

MODERATES, EVANGELICALS AND THE SCOTTISH CONTRIBUTION TO THE ECONOMICS OF RELIGION PRIOR TO THE DISRUPTION OF 1843

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1 Introduction

The development of a recognizable field of the economics of religion has been accompanied by re-examination of the analysis of religious markets in Smith (1776). Anderson (1988) and Ekelund *et al.* (2005) have claimed that Smith was a supporter of free markets in religion that would maximize consumer sovereignty. Leathers & Raines (1992, 1999, and 2006) have sought to demonstrate that Smith favoured regulation of markets for religion to promote public order. Trying to reconcile these two positions, Witham (2011) reads Ekelund *et al.* (2005) as claiming that Smith merely advocated certain forms of Establishment – specifically the Presbyterianism of his native Scotland, as practised at the time he was writing – as maximizing consumer sovereignty only where the market for religion is regulated.

While it is perhaps possible to think of Smith as writing about religion from the standpoint of an impartial spectator, Leathers & Raines (1999) introduce the contribution of Thomas Chalmers, another Scot who contributed substantially to the development of political economy. From the time of his appointment to the chair of divinity at the University of Edinburgh in 1828, his lectures covered political economy (Chalmers 1832). While historians of economic thought are probably most familiar with Chalmers' Malthusianism, especially as framed by Waterman (1991a, 1991b, 1993, 1995 and 2006), he spent the later part of the 1830s leading the Church of Scotland's campaign for additional public endowments; and when that failed, as Leathers & Raines (1999, 2002) note, he took an active part in forming a new denomination, designing and implementing the funding mechanism that ensured its financial stability.

We argue that Chalmers' active involvement in church management led to his reflections on the economics of religion being tested and refined continually, so that there is much in his writings that is still fresh and insightful. We explore the differences between Chalmers' and Smith's economic analysis of religion in the context of changing Scottish social conditions, concluding that Chalmers' understanding of religion remained close to Smith's in many respects, and so did not take full account of the environment at the time he was writing. This accords with the assessments of church historians (S. Brown 1982 and

Cheyne 1985), for whom Chalmers' career was ultimately unsuccessful, largely because his objectives, both a Godly Commonwealth based upon an idealised parochial system and a Scottish Establishment that shared sovereignty in a partnership with the British State, were chimerical. In addition, we suggest that Chalmers, always conscious of problems of moral hazard, was ultimately unable to persuade his fellow church ministers to share his vision of the Establishment as a missional church.

2 Economic models of churches in *The Wealth of Nations*

We begin with the now frequently studied section on religious institution in *The Wealth of Nations* (Smith 1776:V.i.g), which on a superficial reading begins by demonstrating the seeming superiority of a free market in religion over a state administered one, but concludes by commending the Established Church of Scotland, which for much of the eighteenth century considered itself to be the only legitimate expression of Christian faith in the country.¹ As noted by Leathers & Raines (1992), the turn in the argument follows Smith's extensive quotation from Hume (1778: Section III.29). Where Smith noted that

“The teachers of a new religion 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 people; and having given themselves up to indolence, were become altogether incapable of making any vigorous exertion in defence even of their own establishment,” (Smith 1776: V.i.g.1)

He sympathised with Hume's condemnation of enthusiasm – or evangelical fervour – among ministers of religion.

“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,

¹ The Established Church did not have monopoly status. For analysis of the developments in markets for religion in Scotland in the eighteenth century, see C. Brown (1997), Drummond & Baillie (1973) and Devine (2006).

morals, or decency, in the doctrines inculcated.” (Hume 1778: III.29, quoted in Smith 1776: V.i.g.6)

Smith recognised that this is indeed a danger, but quietly criticised Hume for presuming that sects seek state protection. His interpretation of the historical evidence was that the state had often sought legitimacy by allying itself with a substantial religious organisation, especially during periods of political crisis, and had then rewarded that religious organisation by granting it privileges, which impeded competition in the market.²

Smith also countered Hume by carrying out a thought experiment in which he imagines that there was no Establishment, indeed in which the state, “dealt equally and impartially with all the different sects, and allowed every man to choose his own priest and his own religion as he thought proper.” (Smith 1776: V.i.g.8) Were he to have used the methods of modern economics, he may have introduced a market for religion defined over some characteristics, or indeed physical space, as in Hotelling (1929) or Salop (1979), within which entry of ‘religious sects’ occurs until all profitable opportunities have been exhausted, so that there is monopolistic competition. Even without such a formal structure, he concludes that the small size of every sect would firstly require its teachers to maintain a high degree of effort to retain followers; and secondly that competition would render all sects so small that none could ‘disturb the public tranquillity.’ That is, he imagines monopolistic competition with no opportunities for the exploitation of market power, the use of signalling, or strategic interactions, as there might be in an oligopolistic market.

We may in any case consider Smith’s conclusions rather sanguine.³ For while he appealed to religious practice in Pennsylvania to support his conjectures, and we might see this argument, and its extension to the nature of product differentiation between sects based

² In the context of the Scottish churches, this is extremely important. Central to the historical debates about public endowment of an Establishment in Scotland was the belief that the Church has an existence that is not dependent on the State: all that the State can do is recognize the ‘spiritual independence’ of the Church (Brown & Fry 1993). This is perhaps unique to Scotland, where Reformation in the sixteenth and seventeenth centuries proceeded from within the Church and did not follow the pattern in Germany, discussed from the viewpoint of economics of religion in Berman (2009) and Ekelund *et al* (2002, 2006). We are particularly concerned about the use of the term ‘state church,’ as, for example in Leathers & Raines (2002), which seems both anachronistic, and to emerge from a North American understanding of spiritual freedom, as is evident from the historical analysis of Finke & Stark (2005).

³ Campbell & Skinner’s editorial footnote (Smith 1776:V.i.g, note 8) indicates that Hugh Blair, minister of the High Kirk of Edinburgh, did not find Smith’s argument convincing.

on potential earning differences, as the direct ancestor of the club model of religion introduced in Iannaccone (1992), he ignored the possibility that sects might agglomerate. Ekelund and collaborators (Ekelund *et al* 1995 and 2006; Ekelund & Tollison 2011) have shown how a provider of religious services might create, maintain, and ultimately lose monopoly power.

But this is to judge Smith's argument before its conclusion. He was well aware that his conclusions about different sectarian traditions tolerating one another would very likely require a judicial framework that promoted religious toleration, which he considered improbable, given that legislation concerning religion was likely to reflect popular enthusiasms. Even then, he did not join with Hume (1770: III, 134 – 135) in asserting that 'there must be an ecclesiastical order, and a public establishment of religion in every civilized community.' Instead, he set out a policy framework for government to influence a market for religion with free entry, so that the capacity of sectarians to trouble society would be limited. Only after disposing fully of all of the considerations that his experiment raised did he consider the regulation of a religious market with an Establishment. To scrutinise that argument fairly, we examine the social context within which Smith wrote.

2.1 The historical context

In developing arguments about the economics of religion, Smith devoted about one quarter to analysis of the strengths of a properly managed Presbyterian Establishment, which he believed largely to have been realised in his native Scotland. Intellectual and church histories of eighteenth century Scotland (Herman 2001, Devine 2006 and Drummond & Bulloch 1973) frequently discuss the case of Thomas Aitkenhead, a divinity student who was tried and condemned to death for blasphemy in Edinburgh in 1696. They might then also note that in 1755, an attempt to bring similar proceedings against David Hume and Henry Home⁴ in the General Assembly, was easily defeated. As S. Brown (1997a), Devine (2006) and Drummond & Bulloch (1973) argue, this was the result of the emergence of a Moderate party within the Church of Scotland, associated with ministers such as William Robertson, Hugh Blair, John Home and Alexander Carlyle.⁵ Appointed Principal of the University of Edinburgh from

⁴ By 1755, Lord Kames, a judge in the Court of Session.

⁵ Their literary interests were diverse: Robertson was a historian; Blair a rhetorician; Home a playwright; and Carlyle a diarist and autobiographer. As well as being Principal of the University of Edinburgh, Robertson also held the post of Historiographer Royal; Blair held a chair in Rhetoric and Belles Lettres; and Home left the ministry to become personal secretary to the Earl of Bute. Only Carlyle remained primarily attached to the parochial ministry.

1762, Robertson effectively became the leader of the party, and, as S. Brown (1997a) suggests, in a period where the British government paid little attention to Scottish matters, was able to exert considerable political influence within Scotland.⁶ The Moderates found intellectual allies in Smith and Hume, and along with other like-minded *literati*, they worked together to shape Scottish society during the intellectual ferment of the Enlightenment (Sher 1985). We can therefore safely read Smith's account of church governance against a background of support for the Moderate party's programme.

The Moderates first emerged as a cohesive group in disputes over patronage within the Establishment in the early 1750s. Within the context of Presbyterian government and adherence to the Scholastic Calvinism of the Westminster Confession (1646), the power of a patron of a parish to present a candidate to the Presbytery, or local church court, for induction to a charge,⁷ was contentious. Abolished in 1690, the Patronage Act (1712) had reintroduced it. Throughout the eighteenth century, the General Assembly of the Church of Scotland annually protested to Parliament about this violation of guarantees in the Treaty of Union (1707) of its right to manage its own internal government. In addition, many church ministers considered it appropriate to protest strongly against the induction of a minister to whom parishioners had taken exception, often delaying induction for years as church courts heard appeals. The Moderates decided that such clerical insubordination was insupportable, publishing a statement of protest in 1752 against the failure of church courts to discipline defiant members of inferior ones (S. Brown 1997a, Drummond & Bulloch 1973). Smith (1776:V.i.g.36) follows the arguments of the Moderates' protest quite closely, arguing that granting the right of election to the people of a parish had encouraged factionalism and fanaticism, initially among the clergy, who then inculcated the spirit among the populace.

Drummond & Bulloch (1973) dispute Smith's account of patronage disputes, arguing that they remained rare until the 1730s, the time when patrons stopped consulting with the people of a parish. They were therefore not the reason for patronage being imposed, but an effect of it. In this interpretation, the reintroduction of patronage and the vigour with which the Moderates insisted it be imposed in order to maintain clerical discipline had considerable effects upon church unity. An early patronage dispute led to the Secession of 1733 (Brown 1997b). Similarly the 1752 case that the Moderates pursued with such vigour eventually led

⁶ Drummond & Bulloch, 1973, compare his influence with that of a previous Principal of the University of Edinburgh, William Carstares, who had been largely responsible for ensuring that the Williamite settlement of 1690 incorporated Presbyterian government.

⁷ That is, to be the next minister of the parish.

to the formation of the Relief Church in 1761 (Brown 1997a). Robertson, most notably through his intervention in debate on the Schism Overture at the General Assembly of 1766 was able to defend toleration of dissent, effectively personifying Smithian ‘philosophical good temper and moderation.’ (V.i.g.8) As we shall see below, the presence of dissent led to substantial changes in the economic case for Establishment.

2.2 *The Scottish Establishment*

Book V. of Smith (1776) is entitled, “Of the Revenue of the Sovereign or Commonwealth,” justifying the adoption of a public finance perspective by Ekelund *et al* (2005) in their analysis of Section V.i.g, “On the Expence of the Institutions for the Instruction of People of all Ages.” Brown (1997b) provides an excellent summary of the institutions of the Establishment of this period, drawing attention to the fact that, “The minister and elders had responsibility for the education, poor relief, and moral discipline in the parish.” When Leathers & Raines (1999, 2002 and 2008) seemingly limit the role of the churches to ‘religious instruction,’ we think that they are misleadingly prescriptive, for Smith seems to have assumed that the Church would take on a much wider range of responsibilities. Given that Section V.i.f “On the Expence of the Institutions for the Instruction of Youth,” is largely concerned with the funding of institutions for higher learning, with some bias towards the curriculum in philosophy, the role of the church in *instruction*⁸ should be understood as taking in primary schooling, moral direction and encouragement through preaching and ministerial visitation, the function of the Kirk Session as a tribunal in cases of moral transgression, and perhaps even, as argued by Chalmers, the role of poor relief.⁹

In this context, Scottish historians, notably C. Brown (2001), and Devine (2006) have introduced the term ‘parish state’ to describe local government arrangements in Scotland in the late eighteenth century. For C. Brown (2001), the Church of Scotland was indeed established by law, but not in the way that many theologians have argued.¹⁰ While he does not refer to it directly, he effectively denies the validity of the theory of sphere sovereignty (Fry 1987, S. Brown & Fry 1993) in which the State is sovereign over temporalities (all matters relating to property understood in its widest sense, managed through the civil law)

⁸ *Instruction* has, of course two meanings: to teach and to order. We think that Leathers & Raines (1999) assume that it should be understood largely as the former.

⁹ See Hanham (2006) for a detailed account of the operation of a Kirk Session as a church court.

¹⁰ Burleigh (1960) defines the Church of Scotland in this period as ‘The Church by Law Established.’

and the Church over spiritualities (all matters to do with internal discipline, managed through the activities of the superior church courts).

C. Brown's argument is that there is no evidence of understanding or acceptance of this distinction in either statute or precedent. Indeed, he goes further. Recognising that statute and precedent had much to say about the church parish throughout the eighteenth and nineteenth centuries, he argues that there is simply no evidence of recognition of higher church courts in civil law. The 'myth' of the Establishment is that Presbytery, Synod and the General Assembly form a judicatory separate from the civil courts; and that the General Assembly possesses legislative authority, with its Acts binding on all adherents to the Establishment.¹¹ In this context, C. Brown sides with Robertson (and presumably Smith) in arguing that the boundaries of the Establishment's authority are set by the state.

The parish state was the creation of civil law. The boundaries of all 944 parishes in 18th century Scotland were determined by the Court of Session. Patronage, as we have already seen, was determined by civil law, as were the arrangements for remuneration of ministers and schoolmasters, the provision of accommodation for religious instruction, and the management of poor relief. Brown (2001) notes in particular the inquisitorial role of the Kirk Session, which along with Board of Heritors, formed the parochial church courts, and its close links with criminal prosecutors.¹² In particular, he finds that there is no record of a civil court ever agreeing to review a decision of a Kirk Session.¹³ To the extent that parish ministers' conduct was subject to review by the higher courts of the Church, Brown argues that this was effectively a voluntary arrangement amongst members of a private association.

Smith's arguments about the perfect equality of ministers, the lack of opportunity for preferment and the modesty of the benefices in the Establishment accord entirely with Brown's interpretation.¹⁴ For Smith, the danger of an Establishment is the capacity of its

¹¹ We do not set out details of how these courts operated here, but see Burleigh (1960), C. Brown (1997), Brown & Fry (1993), Devine (2006), Drummond & Bulloch (1973), and Fry (1987) for detailed discussion, and in particular the sources and nature of tension between the parallel civil and ecclesiastical jurisdictions throughout the nineteenth century.

¹² He dates the end of the parish state to 1929, arguing that it is only at this time that the Church of Scotland became a legal entity, but at the cost of transferring to secular local government many of its traditional functions.

¹³ Brown contrasts this with the repeated interventions of civil courts in the decisions of higher courts of the Church, some of which led to the constitutional crisis known as the Ten Year Conflict (Brown & Fry 1993, Drummond & Bulloch 1973, and 1975, and Fleming 1927)

¹⁴ S. Brown (1997b) notes that Robertson held simultaneously the positions of minister of New Greyfriars, Edinburgh, Principal of the University of Edinburgh, Chaplain-in-Ordinary

ministers to abuse their influence over the population, so that they are able to extract rentals for themselves, possibly even threatening the security of the state through their concerted opposition. The division of the country into nearly one thousand parishes limited the opportunities for this. Patronage, by reducing the probability of noisy enthusiasts being presented, further reduced this. Going back to the thought experiment, it might even be that Smith was thinking of Scotland when he wrote of a thousand small sects, for within his parish, a minister had considerable authority and autonomy. He was a monopolist, but working within a complex regulatory framework, and often required to use judicial review to ensure adequate funding of parochial activity. Establishment in eighteenth century Scotland was state sponsored monopolistic competition, with a small competitive fringe of Roman Catholics, Episcopalians and (largely Presbyterian) Protestant dissenters.

2.3 The Church and the right ordering of society

Smith concluded his argument:

‘The most opulent church in Christendom does not maintain better the uniformity of faith, the fervour of devotion, the spirit of order, regularity, and austere morals in the great body of the people, than this very poorly endowed church of Scotland. All the good effects, both civil and religious, which an established church can be supposed to produce, are produced by it as completely as any other.’ [V.i.g.41]

For Smith and Hume, free entry will lead to vital religion. This was problematic because of the undesirable effects of entry for the ordering of society. In more modern language, they believed that a free market in religion would generate negative externalities, so that regulation was desirable. To Hume, establishment seemed necessary, while to Smith, properly managed, it was desirable: rather than being divided on this matter, they are perhaps examples of the ‘elite few’ (Finke & Stark 2005), opposed to a free market in religion. Smith’s arguments concentrate on the effects of the absence, and (alternatively) the certainty, of payment for religious professionals, and it was in the virtuous mean of Presbyterian government, as practiced by the Scottish churches, that he found most to praise.

The needs of Smith’s well-ordered society might best have been met by any Establishment with: equality of ministers; widespread distribution of authority; and funding

to the King, and Historiographer Royal; in addition receiving an almost unprecedented advance of £3,000 for *The History of Charles V*. Ministers tended to augment their income by taking on additional responsibilities, but the opportunities by a city parish were undoubtedly greater, as were the associated stipends.

of parochial ministries at a level that is sufficient to secure the independence of pastors as teachers – of morality, rather than pure dogma; and not such generous funding as to foster their indolence. Smith identified two particular advantages of this arrangement. Firstly, mediocrity of benefice obliged ministers of the Establishment ‘to follow that system of morals which the common people respect the most.’ (Smith 1776: V.i.g.38) In other words, modest stipends promoted consistency between life and teaching, desirable if we read Smith as working within the tradition of virtue ethics (McCloskey 2010). Smith attributed to the clergy of Presbyterian Establishments in countries with religious toleration great influence over the minds of the common people, arguing that this has led to uniform adherence to the Establishment.

The other effect of modest stipends was to make the chairs of Scottish universities attractive to members of the clergy. For Smith, this widened substantially the pool of possible university teachers, ensuring that the most prominent men of letters would be attracted to teaching positions, rather than to seek preferment within the Establishment. This had the effect of rendering ‘their learning both as solid as possible, and as useful as possible.’ (V.i.g.40) With the universities entirely separate from the Establishment, Smith claimed that there was an externality associated with low level of stipends that had facilitated the development of the Scottish universities, and hence of the growth of knowledge.

Smith’s consideration of religious practice is very limited. For example, he gives no indication of thinking that people might have to make a decision to adhere to a particular denomination, only believing it important that the institutions of religion should be ubiquitous and that there should be tolerance of all traditions. Oslington (check ref) has recently summarised the little that we know about Smith’s religious commitment in the context of identifying theological influences in his work. Drummond & Bulloch (1973) have suggested that Smith demonstrated only a limited understanding of practice in the Establishment, and tie this to their concern that the Moderates contributed surprisingly little to theology, partly because of an unspoken commitment to Deism, rather than conventional Christianity. Again, this throws up the question of whether Smith’s attitudes were actually those of an elite few.

For all of these reasons, it seems difficult to reconcile the practice of the Establishment in Scotland with some of the arguments of Ekelund *et al* (2005) that Smith believed markets for religion should maximise consumer sovereignty. Parishes, as Leathers & Raines (2008) have noted, following Griswold (1999), were designed, in largely rural Scotland, to be local monopolies, within which there would be a single congregation. We

have found nothing in Smith's argument to suggest that he favoured any particular market structure, but rather that he was concerned that the practice of religion should be consistent with the maintenance of public order.

3 Economics of religion in the life of Thomas Chalmers

We now advance to the 1830s. Thomas Chalmers, professor of divinity at the University of Edinburgh, ordained minister of the Establishment, celebrated for his *Astronomical Discourses* and *Sermons on the Commercial and Ordinary Affairs of Life*, preached some ten years earlier to raise funds for his St John's parish in Glasgow (where he had developed a scheme of parochial poor relief in an urban setting on a voluntary, rather than a statutory basis), was about to become leader of the Evangelical Party in the Church of Scotland, and acquiring a short-lived period of dominance, comparable to Robertson in the previous century. Yet, by 1840, Chalmers and the Evangelical Party would have embarked on an ultimately self-defeating argument with the British state.

For these and other reasons, modern biographers (S. Brown 1982 and Cheyne 1985) typically consider his career ultimately to have failed, even when noting that failure involved developing methods for funding the construction of nearly 800 churches – almost one per parish – in the last fifteen years of his life. In contrast to Waterman (1991a, b), who considered primarily Chalmers' contribution to political economy, and Leathers & Raines (1999), who emphasised Chalmers' divergences from Smith in the economics of religion, we argue that there are substantial continuities between Chalmers and Smith: indeed that Chalmers, had he responded more imaginatively to the social changes in the first third of the nineteenth century, might have left an even more permanent legacy.

3.1 The political environment

In 1829, the British government repealed most civil restrictions on Roman Catholics. S. Brown (1982) and Burleigh (1960) note that Chalmers intervened in the rancorous debate that surrounded repeal, Brown emphasising Chalmers' emphatic defence of religious liberty, and Burleigh the immediate riposte from the United Secession Church, Marshall (1829), which quickly led to the formation of the Voluntary Church Association. Where Smith (1776) could claim that in Scotland "the common people [had] converted, without persecution, compleatly, and almost to a man, to the established church," Chalmers now confronted a situation in which the United Secession and Relief Churches, free of the restrictions on the creation of new parishes in the Church of Scotland, were rapidly growing within the emerging urban

centres of Scotland. Confident that political reform would soon occur,¹⁵ the Voluntary Church Association demanded ecclesiastical reform, and the disestablishment of the Church of Scotland.

Chalmers (1826, 1827) had already set out arguments relating to the effective management of a parish and the superiority of an Establishment over voluntary provision of the ordinances of religion.¹⁶ He therefore took on a leading role in developing the Evangelical Party's arguments in the Voluntaryist Controversy. Firstly, in Edinburgh, where ministerial salaries were funded from local tax receipts, a campaign for repeal, based on a boycott of payment, began in 1834. Brown (1982) notes that Chalmers, a professor, and so not facing loss of income, drafted the Presbytery's response (Chalmers 1834) in his most compelling account of the virtues of Establishment.

Secondly, in 1834, the Evangelical Party formed a majority in the General Assembly of the Church of Scotland for the first time. Chalmers, recovering from exhaustion brought on by his efforts on the part of the Presbytery, was not closely involved with the decisions. While historical sources (Fleming 1927, Burleigh 1960, Drummond & Bulloch 1973, Brown 1982, Cheyne 1985, Fry 1987, Brown & Fry 1993 and Brown 1997b) are unclear on this matter, it appears that the Assembly acted with the informal concurrence of the senior Scottish law officer, Lord Jeffery, the Lord Advocate, in effecting three measures. The first was the Chapels Act (1834), which facilitated the creation of new religious parishes (*quoad sacra*) from combined civil and religious parishes (*quoad omnia*), thereby permitting the recognition of ministers of these charges as members of the Establishment's superior courts. The second measure consolidated previous efforts to support new church building by forming a Committee on Church Extension, with Chalmers its convener. The third was the Veto Act (1834), which modified the rights of patrons by requiring Presbyteries to take account of objections to a presentee in a vacant charge, without giving reasons.

The Veto Act reflected the large differences in ecclesiology between the Moderate and Evangelical Parties. Where Kidd (1993, 1997) demonstrates that Robertson shaped a Scottish identity in which its national church received its authority from the state, Chalmers looked back to the Reformation and Melville's Augustinian doctrine of the 'Twa Kingdoms'

¹⁵ Limited political reform was given effect by the Reform Act (Scotland) (1832).

¹⁶ Many of his arguments relating to parochial management have already been summarised by Leathers & Raines (1999), while Waterman (1991a) has adapted the Classical Canonical model of Samuelson (1978) to Chalmers' Malthusian analysis; and in Waterman (1991b, 2006) has also criticised Chalmers' derivation of the superiority of an Establishment on political economy grounds.

in which the state recognises the authority that Christ has given his church,¹⁷ Chalmers (1838) including a very clear statement of the doctrine of spiritual independence. The doctrine was effectively dismissed as being without legal foundation by the House of Lords in its judgement in the Auchterarder case (1839), which found that both the patron and a vetoed presentee had been denied their civil rights.

The Auchterarder case opened up a new front in the emerging dispute between the Church of Scotland and the British government. In 1836, Chalmers had led a Church of Scotland delegation to London, seeking government funding for church extension activities. Melbourne's Whig administration, dependent on Radical, and thus Dissenting, support, did not want to support the Establishment; Peel's Tories were perhaps more supportive, but were entirely opposed to Chalmers' insistence on spiritual independence. By 1840, when Chalmers stepped down from the Church Extension Committee, the political controversy had rendered his efforts ineffectual. The Evangelical Party was by then most concerned about the issue of patronage, and while it is not clear that Chalmers ever wished to dispense with it, the failure of negotiations with Lord Aberdeen, and the subsequent publication of their correspondence (Gordon, 1840) rather diminished Chalmers' public reputation (Brown 1982, Fry 1987) and ensured that the breach between church and government would not be resolved easily. It appears to have been at this point that Chalmers started to consider the formation of a new denomination, and in the Disruption (1843), he split the Church of Scotland in two, taking, according to the formula first used by Fleming (1927), 'one third of the ministers and perhaps half the members' of the Establishment with him.

3.2 Chalmers' ideal parish system

Like Smith, Chalmers was acutely aware of the importance of incentive design for the effective performance of ministry. But where Drummond & Bulloch (1973) questioned Smith's knowledge of practice in the Church of Scotland, Cheyne (1985) has suggested that Chalmers developed many of its best features. In addition, where Smith worked closely with the Moderates, Chalmers was influential within Evangelical circles for much of his career. Smith considered it important both to curb enthusiasm and to limit the emergence of monopoly power within the churches to promote public order, but Chalmers (1838) argued

¹⁷ Brown (1997b) states that the doctrine of spiritual independence was the accepted position of the Church of Scotland in this period. At that time – and indeed ever since – debate within the Church has not been over the existence of spiritual independence, but about its nature and extent (Sjölinder 1964, McLean 2009)

that the public good would best be served by a ‘patriotic or paternal’ government endowing an expanded Establishment that could provide religious instruction to the whole of society. Our claim here that Chalmers used economic theory to address two separable questions: the first about why we should Christianize society; and the second about how we should achieve that goal. He answered the former question in his political economy, and the limitations of his answer are already well understood (Waterman 1991b). He answered the latter one in his economics of religion, and this, notwithstanding its examination in Leathers & Raines (1999), bears further discussion.

The starting point of his analysis was his conviction that free markets in religion would not operate well. Where people’s appetites generally create a felt need for a good, he believed that this would not be the case for education, whether secular or religious. For this reason, he argued for the adoption of the ‘aggressive principle’ by which ministers would actively strive to stimulate greater faith within the parish, typically through parochial visitation, as discussed below. Beyond this, he considered it impossible that congregations formed primarily of poorer people could be self-sustaining, despite arguing throughout his career for the importance of all members of congregations making financial contributions, even very small ones. He argued that Voluntary chapels “serve chiefly for the accommodation of those who may be designated the lower of the middle class; and these mingled, to a certain extent, with household servants, and the better-conditioned of the working classes in society.” (1848: 242 – 243) As a result, voluntary churches, and an ineffective establishment, had failed to ensure the universal provision of religious instruction, especially for the poor.

Chalmers’ criteria for a properly managed system of religious instruction were very similar to Smith’s in that both seem to have wanted to ensure just enough public support to ensure universal provision of the ordinances of religion. Leathers & Raines (1999) note Chalmers’ distinction between internal and external voluntaryism, the former occurring when a congregation supports its own minister, the latter when some external agency supports it. As an example of external voluntaryism, Chalmers (1836) gives details of the complete endowment of a parish church *quoad sacra* by the Earl of Bute, comprising £4,300 to endow an annual salary of £150 for the minister, with remaining £2,300 funding the building of church, offices and manse, and the purchase of a glebe. As convener of the Church Extension Committee, he spent several years promoting such external voluntaryism. Yet, he considered that even this would not be sufficient to realise the full potential of the church. For that, it was necessary that there should be Establishment, almost as the funder of last resort.

Establishment meant simply, “a sure legal provision for the expense of its ministrations.” (Chalmers 1848: 195) Building on the definition of external voluntaryism, he claimed merely to be arguing for, “a present, which coming from the hands of individuals might be termed a benevolence, and . . . an endowment did it come from the hands of the state.” (1848: 240) Endowment was very important in Chalmers’ thinking, as the means for closing the gap between the finance that might be raised from the congregation and wider society, and the reasonable requirements of ministry because it limited the extent to which a minister was liable to be dependent upon his congregation. He repeatedly claimed that Dissenting ministers had very low incomes, complaining of the “penurious, and sometimes the disgraceful allowance on which the minister even of affluent hearers is permitted to bring up a family in starvation and sordidness,” (Chalmers 1848: 130), citing this as further evidence of the inadequacy of a free market. Endowment would be entirely justified for a territorial ministry, in which every minister was given a charge to provide pastoral care to all of the inhabitants of an area, irrespective of the nature of their religious affiliation. For Chalmers, Establishment was necessary only because of the social costs of probable market failure in the absence of endowment, with the parochial system generating a spatial distribution of ministries given the inability of a free market to ensure universal service provision.

Chalmers emphasised the social role of ministry, writing of the ‘charm of the week-day services of a parish minister,’ (Chalmers 1848: 122), visiting his parishioners in their homes. We may think him guilty of patronizing the working classes, with his emphasis on the importance of the minister having the ‘manner and independence of a gentleman,’ (1848: 127) freed from concern about how his stipend will be paid because of the endowment. For Chalmers, these arrangements would enable the minister to talk freely with the inhabitants of the parish – exhibiting ‘pure and disinterested zeal’ (1848: 127). This was the basis of ministry in the St John’s Experiment (Brown 1982, Cheyne 1985) and Chalmers repeatedly argued that an important element of its success was the fact that neither minister nor parishioners had any financial interest in their relationship.

Although using very different language from Smith, for example, repeatedly referring to the Establishment as a machine and, in one colourful passage, to the opponents of Establishment as machine breakers, Chalmers shared Smith’s concerns about the design of the machinery of Establishment. He recognized the importance of oversight of the beneficiaries of endowments, but, unusually tentatively, concluded that, “We scarcely know a more arduous problem in the philosophy of human affairs, than the construction of a right

board or body of patronage.” (Chalmers 1848: 149) No method seemed wholly satisfactory to him; all were liable to corruption and party interest, but he believed that these effects might be ameliorated where there was public scrutiny of decisions, and this justified locating patronage with Town Councils and other secular local authorities.

Like Smith, Chalmers believed in religious toleration. His Establishment would have a limited dependence upon the state – indeed, Smith’s comments about the refusal of Scottish ministers to be influenced by their patrons might almost have been written with Chalmers in mind. It was to be a modern machine, operated by wise and incorruptible men,¹⁸ and quickly adopting the latest innovations in design. Dissenting churches had an important role in Chalmers’s religious industry: they were the likely source of innovation, but the Establishment should be able overtake their novel ideas and ensure their adoption throughout the country. When Chalmers claimed that, “We hold a revival in the Establishment to be the likeliest mean by far for the revival of Christianity in our land,” (1828: 133), he was not expressing a pious hope. Rather, he was expressing confidence in the capacity of a truly national church to overcome the indifference to faith that would otherwise spread throughout the country.

4 Conclusions

We have demonstrated that Smith, closely aligned to the Moderates, developed a political economy of religion that reflected their understanding of Scottish society, upon which Chalmers, a leading evangelical, confronting a substantially different society, was able to build. Smith, as a theorist, was safely removed from the practical considerations that were central to Chalmers’ work; but Chalmers could draw on direct experience of developing innovative parish ministries.

We have argued that Smith’s support for free markets in religion was heavily qualified because he believed that sectarianism or rent seeking were otherwise very likely to emerge. As a result, we do not find a large gap between Smith’s and Chalmers’ thought on the economics of religion. Both valued competition, even if for Chalmers it should be primarily a spur to greater efficiency within the Establishment. Both were very concerned to ensure appropriate incentives to elicit effort from ministers. Both saw the role of the churches as being to provide moral education as well as spiritual services to the whole of society. Chalmers has provided us with a much more detailed account of how this might be done than

¹⁸ We are not aware of Chalmers ever considering the possibility of women assuming positions of leadership.

Smith, partly reflecting his experience, but also his evangelical orientation. Where Smith seems to have given little consideration to the process by which faith might be inculcated, for Chalmers, this was of the greatest possible importance. Modern economists of religion can look back to Smith and, by wrenching the analysis from its social context, find much that is agreeable in it. Chalmers, who so clearly understood the nature of competition within religious markets, anticipated the incentive effects that are central to modern economics of religion, planning, it would seem, how to make the Establishment stricter and more sect-like so that it might out-compete the Dissenting churches.

We have reviewed the majority of Chalmers' career in this paper, demonstrating the arguments that he used to justify public support of a single denomination in his managed market. While there is no reason to suppose that he ever abandoned those beliefs, the deterioration of the relationship between the evangelicals in the Church of Scotland and the British state in the late 1830s led to many of them, including Chalmers, quitting the established church in 1843 to form the Free Church of Scotland. Instead of the traditional source of funding from property rights, he looked to generous giving from across the whole of society to fund the new denomination. While he still had the energy to create the funding mechanism for this new national church over a period of months, the efforts that he directed fell just short of what he had intended. With a Free Church congregation formed in a large majority of parishes, the established church's monopoly power was seriously diminished, so that no single denomination could pretend to be a universal social agency. With the passage of the Poor Law (Scotland) Act, 1845, responsibility for the management of poor relief was passed to secular parochial boards. The 'Old Scotland,' whose institutions had emerged in the Williamite settlement of 1690 quickly dissolved, with a recognisably Victorian society replacing it.

Shortly after Chalmers' death in 1847, the two largest seceding denominations, the Associate Synod and the Relief Church, entered into union. The new United Presbyterian Church of Scotland joined the Free Church of Scotland, which Chalmers had helped to create, and the established Church of Scotland, in a period of relatively intense religious competition that lasted for the remainder of the nineteenth century. Chalmers would have noisily deprecated the further loss of the established church's public role, while Smith might well have been quietly pleased to see that competition was not accompanied by excessive factionalism, at least among these denominations.

Yet, along with modern economists of religion, neither would have been surprised that the real wages of ministers rose sharply, or that adherence to the churches continued to increase until the end of the century, or even that the established Church of Scotland grew most rapidly during that period, with its leaders proving that they had fully assimilated the lessons of Chalmers' church extension campaigns. Looking at the state of the mainline churches today, it seems that church ministers no longer have access to this knowledge, developed by the middle of the nineteenth century, and applied so successfully for many years.

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