

Religion and the Social Order

Lessons from Smith,
Hayek, and Smith

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Adam Smith, F. A. Hayek, and Vernon Smith have made bold claims about the role of religion in the emergence and maintenance of the social order. Without religion, they argue, civilization would not have emerged. Unfortunately, they did not fully develop the argument to support their hypothesis. This article combines their insights to articulate their implicit argument. Adam Smith argued that religion provided simple constraints that limited opportunism in competitive markets. Hayek claimed that the major religions of the world provided the basis for the transition from the microcosmos to the macrocosmos. Vernon Smith recognized that the generality of religious rules provide ample scope for innovation and invention that furthered the division of labor. Combining their insights leads to a new understanding of how religion formed the foundations for the modern world.

Introduction

The role of religion in the creation and maintenance of the social order has received little systematic attention in economic thought. The major treatises in the development of economic thought, those of David Ricardo, John Stuart Mill, Carl Menger, Leon Walras, William Stanley Jevons, and Alfred Marshall contain no systematic discussion of religion if they mention religion at all.¹ Joseph Spengler selectively surveyed economic ideas and their relation to the social order back to Aristotle, and he did not discuss the role of religious ideas and institutions.² Instead, he framed the discussion as a debate over the proper role of the state relative to the market. In the twentieth century, economics textbooks did not include a role for religion in the creation and maintenance of the social order.

The neglect of religion reflects several factors. First, many intellectuals accepted the secularization hypothesis—modernization reduced the influence of religion on the behavior of individuals. Quite reasonably, explanations of the social order searched for alternative foundations.³ Second, economics increasingly emphasized changes that occur over a relatively short time period as characterized by formal comparative static exercises. Most models focus on the impact of changes in relative prices in the short-run on individual behavior. Even models of economic growth rarely examine changes over the course of a century. Often the time period under analysis is only a few decades at most.

Within this framework, factors that change slowly do not appear. When they have a role, they often appear as an exogenous variable. Religious beliefs and behavior do not change quickly, and, not surprisingly, most models ignore their role as an influence on individual behavior. Religion simply has no role in explaining the order that emerges within most economic models. Relative price changes and the profit motive become the primary sources of the social order based on the division of labor. They provide ample incentive for social cooperation, as Adam Smith explained many years ago. When they fail, the visible hand of the state supports the social order.

Since the 1970s, the economics of religion has emerged as an active field of research. Researchers applied basic microeconomic principles to explain religious behavior.⁴ Individuals demand religious-consumption goods subject to budget and time constraints, and religious firms supply religious goods so as to maximize profits.⁵ Similar to more traditional economic models, variation in the enforcement of religious rules have been explored to explain differences in religious involvement. Relative price changes explain religious behavior.⁶ Much like traditional economic analysis, religious preferences have not been central to the analysis because they are assumed to be exogenous.

An alternative approach that has received less attention in economics focuses on the impact of religious ideas on individual behavior. Max Weber famously argued that the emergence of Protestantism led to the rise of the West.⁷ The Protestant ethic changed attitudes and beliefs, leading to increased savings and hard work that culminated in the Industrial Revolution. R. H. Tawney and Kurt Samuelsson challenged Weber's analysis based on the historical record.⁸ They argued that Weber's hypothesis failed because capitalism existed prior to the Protestant Reformation. Within economics, little additional systematic criticism or praise followed. Paul Samuelson's introductory textbook contains a negative reference but no analysis.⁹ Joseph Schumpeter and Jacob Viner also criticized Weber's hypothesis.¹⁰ In contrast, however, Kenneth Boulding and Albert Hirschman supported Weber.¹¹ Recently, David Landes and James Buchanan also

offered broadly positive assessments of Weber's hypothesis.¹² Landes argued that Weber's hypothesis has empirical and theoretical support. Buchanan argued that a work ethic similar to the one discussed by Weber has had a substantial impact on economic development although he carefully distinguishes his approach from Weber's. The Weberian approach does not, however, address the larger impact that religion has on the social order. Instead, it stresses religion's impact on individual behavior.

A few notable economists have addressed the potential role of religion in the emergence and maintenance of the social order. Adam Smith (henceforth A. Smith), F. A. Hayek, and Vernon Smith (henceforth V. Smith) provided insights into the latter approach.¹³ They claimed for various reasons that religion served to provide the basis for modern civilization based on the division of labor. Without it, the modern social order would not exist. Unfortunately, A. Smith, Hayek, and V. Smith did not systematically address the role of religion in the creation and maintenance of the social order. Their insights take the form of passing remarks with little explanation. A. Smith offered a short discussion of religious institutions in *The Wealth of Nations* where he emphasized the financing of religious institutions rather than religion's impact on behavior.¹⁴ Hayek devoted the final chapter of his last book *The Fatal Conceit* to the role of religion. V. Smith's recent writings contain only scattered references to religion. However, none linked their arguments with their larger social theory. Nevertheless, they offered provocative hypotheses and interpretations of the role of religion. Stated most boldly, civilization as we understand it would not have emerged without the moral basis of religion, and in particular, the foundation provided by the major monotheistic religions.

The approach outlined by A. Smith, Hayek, and V. Smith provides a potential basis to rethink the role of civil religion in a democratic capitalist society. The use of religious symbolism is well-known in politics.¹⁵ Presidential inaugurations, saluting the flag, saying the Pledge of Allegiance, and celebrating national holidays such as the Fourth of July have strong similarities with religious activities. The arguments by A. Smith, Hayek, and V. Smith suggest religious foundations for market activities. They provide the framework by which economies flourish.

One caveat is in order. Each of the three thinkers approached religion from the point of view of a nonreligious academic social scientist. None address the spiritual aspects of religion. They do not discuss the "deeper" issues associated with religion. They do not come from the perspective of a "true believer." Kenneth Boulding noted this aspect of A. Smith's discussion of religion. He wrote that

Adam Smith could never have had any real knowledge of the mind of the Wesleys. Mystical experience of any kind he would have dismissed as

“fanaticism and enthusiasm.” He is in some sense almost the ideal of the “good” intellectual; a very good, very moral, admirable, almost one might say a pious man. Yet there is clearly a realm of experience into which he does not penetrate. He can tell us a great deal about the forces that make for decay in religion as it becomes entangled with the world; he can tell us very little about the ultimate sources of its life and power.¹⁶

Boulding’s assessment of Adam Smith carries over to Hayek and V. Smith who also do not address the “ultimate sources of its life and power.” Rather, they offer a detached, undeveloped explanation for the role of religion in the emergence and maintenance of the social order. The following sections attempt to provide a fuller discussion and integration of their ideas to better understand religion’s role in the emergence of social cooperation.

Adam Smith and Religion

Adam Smith’s two major works, *The Theory of Moral Sentiments* and *The Wealth of Nations*, allegedly offer two fundamentally opposite explanations for the emergence and maintenance of the social order. The former relies on sympathy and the latter on self-interest. An unsympathetic reading has led some to argue that the two books contradict one another. Jacob Viner noted the apparent tension: “Many writers, including the present author at an early stage of his study of Smith, have found these two works in some measure basically inconsistent.”¹⁷ The apparent inconsistency relates to specific aspects of the two books that extend beyond the general themes. Both address the role of religion in the creation and maintenance of the social order. On the surface, *The Theory of Moral Sentiments* offers a role for religion that is contradictory to that which appears in *The Wealth of Nations*. For example, Minowitz argued that the former has a strong theological dimension whereas the latter adopts a more atheistic approach. The role of religion in the social order shifted from being important to being relatively unimportant between the two books.¹⁸ Religion recedes into the background of *The Wealth of Nations*. However, the apparent tension disappears once one recognizes that the discussion in *The Wealth of Nations* complements the insights from *The Theory of Moral Sentiments* and, as a result, reinforces the role of religion in the social order.

Religion, according to A. Smith, did not emerge as the result of conscious decision making. The social order was not rationally constructed based on religiously sanctioned morals in order to induce social cooperation. Rather, religion emerged over time as an unintended consequence of individual action. It resulted

from humanity's attempt to survive and make sense of the hardships of life. In his "History of Astronomy," A. Smith provided an explanation of the origin of religion. The beginning of the third section, "Of the Origin of Philosophy," starts with the following:

Mankind, in the first ages of society, before the establishment of law, order, and security, have little curiosity to find out those hidden chains of events which bind together the seemingly disjointed appearances of nature. A savage, whose subsistence is precarious, whose life is every day exposed to the rudest dangers, has no inclination to amuse himself with searching out what, when discovered, seems to serve no other purpose than to render the theatre of nature a more connected spectacle to his imagination. Many of these smaller incoherences, which in the course of things perplex philosophers, entirely escape his attention. Those more magnificent irregularities, whose grandeur he cannot overlook, call forth his amazement. Comets, eclipses, thunder, lightning, and other meteors, by their greatness, naturally overawe him, and he views them with a reverence that approaches to fear. His inexperience and uncertainty with regard to every thing about them, how they came, how they are to go, what went before, what is to come after them, exasperate his sentiment into terror and consternation.¹⁹

For A. Smith, religion emerges as an explanation of "magnificent irregularities" that plague humanity. He continues to explain how the search for the "how they came, how they are to go, what went before, what is to come after them" provide the foundations for polytheism:

As those appearances terrify him, therefore, he is disposed to believe every thing about them which can render them still more the objects of his terror. That they proceed from some intelligent, though invisible causes, of whose vengeance and displeasure they are either the signs or the effects, is the notion of all others most capable of enhancing this passion, and is that, therefore, which he is most apt to entertain. To this too, that cowardice and pusillanimity, so natural to man in his uncivilized state, still more disposes him; unprotected by the laws of society, exposed, defenceless, he feels his weakness upon all occasions; his strength and security upon none.²⁰

The "intelligent, though invisible causes" represent the gods. Their interventions into humanity's daily affairs are the causes of catastrophe and hardships.²¹

Once humanity attains a level of security and has the opportunity to engage in leisure, individuals begin to understand why specific moral rules exist.

But when law has established order and security, and subsistence ceases to be precarious, the curiosity of mankind is increased, and their fears are diminished. The leisure which they then enjoy renders them more attentive to the appearances of nature, more observant of her smallest irregularities, and more desirous to know what is the chain which links them all together. That some such chain subsists betwixt all her seemingly disjointed phenomena, they are necessarily led to conceive; and that magnanimity, and cheerfulness, which all generous natures acquire who are bred in civilized societies, where they have so few occasions to feel their weakness, and so many to be conscious of their strength and security, renders them less disposed to employ, for this connecting chain, those invisible beings whom the fear and ignorance of their rude forefathers had engendered.²²

This theme continued in his later writings regarding the late arrival of reason to explain the benefits of various moral rules. The increase in leisure provided the opportunity to begin to understand causal processes and allowed individuals to distinguish myth from reality.

Philosophy is the science of the connecting principles of nature.... Philosophy, by representing the invisible chains which bind together all these disjointed objects, endeavors to introduce order into this chaos of jarring and discordant appearances, to allay this tumult of the imagination, and to restore it, when it surveys the great revolutions of the universe, to that tone of tranquility and composure, which is both most agreeable in itself, and most suitable to its nature.²³

Understanding causal relations came after civilization emerged.

In the *Theory of Moral Sentiments*, A. Smith continued to expand on the origins of religion and its relationship with the social order. He wrote,

And thus religion, even in its rudest form, gave a sanction to the rules of morality, long before the age of artificial reasoning and philosophy. That the terrors of religion should thus enforce the natural sense of duty, was of too much importance to the happiness of mankind, for nature to leave it dependent upon the slowness and uncertainty of philosophical researches.²⁴

Rational deliberation over the rules of morality would have hindered the development of civilization.²⁵ Time spent discussing the appropriate rules of behavior took time away from productive activities necessary to ensure security and life. Religion provided simple rules of thumb that altered the costs and benefits of various actions so as to encourage social cooperation. In particular, it offered a set of rules that constrained human instinct and yielded benefits that no one predicted initially.

A. Smith argued that religion served as an institutional mechanism that constrained self-interested behavior. It did so through its impact on both preferences and incentives by providing support for rules of morality as well as by influencing perceptions of morality that, in turn, affected their individual cost-benefit calculations. Religious beliefs alter the incentives facing an individual as they provided credible support for punishment for behavior that harms the social order. Punishment could take place in either the present or the afterlife depending on the will of the deity. For example, beliefs about eternal damnation in hell influenced people to engage in more virtuous activities than they otherwise would. A. Smith wrote,

For it well deserves to be taken notice of, that we are so far from imagining that injustice ought to be punished in this life, merely on account of the order of society, which cannot otherwise be maintained, that Nature teaches us to hope, and religion, we suppose, authorizes us to expect, that it will be punished, even in a life to come. Our sense of its ill desert pursues it, if I may say so, even beyond the grave, though the example of its punishment there cannot serve to deter the rest of mankind, who see it not, who know it not, from being guilty of the like practices here. The justice of God, however, we think, still requires, that he should hereafter avenge the injuries of the widow and the fatherless, who are here so often insulted with impunity. In every religion, and in every superstition that the world has ever beheld, accordingly, there has been a Tartarus as well as an Elysium; a place provided for the punishment of the wicked, as well as one for the reward of the just.²⁶

Religion provided credible punishment mechanisms for socially deviant behavior that extended beyond the here and now.²⁷

Religious institutions provided the support for the enforcement of the rules of morality. Religious teachers and groups supplied credible evidence for their claims. For example, they offered plausible explanations for the origins of the universe. They told stories of the fall of humanity from grace, which explained humanity's shortcomings. As they put forward credible explanations, individuals began to accept and adhere to religious rules. After all, the cost of nonbelief appeared to be substantial. Thus, they "gave a sanction to the rules of morality."

Religious rules altered the perceived costs and benefits of engaging specific types of action, in particular, opportunism. They discouraged dishonesty and deceitfulness that hindered the expansion of markets and the integration of individuals into larger trading networks. Religion reduced transaction costs; for example, "religion affords such strong motives to the practice of virtue, and guards us by such powerful restraints from the temptations of vice." Religion provided both positive and negative incentives to influence behavior.

A. Smith recognized that religion by itself could not constrain human instinct. It provided only a partial incentive for cooperative behavior.

That the sense of duty should be the sole principle of our conduct, is no where the precept of Christianity; but that it should be the ruling and the governing one, as philosophy, and as, indeed, common sense directs. It may be a question, however, in what cases our actions ought to arise chiefly or entirely from a sense of duty, or from a regard to general rules; and in what cases some other sentiment or affection ought to concur, and have a principal influence.²⁸

Additional rules were needed to constrain behavior. *The Theory of Moral Sentiments* remains relatively silent on questions related to the necessary complementary institutions for religion to serve as a constraint on individual behavior. *The Wealth of Nations* fills the void.

A. Smith did not avoid discussions of the harmful effects that religion can inflict on the social order; he did embrace discussions that false religions can harm the social order. They may lead individuals to engage in behavior that undermines the emergence of cooperation. Zealotry and other forms of antisocial behavior may arise from religious beliefs. Smith's friend David Hume made similar arguments and contended for the adoption of a state religion. Hume's argument in favor of a state monopoly for religion appeared in his *History of England*. Hume wrote,

This interested diligence of the clergy is what every wise legislator will study to prevent; because in every religion, except the true, it is highly pernicious, and it has even a natural tendency to pervert the true, by infusing into it a strong mixture of superstition, folly, and delusion. Each ghostly practitioner, in order to render himself more precious and sacred in the eyes of his retainers, will inspire them with the most violent abhorrence of all other sects, and continually endeavour, by some novelty, to excite the languid devotion of his audience. No regard will be paid to truth, morals, or decency in the doctrines inculcated. Every tenet will be adopted that best suits the disorderly affections of the human frame. Customers will be drawn to each conventicle by new industry and address in practising on the passions and credulity of the populace. And in the end, the civil magistrate will find, that he has dearly paid for his pretended frugality, in saving a fixed establishment for the priests; and that in reality the most decent and advantageous composition, which he can make with the spiritual guides, is to bribe their indolence, by assigning stated salaries to their profession, and rendering it superfluous for them to be farther active, than merely to prevent their flock from straying in quest of new pastures. And in this manner ecclesiastical establishments, though commonly they arose at first from religious views, prove in the end advantageous to the political interests of society.²⁹

For Hume, religion brought out the worst of humankind. The clergy had the incentive to stir up conflict with their efforts to gain adherents. In order to prevent social disorder, Hume advocated a single religion be supported by the state so that competitive pressures do not lead to conflict.

Unlike Hume, A. Smith did not support state sponsored religions. Rather he argued for a free market in religion, making his argument in *The Wealth of Nations*. Gary Anderson notes that this is “probably the closest Smith comes in *Wealth* (or elsewhere) to arguing in favor of free-market anarchism.”³⁰ For religion to serve its beneficial function, it requires complementary institutions that provide the incentives for religious behavior that constrains human instinct rather than encourage it.

Smith identified the importance of competition as a mechanism to avoid the problems of false religion. Religious groups served to promote the social order only in a competitive environment. In a competitive environment, numerous religious groups coexist. Given the variety of preferences, new religious groups emerge to satisfy demand. For example, variation in the demanded level of strictness to the adherence of doctrine led to the emergence of a variety of religious groups. Some groups maintained strict membership standards and others did not. Mormons require more effort from their adherents than do Episcopalians. Individuals decided which groups to join. As the number of groups increased in response to the variation of demand, the expected social costs of zealotry fell as the likelihood of any one group imposing their preferences on others decreased.

Competitive markets provided a natural constraint on religious groups that encourage socially noncooperative behavior such as fanaticism. Competitive markets raise the costs to engage in this type of behavior. Extremism drives away members and marginalizes groups. As a result, members of these groups do not receive the benefits of the division of labor. A. Smith recognized this:

The interested and active zeal of religious teachers can be dangerous and troublesome only where there is, either but one sect tolerated in society, or where the whole of a large society is divided into two or three great sects; ... But that zeal must be altogether innocent where the society is divided into two or three hundred, or perhaps into as many as a thousand sects, of which no one could be considerable enough to disturb the public tranquility.³¹

So long as no one group had an institutional advantage over the others, religious competition mitigated harmful effects. They lacked the resources to coerce individuals to join their sects. Relatively peaceful interaction emerged as groups attempted to persuade individuals to join.

Competitive religious markets required little state intervention if they were to limit the effects of false religion. However, the establishment of a state religion reduced the likelihood for a peaceful social order. Conflict between religious groups resulted when one group had a special place within the government. They then used resources to vie for control of the state's finances in order to influence religious affairs. The resources of the state were used to increase membership through nonvoluntary means. For example, the state mandated that all citizens become members of the state church and use tax revenues to finance the church. Potentially, social unrest emerges as people cannot worship as they please. Dissidents challenge the legitimacy of the state church by motivating individuals to rebel against the church and state. Political interference alters religion from a source of the maintenance of the social order to a source for undermining the social order. Smith wrote,

But if politics had never called in the aid of religion, had conquering party never adopted the tenets of one sect more than those of another, when it had gained the victory, it would probably have dealt equally impartially with all the different sects, and have allowed every man to choose his own priest and his own religion as he thought proper.³²

Political influence in religious markets exacerbated the problems of zealotry rather than mitigating them. Competitive markets provided the means to avoid these problems.

The apparent inconsistencies in Adam Smith's discussion of religion appear to have a resolution. Religion places a constraint on human instinct as it provides rewards and punishments for socially noncooperative behavior. Like any other self-enforcing constraint, it has limited applicability. Sometimes, religious beliefs become the source of the problem. Zealotry threatens the social order. In these instances, competitive religious markets constrained the potential for initiated harm. Political interference increased the likelihood of religion's disturbing the social order.

Smith did not fully integrate his analysis of religion in explaining the emergence and maintenance of the social order. Scattered throughout his writings, he did offer some arguments that required further elaboration. A twentieth-century follower, F. A. Hayek, elaborated and extended the Smithian claims to further understand the role that religious beliefs and institutions have in the creation and the maintenance of the social order.

F. A. Hayek and the Two Orders

Throughout his many writings, F. A. Hayek did not provide a sustained discussion about the role religion had in the maintenance of the social order.³³ He stressed the importance of the rule of law, limited government, and the division of knowledge. In his debate over the possibility of rational socialist planning, Hayek did not include any discussion of religious institutions. In his celebrated argument about the slippery slope to totalitarianism in *The Road to Serfdom*, religion had little role. Serfdom did not coincide with secularization. In his magnum opus, *The Constitution of Liberty*, he did not discuss how religion affected the emergence of the rule of law. Yet in his last work, *The Fatal Conceit*, F. A. Hayek explicitly discussed religion as a significant factor in explaining the maintenance of the social order, thus moving to the forefront of his social theory.

Hayek stated that he did not have strong religious beliefs. He developed an early interest in religion, but he claimed his parents stifled it. Hayek stated that “soon after I had begun to read [the Bible] for pleasure, it disappeared mysteriously when I got too interested in it.”³⁴ He conjectured that his parents hid his Bible in order to discourage him from further exploring Christianity and developing an interest in it. As he matured, he grew mildly hostile to religious institutions. Like Hume, he associated religion with intolerance: “So far as I do feel hostile to religion, it’s against monotheistic religions, because they are so frightfully intolerant. All monotheistic religions are intolerant and try to enforce their particular creed.”³⁵ Yet, in the last chapter of his last work, Hayek wrote,

We owe it partly to mystical and religious beliefs, and, I believe, particularly to the main monotheistic ones, that beneficial traditions have been preserved and transmitted at least long enough to enable those groups, and to have the opportunity to spread by natural and cultural selection.³⁶

Without the monotheistic religions, civilization based on the widespread division of labor would not have emerged. So how did Hayek arrive at such a conclusion?

Hayek began by arguing that humanity exists between two states of being. In the first, humanity’s experience within hunter-gather societies influenced decision-making processes. Little specialization occurred. Internal trade characterized the society. Altruism and norms of reciprocity served to provide the basis of communal societies. They provided the foundations for the social order. When poor economic times arose, individuals could rely on their neighbors for material and social support. The wealth of the community became a form of social insurance in times of need. The uncertainty surrounding the future and the

absence of formal insurance markets necessitated informal means to alleviate the problems associated with risk and uncertainty.

As humanity increased in size and its material well-being increased, social relations changed. The second social order emerged that provided an alternative decision-making process. Impersonal exchange became increasingly common. Long distance trade developed. The norms that had developed in small-scale society no longer had the same impact. They did not provide much insurance in the increasingly integrated and spatially dispersed world. Interaction required more formal institutions such as a legal system to adjudicate disputes. The traditional order lost some of its importance.

The increased division of labor that arose as society became more anonymous altered the role of altruism and other norms. Markets emerged to coordinate consumption and production decisions. Social wealth no longer remained a necessary form of insurance. New institutions emerged to provide insurance. Increased trading led to new knowledge that transformed uncertainty to risk. Individuals became more aware of the likely consequences of their actions and future events. Larger and larger trading networks allowed for more risk diversification. Individuals became increasingly responsible for their decisions.

The shift from communal societies to impersonal societies that rely on market transactions, according to Hayek, revealed a fundamental tension within individuals. Transactions based on communal norms required a different type of behavior than transactions that take place in markets. As Hayek wrote,

Part of our present difficulty is that we must constantly adjust our lives, our thoughts and our emotions, in order to live simultaneously within different kinds of orders according to different roles. If we were to apply the unmodified, uncurbed rules of the micro-cosmos (i.e., of the small band or troop, or of, say, our families) to the macro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, we would destroy it. Yet if we were always to apply the rules of the extended order to our more intimate groupings, we would crush them.³⁷

Humanity lives between the order based on self-interest and the order based on sympathy. Here Hayek extends A. Smith's analysis. Applications of solutions to problems in the microcosmos will not work in the macrocosmos. Similarly, the application of the solutions to macrocosmos problems when applied to the microcosmos fail.

As civilization emerged, the norms that had developed for hunter-gatherer society needed replacement. No longer could one expect the same type of behavior as social interaction became more anonymous. Applications of the rules

of the order based on personal exchange harmed the emerging social order. As interaction became less personal, the opportunities for opportunism increased. Religion provided the basis for the transition as it constrained the behavior of self-interested individuals when the requisite institutions did not exist.

Hayek believed that religion emerged and persisted through evolutionary mechanisms. It did not develop through rational deliberation. Competition between competing moral systems through the centuries revealed that some moral systems were more likely to survive than were others. In particular, religions—primarily the major monotheistic religions—that supported property and the family survived. The survival of certain moral rules required their ability to effectively constrain human instinct and yield tangible benefits. The rules that endured contained valuable information that few, if any, people understood. That is, the rules that persisted contained tacit information that supported the social order and yielded long-run benefits. Only with the passage of time, did people understand the benefits. For Hayek, religion served as an institutional mechanism to preserve the embedded knowledge for the maintenance of the social order. Religious institutions guarded the traditions necessary for the social order.

Initially, religion provided negative mechanisms to promote the social order, as A. Smith argued. It placed constraints on individual behavior. The Ten Commandments, for example, generally take the form of “Thou shall not . . .” statements. Their effectiveness depended on the self-enforcing nature of the rules. If people believe in the consequences that arise from deviating from moral rules, then they alter behavior. But negative incentives only provide a partial explanation for the sustainability of a moral order. Effective religious rules require positive tangible benefits as well as to have support.

The positive benefits of religious institutions emerged through the generations. For example, Rodney Stark has argued that the early success of Christianity resulted, in part, from its providing basic health services to the sick.³⁸ For example, they supplied clean water to the sick during periods of widespread disease that increased the likelihood of survival for the recipients. Those who survived the epidemic provided evidence of the benefits of Christianity. Non-Christians responded by converting. They inferred a relationship between religious beliefs and the probability of surviving outbreaks of disease. Simply put, Christianity succeeded because its adherents survived, whereas nonbelievers had higher rates of death.

The combination of the negative and positive incentives that religion provided framed Hayek’s argument for the fundamental role religion had in the emergence of the social order. The morals and beliefs that religion supported allowed for the social order to develop. Hayek wrote, “This means that, like it or not, we owe the

persistence of certain practices, and the civilization that resulted from them, in part to support from beliefs which are not true—or verifiable or testable ... and which are certainly not the result of rational argumentation.”³⁹ Hayek’s conclusion is startling given his neglect of religion throughout his writings. Religion provided the foundation for the social order through its persistence and ability to generate positive social outcomes and to discourage antisocial behavior. Over time, the positive results accumulated and the social order expanded.

Religion had a larger role than simply providing a foundation for the social order. It aided the transition from the microcosmos to the macrocosmos. Hayek wrote that

As an order of human interaction became more extended, and still more threatening to instinctual claims, it might for a time become quite dependent on the continuing influence of some such religious beliefs—false reasons influencing men to do what was required to maintain the structure enabling them to nourish their enlarging numbers.⁴⁰

As the transition from personal exchange to impersonal exchange occurred, religion became an institution that provided the proper incentives to limit opportunism until the necessary institutions developed. It constrained individuals from engaging in predation when formal institutions did not exist. It substituted for formal institutions. Without religion, the transition may have never occurred. The social order would remain based on personal exchange.

The two orders, one based on sympathy and the other self-interest, placed great demands on individuals. An inherent tension existed that required institutions to minimize the problem. Both A. Smith and Hayek suggested a prominent role for religion as an institution to mitigate the conflict between the two orders. However, both thinkers remain somewhat vague on the specific mechanism that maintains the social order. Vernon Smith has merged and extended the problems identified by A. Smith and Hayek and offered a mechanism to explain how religion provided a solution to the tension of the two orders.

Vernon Smith: Religion and Trade

Following the analysis initiated by A. Smith and Hayek, Vernon Smith elaborated their insights into the role that religion has in the emergence and maintenance of the social order. Like Hayek and A. Smith, V. Smith begins his analysis from the recognition that humanity lives within two orders that do not, on the surface, support each other. Altruism and self-interest form the basis of the two orders. One reflects social relations between people who know each other and the other

does not. Like Hayek, V. Smith argues that the tensions between the two orders threaten the stability of social order. V. Smith wrote, “Not knowing of the invisible good accomplished by the self-interest of markets, but knowing of the good we accomplished by doing things for friends, we are led to believe we can do good by intervening into markets.”⁴¹ Applying solutions based on personal exchange to the world of impersonal markets leads to negative, unintended consequences that undermine the stability of the social order.

V. Smith also agrees with A. Smith that trade emerges from humanity’s natural propensity to “truck, barter and exchange” rather than from other sources such as fundamental differences between individuals.⁴² A. Smith’s proposition relied on God as the source of humanity’s natural propensity.⁴³ For V. Smith, the propensity to trade emerged through evolutionary processes that may or may not have divine origins. Individuals increasingly recognized the gains from specialization. The slow emergence of the division of labor on an ever-widening scale leads to increasing levels of productivity and wealth.

The trading process led to the emergence of norms of reciprocity. Following A. Smith, trade includes both tangible and nontangible goods. Traded goods include the usual, such as food and clothing, but also “generosity, humanity, kindness, compassion, mutual friendship and esteem.” Tangible and intangible goods traded within small personal markets and extended impersonal markets. Trading took place within the family and on markets both with friends and with strangers. The trading process creates new information. As V. Smith notes, “[O]ur species’ capacity for social exchange has enabled task specialization and production above bare subsistence that has supported investment in the creation and utilization of knowledge.”⁴⁴ The creation of new knowledge led to further specialization that increased the returns to trade. The trading process “explains why human nature appears to be simultaneously self-regarding and other-regarding.”⁴⁵ The trading process requires both altruism and self-interest. It applies to Hayek’s microcosmos and macrocosmos.

V. Smith argued from this type of slow evolutionary processes to explain the persistence of religious norms: “The durability of ancient Judeo-Christian norms of social stability ... [is] difficult to fathom without the concept of an evolutionary cultural order.”⁴⁶ Like Hayek, V. Smith argues that persistent religious rules resulted as an unintended result of individual rationality. It does not reflect rational discourse or reason. Religious institutions supported “our evolved capacity for reciprocity.”⁴⁷ Religious rules and our capacity for reciprocity interacted with the gradual process of specialization. They encouraged cooperative behavior as trading networks expanded. Religious rules provide the institutional framework between the two orders.

V. Smith reasoned that the subset of the Ten Commandments that do not deal with the direct relationship between humanity and God illustrate how religion serves to maintain the social order.⁴⁸ The rules, if perceived as credible, alter the cost-benefit calculations of individuals. They support social cooperation through trade. V. Smith lists them as follows:

1. Thou shall not steal.
2. Thou shall not covet thy neighbor's house, thou shall not covet thy neighbor's wife, nor his manservant, nor his maidservant, nor his ox, nor his ass, nor any thing that is thy neighbor's.
3. Thou shall not kill.
4. Thou shall not commit adultery.
5. Thou shall not bear false witness against thy neighbor.

The rules address the role of trade in both the microcosmos and the macrocosmos. They provide the incentive to expand trading networks and realize the gains from specialization.

These five commandments provide support for the realm of impersonal exchange—the macrocosmos. V. Smith wrote that “the first two commandments define and defend human property rights in the product of one’s labor, and all resources accumulated by such labor, enabling the emergence of the extended order ... through markets.” The other three do as well: “The last three commandments protect the sanctity of social exchange.”⁴⁹ They limit potential negative effects of self-interest and opportunism. They encourage decisions that lead to productive activities. Theft, envy, murder, adultery, and false witness raise the costs to transactions. They lead the allocation of resources toward investments in the protection of wealth rather than the creation of wealth. The commandments support the expansion of the division of labor and increased specialization.

The generality of the commandments provide a moral foundation for creative exchange to take place: “These modest exclusionary constraints leave an immense scope for freedom within their bounds.”⁵⁰ Neither A. Smith nor Hayek explicitly recognized the scope of freedom implied by the Ten Commandments. V. Smith’s recognition of this complements Hayek’s well-known arguments for liberty. Hayek wrote,

Liberty is essential in order to leave room for the unforeseeable and unpredictable; we want it because we have learned to expect from it the opportunity of realizing many of our aims. It is because every individual knows so little, and, in particular, because we rarely know which of us knows best that we

trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it. Humiliating to human pride as it may be, we must recognize that the advance and even the preservation of civilization are dependent upon a maximum of opportunity for accidents to happen. These accidents occur in the combination of knowledge and attitudes, skills and habits, acquired by individual men and also when qualified men are confronted with the particular circumstances which they are equipped to deal with. Our necessary ignorance of so much means that we have to deal largely with probabilities and chances.⁵¹

The Ten Commandments offer “room for the unforeseeable and unpredictable.” They provide institutional norms and rules that allow individuals to adjust to changing conditions. They support the transition from the microcosmos to the macrocosmos.

A Synthesis and Conclusion

In the beginning, trade occurred within the family unit. Nonmonetary payments characterized transactions; altruism provided the motivation. Over time, trade extended beyond the family to neighbors. Belief systems emerged. Some promoted social cooperation, and others did not. Those religious doctrines that provided support for the extension of the trading networks led to a wider division of labor. As time passed, strangers began to transact with each other. Self-interest replaced altruism as the stimulus for exchange. Religious beliefs continued to supply the foundations for the expanding scope of specialization as they discouraged opportunism. The growing trading network integrated many individuals, and the social order emerged, which no had one planned. Religious groups emerged as religious entrepreneurs searched for adherents. They continued to provide support for the social order so long as political interference remained minimal. Through the centuries, civilization continued to develop.

A. Smith, Hayek, and V. Smith provide a rudimentary theory that hypothesizes that religion has served to assist in the emergence and maintenance of the social order. They speculated that religion served as an institutional mechanism to guide individuals away from opportunism to social cooperation. It reduced transaction costs and provided incentives for the expansion of the division of labor and the development of long-distance trade. Boldly stated, without religion, the modern world based on anonymous trade within vast trading networks involving billions of individuals would not have emerged. Rather, humanity would remain confined to low levels of development based on localized trade.

Notes

1. In a search of scanned copies of the cited authors except Walras, only Alfred Marshall's *Principles of Economics*, 8th ed. (London: MacMillan and Co., 1920) and John Stuart Mill's *Principles of Political Economy*, new ed. (London: Longmans, Green and Co., 1909) contained any mention of *Christianity*.
2. See Joseph Spengler, "The Problem of Order in Economic Affairs," *Southern Economic Journal* 15, no. 1 (1948): 1–29.
3. The secularization hypothesis has little robust empirical support. See Rodney Stark, "Secularization, R.I.P." *Sociology of Religion* 60, no. 3 (1999): 249–73.
4. The modern discussion begins with Corry Azzi and Ronald Ehrenberg, "Household Allocation of Time and Church Attendance," *Journal of Political Economy* 83, no. 1 (1975): 27–56.
5. Or maybe prophets.
6. For a survey of the economics of religion, see Laurence Iannaccone, "Introduction to the Economics of Religion," *Journal of Economic Literature* 36, no. 3 (1998): 1465–95.
7. See Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (London: Routledge, 1930).
8. See R. H. Tawney, *Religion and the Rise of Capitalism* (1926; repr., New Brunswick: Transaction, 1998); and Kurt Samuelsson, *Religion and Economic Action: The Protestant Ethic, the Rise of Capitalism, and the Abuses of Scholarship* (Toronto: University of Toronto Press, 1957).
9. See Paul Samuelson, *Economics* (New York: McGraw Hill, 1970), 747.
10. See Joseph Schumpeter, *History of Economic Analysis* (Cambridge: Harvard University Press, 1954), 80; and Jacob Viner, *Religious Thought in Economic Society* (Durham: Duke University Press, 1978), 151–59.
11. See Kenneth Boulding, *Beyond Economics: Essays on Society, Religion, and Ethics* (Ann Arbor: University of Michigan Press, 1968), 200–202; and Albert Hirschman, *The Passions and the Interests* (Princeton: Princeton University Press, 1977), 9–12.
12. See David Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York: Norton, 1998), 174–79; and James Buchanan, *Ethics and Economic Progress* (Norman: University of Oklahoma Press, 1994), 83–85.
13. John Stuart Mill's posthumously published essays on religion suggest a role for religion in the social order. See *Collected Works of John Stuart Mill*, vol. 10, *Essays on Ethics, Religion and Society* (Indianapolis: Liberty Fund, 2006). However, his

Principles of Political Economy contain few references to religion and no systematic discussion. Similarly, Frank Knight and Jacob Viner contained discussions of religion and the social order but their assessments minimize the impact of religion. See Frank Knight, "Ethics and Economic Reform III: Christianity," *Economica* 6, no. 24 (1939): 398–422; Jacob Viner, *The Role of Providence in Social Thought* (Philadelphia: American Philosophic Society, 1972); and Jacob Viner, *Religious Thought in Economic Society*.

14. On the relationship between religious institutions and public finance in Adam Smith's thought, see Robert Ekelund, Robert Hebert, and Robert Tollison, "Adam Smith on Religion and Market Structure," *History of Political Economy* 37, no. 4 (2005): 647–60.
15. For the seminal application of civil religion to the United States, see Robert Bellah, "Religion in America," *Daedalus* 96, no. 1 (1967): 1–21. On the role of religious organizations providing foundational support for modern democracies, see Robert Woodberry, "The Missionary Roots of Liberal Democracy," *American Political Science Review* 106, no. 2 (2012): 244–74.
16. Boulding, *Beyond Economics*, 189.
17. Jacob Viner, "Adam Smith and Laissez-Faire," *Journal of Political Economy* 35, no. 2 (1927): 198–232.
18. See Peter Minowitz, *Profits, Priests, and Princes: Adam Smith's Emancipation of Economics from Politics and Religion* (Palo Alto, CA: Stanford University Press, 1997).
19. Adam Smith, *Essays on Philosophical Subjects* (Indianapolis: Liberty Fund, 1980), 48.
20. Smith, *Essays on Philosophical Subjects*, 48.
21. It should be noted that it is in this context that Adam Smith first uses the invisible hand metaphor to explain natural disasters. For a fuller discussion of the invisible hand of Jupiter, see Alec Macfie, "The Invisible Hand of Jupiter," *Journal of the History of Ideas* 32, no. 4 (1971): 595–99.
22. Smith, *Essays on Philosophical Subjects*, 50.
23. Smith, *Essays on Philosophical Subjects*, 46.
24. Adam Smith, *The Theory of Moral Sentiments* (Indianapolis: Liberty Fund, 1982), 164.
25. To this day, the search for the rational foundations of morality continues.
26. Smith, *The Theory of Moral Sentiments*, 91.

27. For some evidence that the threat of eternal damnation improves economic growth, see Robert Barro and Rachel McCleary, "Religion and Economic Growth across Countries," *American Sociological Review* 68, no. 5 (2003): 760–81.
28. Smith, *The Theory of Moral Sentiments*, 171.
29. David Hume, *The History of England from the Invasion of Julius Caesar to the Revolution in 1688: Volume 3* (Indianapolis: Liberty Fund, 1976), 135–36.
30. Gary Anderson, "Mr. Smith and the Preachers: The Economics of Religion in the *Wealth of Nations*," *Journal of Political Economy* 96, no. 5 (1988): 1066–88.
31. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: Liberty Fund, 1981), 792–93.
32. Smith, *Wealth of Nations*, 792.
33. For a discussion of Christianity's influence on Hayek's thought, see Kenneth Elzinga and Matthew Givens, "Hayek and Christianity," *Faith and Economics* 53 (2009): 53–68.
34. F. A. Hayek, *Hayek on Hayek: An Autobiographical Dialogue* (Chicago: University of Chicago Press, 1994), 40.
35. Hayek, *Hayek on Hayek*, 42.
36. F. A. Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: University of Chicago Press, 1991), 136.
37. Hayek, *The Fatal Conceit*, 18.
38. See Rodney Stark, *The Rise of Christianity* (Princeton: Princeton University Press, 1997).
39. Hayek, *The Fatal Conceit*, 136–37.
40. Hayek, *The Fatal Conceit*, 138.
41. Vernon Smith, "The Two Faces of Adam Smith," *Southern Economic Journal* 65, no. 1 (1998): 1–19.
42. For a fuller discussion of the development of economic theory with hierarchal assumptions rather than homogeneity, Sandra Peart and David Levy, *The "Vanity" of the Philosopher: From Equality to Hierarchy in Post-Classical Political Economy* (Ann Arbor: University of Michigan Press, 2005). For an illustration of the different implications for understanding international trade based on comparative advantage and increasing returns to scale, see James Buchanan and Yong Yoon, "Globalization as Framed by the Two Logics of Trade," *Independent Review* 6, no. 3 (2002): 399–405.
43. See Viner, *The Role of Providence*, chap. 3.

44. Vernon Smith, "Human Nature: An Economic Perspective," *Daedalus* 133, no. 4 (2004): 67.
45. V. Smith, "Two Faces of Adam Smith," 3.
46. V. Smith, "Human Nature," 70.
47. V. Smith, "Two Faces of Adam Smith," 4.
48. See Vernon Smith, "Constructivist and Ecological Rationality in Economics," *American Economic Review* 93, no. 3 (2003): 465–508, esp. 471.
49. Vernon Smith, *Rationality in Economics: Constructivist and Ecological Forms* (New York: Cambridge University Press, 2007), 37.
50. V. Smith, *Rationality in Economics*, 37.
51. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), 29.