.5$

Determinants of pricing

- 1 Platform chooses p_A , p_B and q_B to maximize:

$$\Pi = n^*[p_A - C(q_A)] + p_B \cdot m^*$$

- 2 First Order Conditions:

$$\frac{\partial \Pi}{\partial p_B} = m^* + \frac{\partial m^*}{\partial p_B}$$

and

$$\frac{\partial \Pi}{\partial p_A} = n^* + \frac{\partial n^*}{\partial p_A} [p_A - C(q_A) + p_B \frac{\partial m^*}{\partial n^*}]$$

- 3 Note that for $n^* > 0.5$, p_A will be higher than without the two-sided effect.

What does this model show us?

- 1 In equilibrium, both kinds of service can be priced by the platform higher than the competitive market alternative.
- 2 The ability to price service A high comes from the fact that it serves to screen users for quality and thereby attract users on the other side of the platform who care about the quality of those with whom they interact.
- 3 The ability to price service B high comes from the fact that it serves to provide users with access to high-quality users on the other side of the platform.
- 4 Many religious adherents pay high prices for both reasons:
 - the high price screens high-quality adherents.
 - the high price reflects, for any given adherent quality, an enhanced willingness to pay to interact with other users.