When the Market for Religion Fails: Tiebout Sorting, Mobility Assumptions, and the Limits of Religious Economy Theory

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1 Introduction

The deregulatory case for religious freedom rests on market logic. Competition among religious firms, the argument runs, produces better outcomes for religious consumers: individuals sort freely among denominations according to their preferences, while government intervention, whether through established churches, regulatory burdens, or restrictions on religious practice, distorts allocative efficiency and suppresses participation. Developed most influentially by Laurence Iannaccone, Roger Finke, Rodney Stark, and their collaborators,[1] this argument has shaped three decades of research in the social scientific study of religion.

Structurally, the argument is analogous to Charles Tiebout's model[2] of interjurisdictional competition. In the Tiebout framework, households sort across local jurisdictions in search of their preferred tax-and-service bundles, competition among jurisdictions disciplines providers, and the resulting equilibrium approximates the efficient provision of local public goods.

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[1] Laurence R. Iannaccone, "The Consequences of Religious Market Regulation: Adam Smith and the Economics of Religion," *Rationality and Society* 3, no. 2 (1991): 156–177; Laurence R. Iannaccone, "Sacrifice and Stigma: Reducing Free-Riding in Cults, Communes, and Other Collectives," *Journal of Political Economy* 100, no. 2 (1992): 271–291; Laurence R. Iannaccone, "Introduction to the Economics of Religion," *Journal of Economic Literature* 36, no. 3 (1998): 1465–1495; Roger Finke and Rodney Stark, *The Churching of America, 1776–1990: Winners and Losers in Our Religious Economy* (New Brunswick: Rutgers University Press, 1992); Roger Finke and Rodney Stark, *The Churching of America, 1776–2005: Winners and Losers in Our Religious Economy*, 2nd ed. (New Brunswick: Rutgers University Press, 2005).

[2] Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64, no. 5 (1956): 416–424.

Substitute denominations for jurisdictions, and mixes of doctrinal content, behavioral expectations, and community goods for taxes and services, and the religious economy framework emerges nearly intact. Yet Tiebout's name rarely appears in the religious economy literature, and the extensive body of criticism leveled at his model has never been systematically applied to its religious analogue.

Four decades of scholarship have established that Tiebout equilibria are efficient only under restrictive conditions that rarely hold,[3] that the model's empirical predictions receive inconsistent support even in the municipal context for which it was designed,[4] and that mobility costs, preference endogeneity, thin markets, and information asymmetries operate as systematic sources of Tiebout failure.[5] Each of these failure conditions, I will argue, maps directly onto religious markets, and each is endemic to a specific segment of them.

Bringing the two literatures together, this paper makes the implicit Tiebout framework in the religious economy literature explicit, identifying the structural assumptions that underpin the deregulatory case for religious freedom. It then maps the standard Tiebout critiques onto religious markets, drawing on empirical evidence from the sociology and psychology of religious disaffiliation, and on ethnographic scholarship on strict religious communities, to argue that all four failure conditions are structural features of such communities. From that mapping I develop a set of propositions about where and when religious markets fail, along with the policy implications that follow.

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[3] Truman F. Bewley, "A Critique of Tiebout's Theory of Local Public Expenditures," *Econometrica* 49, no. 3 (1981): 713–740.
[4] Paul W. Rhode and Koleman S. Strumpf, "Assessing the Importance of Tiebout Sorting: Local Heterogeneity from 1850 to 1990," *American Economic Review* 93, no. 5 (2003): 1648–1677.
[5] Keith Dowding, Peter John, and Stephen Biggs, "Tiebout: A Survey of the Empirical Literature," *Urban Studies* 31, nos. 4–5 (1994): 767–797; Dennis Epple and Holger Sieg, "Estimating Equilibrium Models of Local Jurisdictions," *Journal of Political Economy* 107, no. 4 (1999): 645–681.

These points of critique are not individually new. Sociologists of religion have pressed versions of them for three decades, and a substantial empirical literature has tested the program's central predictions with mixed results. Restated as Tiebout failure conditions, however, they become theorems of the framework itself rather than complaints from outside it.

The paper does not argue for state regulation of religious belief, nor does it reject the utility of market models for understanding religious behavior. It argues that the market model's own internal logic identifies the conditions under which competitive religious markets fail: if one accepts the market framework, as the religious economy literature asks us to do, then one must also accept the market failure conditions that the framework implies.[6]

2 The Religious Economy Framework

Economic analysis of religion has deep roots. Adam Smith observed in *The Wealth of Nations* that where religious establishments enjoy state support, clergy have diminished incentives to exert themselves, while competitive markets for religious services produce more energetic and responsive providers, an insight that lay largely dormant until formalized within modern microeconomics in the late twentieth century.[7]

Iannaccone[8] initiated the modern program by operationalizing Smith's conjecture. In a cross-national analysis, he demonstrated that religious participation rates were higher in countries with less regulated religious markets. Finke and Stark[9] extended the argument

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[6] For existing empirical and rhetorical challenges to the religious economy framework, see Steve Bruce, *Choice and Religion: A Critique of Rational Choice Theory* (Oxford: Oxford University Press, 2000), and Andrew M. McKinnon, "Ideology and the Market Metaphor in Rational Choice Theory of Religion: A Rhetorical Critique of 'Religious Economies,'" *Critical Sociology* 39, no. 4 (2013): 529–543; their relationship to this critique is discussed in Section 2.1.
[7] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; repr., Chicago: University of Chicago Press, 1976), bk. V, ch. 1.
[8] Iannaccone, "Consequences of Religious Market Regulation."
[9] Finke and Stark, *Churching of America* (1992).

historically, attributing the rapid growth of Methodists and Baptists after the disestablishment of colonial-era churches to competitive dynamics. The resulting "religious economy" paradigm treats religious organizations as firms competing for consumer adherents in a marketplace, where the relevant currency is time, commitment, and participation rather than money.

Iannaccone's club goods model of religious strictness is central to this literature.[10] In this model, religious organizations face a collective action problem: religious goods (community, mutual aid, shared worship experiences) are jointly produced and subject to free-riding. Strictness (behavioral prohibitions, stigma, and costly signals of commitment) serves as a screening mechanism that deters low-commitment members and sustains the quality of collectively produced goods. The model predicts, and empirical research confirms, that strict churches exhibit higher member participation, giving, and reported satisfaction.[11]

For most members, a congregation functions less like a firm selling a product than like a voluntary association, a sports club, theatre group, or Rotary chapter, in which the relevant goods are created and consumed by the members themselves. Club theory is the economics of exactly such associations,[12] and the religious economy literature rests on it for that reason. Tiebout's model extends club theory to general equilibrium, analyzing how consumers sort across many competing clubs, and the efficiency results of that unified theory hold under free entry and exit across clubs and preferences independent of membership.[13] Whether sorting across religious

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[10] Iannaccone, "Sacrifice and Stigma"; Laurence R. Iannaccone, "Why Strict Churches Are Strong," *American Journal of Sociology* 99, no. 5 (1994): 1180–1211.
[11] Daniel V. A. Olson and Paul Perl, "Free and Cheap Riding in Strict, Conservative Churches," *Journal for the Scientific Study of Religion* 44, no. 2 (2005): 123–142.
[12] James M. Buchanan, "An Economic Theory of Clubs," *Economica* 32, no. 125 (1965): 1–14. On congregations as clubs, see Iannaccone, "Sacrifice and Stigma," and Jean-Paul Carvalho and Michael Sacks, "The Economics of Religious Communities," *Journal of Public Economics* 201 (2021): 104481.
[13] Todd Sandler and John Tschirhart, "The Economic Theory of Clubs: An Evaluative Survey," *Journal of Economic Literature* 18, no. 4 (1980): 1481–1521; Bryan Ellickson, Birgit Grodal, Suzanne Scotchmer, and William R. Zame, "Clubs and the Market," *Econometrica* 67, no. 5 (1999): 1185–1217.

clubs disciplines providers and matches members to their preferred bundles is therefore a Tiebout question whatever one calls congregations.

Implicit in this framework, though rarely stated, is an assumption about mobility. The market logic of the religious economy requires that individuals can and do sort across religious options in response to the price-and-quality bundles on offer. If a denomination's demands become too costly relative to the benefits it provides, members will exit to competitors offering a more attractive ratio, just as Tiebout's consumer-voters exit unfavorable jurisdictions. If exit is costless, the market disciplines religious firms and outcomes approximate consumer preferences, but if exit is costly, the disciplinary mechanism weakens and the market can sustain outcomes far from what members would freely choose.

In particular, the club goods model reveals a structural tension at the heart of the religious economy framework. Iannaccone[14] argues that strictness is efficient because it solves the free-rider problem. But the same mechanisms that screen free-riders (behavioral prohibitions, social stigma, and bounded community networks) also raise exit costs, because members' social capital, identity, and relational networks become embedded within the institution. Co-production compounds the effect. A member of a co-productive club does more than consume its goods. She invests in producing them, binding her own social capital into a joint product from which it cannot be withdrawn intact. The more thoroughly a group's goods are co-produced, the more a member's welfare is embedded in that particular group and the more she loses by leaving. The model treats this as a feature (high commitment sustains collective goods) without adequately theorizing it as a potential pathology (high exit costs suppress the competitive mechanism that the market model requires).

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[14] Iannaccone, "Sacrifice and Stigma"; Iannaccone, "Why Strict Churches Are Strong."

What the religious economy literature lacks is the full set of market failure conditions that its own logic implies. The absence is systematic: Iannaccone's comprehensive survey[15] of more than 200 papers in the economics of religion contains no reference to Tiebout or to the public economics tradition that has spent four decades mapping the failures of competitive sorting.

2.1 The Empirical Record

The religious economy program has been subjected to extensive empirical testing, and the results are uneven. Its market-structure predictions have fared poorly. A review of twenty-six published analyses of the relationship between religious pluralism and religious participation concluded that the evidence does not support a positive association in any general sense.[16] Subsequent work demonstrated that virtually all quantitative studies on both sides of the debate were compromised by a previously unrecognized statistical artifact linking the standard pluralism index to participation measures.[17] When the question was revisited with longitudinal models designed to avoid the artifact, county-level religious diversity predicted *later declines* in religious involvement, the opposite of the supply-side prediction.[18] Natural-experimental evidence points the same way. Disestablishment in Swiss cantons produced no gain in religious vitality for either established or non-established congregations, and its only clear effect was a decline in the established churches' income.[19]

Its club-theoretic predictions, by contrast, have held up considerably better. A test of the strictness thesis against competing theories of congregational growth found that congregational

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[15] Iannaccone, "Introduction to the Economics of Religion."
[16] Mark Chaves and Philip S. Gorski, "Religious Pluralism and Religious Participation," *Annual Review of Sociology* 27 (2001): 261–281.
[17] David Voas, Daniel V. A. Olson, and Alasdair Crockett, "Religious Pluralism and Participation: Why Previous Research Is Wrong," *American Sociological Review* 67, no. 2 (2002): 212–230.
[18] Daniel V. A. Olson, Joey Marshall, Jong Hyun Jung, and David Voas, "Sacred Canopies or Religious Markets? The Effect of County-Level Religious Diversity on Later Changes in Religious Involvement," *Journal for the Scientific Study of Religion* 59, no. 2 (2020): 227–246.
[19] Jörg Stolz and Mark Chaves, "Does Disestablishment Lead to Religious Vitality? The Case of Switzerland," *British Journal of Sociology* 69, no. 2 (2018): 412–435.

strictness has both direct and indirect positive effects on growth even after controlling for evangelical theology, fertility, demographics, and denominational identity.[20] Work on free-riding in strict churches points in the same direction.[21]

This split verdict, with firm-level mechanisms repeatedly confirmed while market-level predictions repeatedly fail, is what a Tiebout failure analysis predicts. The club goods model describes what happens *inside* a religious firm, and it requires no assumptions about mobility, information, or the origins of preferences. Strictness screens free-riders whether or not members can costlessly leave. The deregulatory and pluralism predictions, by contrast, hold only if consumers sort freely across providers on the basis of accurate information and independently formed preferences, and where the four failure conditions disable that sorting mechanism, market-level competition fails to deliver the predicted vitality gains even while strictness continues to "work" within each firm.

Critics of the religious economy program have, moreover, pressed versions of the individual failure conditions all along. Steve Bruce has argued that religious "choice" is constrained by socialization and social context, sociological reviews have concluded that the market model overgeneralizes from the American case, and the market metaphor itself has been criticized as ideological.[22] Restated as Tiebout failure conditions, those objections generate falsifiable predictions about where the market model should hold and where it should not.

3 The Tiebout Model and Its Critiques

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[20] Jeremy N. Thomas and Daniel V. A. Olson, "Testing the Strictness Thesis and Competing Theories of Congregational Growth," *Journal for the Scientific Study of Religion* 49, no. 4 (2010): 619–639.
[21] Olson and Perl, "Free and Cheap Riding."
[22] Bruce, *Choice and Religion*; Chaves and Gorski, "Religious Pluralism and Religious Participation"; McKinnon, "Ideology and the Market Metaphor."

Tiebout[23] proposed that the free-rider problem in local public goods provision could be resolved through competitive sorting. In his model, households evaluate the tax-and-service bundles offered by different local jurisdictions and relocate to the one that best matches their preferences. This "voting with one's feet" serves as a preference-revelation mechanism. Rather than relying on centralized aggregation of heterogeneous preferences (which faces the Samuelson problem[24]), decentralized competition allows individuals to self-sort into homogeneous communities where provision matches demand.

The model rests on a set of well-specified assumptions: (1) consumers are perfectly mobile, with zero relocation costs; (2) consumers have complete information about the tax-and-service bundles available across jurisdictions; (3) there is a sufficient number of jurisdictions to offer the full range of preferred bundles (no thin markets); (4) consumer preferences are exogenous, meaning they exist prior to and are not shaped by the jurisdictions in which consumers reside; (5) there are no spillovers across jurisdictions; and (6) there exists an optimal community size for each bundle. When all assumptions hold, the competitive equilibrium is efficient.

Subsequent literature has subjected each of these assumptions to sustained critique, and the failures cluster into four categories. The first and most obvious concerns costless mobility. Tiebout equilibria may be inefficient when the number of jurisdictions is finite, because no market mechanism exists to coordinate the location decisions of individuals facing positive moving costs.[25] Extensions of the model that include mobility costs predict that as those costs fall over time, heterogeneity across communities in preferences and policy outcomes should

[23] Tiebout, "Pure Theory of Local Expenditures."
[24] Paul A. Samuelson, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36, no. 4 (1954): 387–389.
[25] Bewley, "Critique of Tiebout's Theory."

increase.[26] Moving costs, moreover, are not merely pecuniary, since employment ties, family networks, community attachments, and psychic costs of disruption all impede the mobility on which the competitive mechanism depends.

A second line of criticism concerns preference exogeneity. Tiebout's consumers arrive in the market with pre-formed preferences and select jurisdictions accordingly, but a substantial literature in political science and behavioral economics has documented that preferences are often shaped by institutional context. Residents may come to value what their jurisdiction provides simply because it provides it. The problem is most severe for those born into or raised within an institutional context, who in the standard framework inherit their parents' jurisdictional location and are assumed to re-sort as adults once their own preferences emerge. The model does not contemplate the possibility that institutional socialization might constrain the very range of preferences an individual can form, such that adult "choice" reflects conditioning rather than autonomous evaluation.

Sorting also requires a sufficient number of jurisdictions offering a sufficient range of bundles. When the number of available options is small, as in rural areas, small metropolitan regions, or settings with geographic constraints, the market is thin and consumers face limited choice. Empirical work finds that residents of larger metropolitan areas with more jurisdictional options report greater satisfaction with public goods provision.[27]

Finally, the model assumes that consumers know the tax-and-service bundles on offer across all jurisdictions. In practice, information is costly to acquire, unevenly distributed, and often unreliable. The problem is compounded when the relevant goods are experience goods,

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[26] Rhode and Strumpf, "Assessing the Importance of Tiebout Sorting."
[27] Edward M. Gramlich and Daniel L. Rubinfeld, "Micro Estimates of Public Spending Demand Functions and Tests of the Tiebout and Median-Voter Hypotheses," *Journal of Political Economy* 90, no. 3 (1982): 536–560.

whose quality can only be evaluated after consumption, or when providers have incentives to misrepresent their offerings. Empirical models of Tiebout sorting accordingly acknowledge that observed sorting patterns may reflect information constraints as much as preference matching.[28] Taken together, these four critiques define the conditions under which Tiebout's competitive mechanism fails, and the next section asks whether, and to what extent, those conditions characterize religious markets.

4 Mapping Tiebout Failures onto Religious Markets

This section argues that each category of Tiebout failure applies to religious markets, often with greater force than in the municipal context for which the model was designed. The argument concentrates on strict churches, in the literature's sense of the term. Religious groups array along the church-sect continuum, one of the oldest constructs in the sociology of religion, which Iannaccone recast in economic terms as a scale of costly demands, behavioral prohibitions, distinctive dress and diet, stigma, and limits on outside association, and which subsequent work has measured across and within denominations.[29] At the lenient end, a voluntary association claims a few hours a week and none of a member's metaphysical commitments, so exit is casual and market logic governs it well. At the strict end, a church that organizes a member's social world, moral framework, and identity comes to resemble one of Tiebout's jurisdictions. These measures were built to explain participation and growth, but the same demands that register as strictness also make leaving costly, so a group's position on the continuum indexes its exit costs and marks where competitive discipline weakens. The club

[28] Epple and Sieg, "Estimating Equilibrium Models."
[29] On the church-sect dimension and its economic operationalization, see Benton Johnson, "On Church and Sect," *American Sociological Review* 28, no. 4 (1963): 539–549; Iannaccone, "Why Strict Churches Are Strong," 1188–1191. On subsequent measurement and within-tradition variation, see Daniel V. A. Olson and Paul Perl, "Variations in Strictness and Religious Commitment Within and Among Five Denominations," *Journal for the Scientific Study of Religion* 40, no. 4 (2001): 757–764.

goods result and the four failure conditions alike follow from strictness, and so concentrate at that end, where the sections below examine them in turn.

None of this implies that religious markets fail in general. For most adherents of most traditions in contemporary liberal democracies, exit costs are modest and sorting is routine. Roughly a third of American adults no longer identify with the religion in which they were raised, and denomination-switching within American Protestantism has long been unremarkable.[30] The claim is therefore conditional. Market failure tracks identifiable institutional features, and the framework's deregulatory conclusions hold where those features are absent.

4.1 Mobility Failures: The Structure of Religious Exit Costs

In the Tiebout framework, mobility costs take the form of pecuniary moving expenses, employment disruption, and psychic costs of community dislocation. A substantial empirical literature documents the corresponding costs of religious exit, which in strict churches are often severe. Analyses of General Social Survey data (1972–2006) find that individuals who leave high-cost sectarian groups, specifically the Church of Jesus Christ of Latter-day Saints and Jehovah's Witnesses, report significantly worse health outcomes than those who remain, or than those who leave low-cost mainline denominations.[31] Later work replicated this pattern and extended it to subjective well-being, finding that disaffiliates from high-cost religions experience health costs consistent with the loss of a primary social support system, analogous to the well-documented effects of marital dissolution.[32]

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[30] Pew Research Center, *Decline of Christianity in the U.S. Has Slowed, May Have Leveled Off: 2023–24 Religious Landscape Study* (Washington, DC: Pew Research Center, 2025), chapter on religious switching.
[31] Christopher P. Scheitle and Amy Adamczyk, "High-Cost Religion, Religious Switching, and Health," *Journal of Health and Social Behavior* 51, no. 3 (2010): 325–342.
[32] Andrew Fenelon and Sabrina Danielsen, "Leaving My Religion: Understanding the Relationship between Religious Disaffiliation, Health, and Well-Being," *Social Science Research* 57 (2016): 49–62.

Research on the Jehovah's Witnesses provides particularly strong evidence. Studies of formal shunning (disfellowship) document long-term consequences for depression, life satisfaction, and economic outcomes.[33] A study of 554 former Witnesses found that ostracism experiences were directly associated with diminished psychological well-being and impaired identity transition.[34] Related work documents the pervasive culture of fear, guilt, and shame that surrounds the shunning regime, in which the prospect of complete social death serves as a powerful deterrent to exit.[35]

Read together, these findings identify four categories of religious exit cost. The first is family rupture. Shunning regimes require members in good standing, including parents, siblings, and spouses, to sever contact with those who leave.[36] The second is social network destruction, since strict groups absorb most of a member's time and relational ties, leaving the congregation as her primary or sole community of belonging.[37] The third is identity disruption. Former members describe exit as an identity transition in which the leaver loses the framework that had organized self-understanding, moral judgment, and life narrative.[38] The fourth is material loss, from employment and housing to the mutual aid and social insurance that strict groups characteristically provide and that leavers forfeit.[39]

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[33] Rosie Luther, "What Happens to Those Who Exit Jehovah's Witnesses: An Investigation of the Impact of Shunning," *Pastoral Psychology* 72 (2023): 105–120.
[34] Heather J. Ransom, Rebecca L. Monk, Adam Qureshi, and Derek Heim, "Life after Social Death: Leaving the Jehovah's Witnesses, Identity Transition and Recovery," *Pastoral Psychology* 70 (2021): 53–69.
[35] Windy A. Grendele, Savin Bapir-Tardy, and Maya Flax, "Experiencing Religious Shunning: Insights into the Journey from Being a Member to Leaving the Jehovah's Witnesses Community," *Pastoral Psychology* 73 (2024): 43–61.
[36] Luther, "What Happens to Those Who Exit Jehovah's Witnesses"; Grendele, Bapir-Tardy, and Flax, "Experiencing Religious Shunning."
[37] Scheitle and Adamczyk, "High-Cost Religion, Religious Switching, and Health"; Fenelon and Danielsen, "Leaving My Religion."
[38] Ransom et al., "Life after Social Death."
[39] Luther, "What Happens to Those Who Exit Jehovah's Witnesses"; Laurence R. Iannaccone and Eli Berman, "Religious Extremism: The Good, the Bad, and the Deadly," *Public Choice* 128, nos. 1–2 (2006): 109–129.

High exit costs do not, however, imply low exit. Pew Research Center data show that roughly two-thirds of American adults raised as Jehovah's Witnesses no longer identify with the group, among the lowest retention rates of any U.S. religious tradition.[40] The market failure claim therefore concerns the terms of exit rather than its possibility. An exit tax does not eliminate exit. It reduces its quantity, imposes deadweight losses that members of low-cost denominations do not bear, and weakens the credibility of the exit threat for those who remain, sheltering the provider from competitive discipline.

Most religious switching in contemporary Western societies flows toward the religiously unaffiliated. In Pew's landscape data, the unaffiliated gain nearly six adults through switching for every one they lose.[41] Nothing in the market framework requires that a chosen bundle be supernatural. Non-affiliation is a competing product with minimal demands and secular substitutes for community, identity, and meaning. Its growth is ordinary Tiebout sorting, and the secular option is arguably the strongest competitive constraint religious firms now face. The exit cost analysis, however, does not depend on the destination. A Jehovah's Witness who becomes secular is shunned no less severely than one who becomes a Baptist, and the secular option is the very one against which socialization in encompassing communities most explicitly warns. Exit costs tax movement to every alternative, so the prevalence of secular switching does not restore the competitive mechanism where those costs are high.

These exit costs are structurally produced by the features that the club goods model identifies as efficient. The screening and investment that Iannaccone[42] credits with sustaining high-quality club goods (concentrated social networks, bounded community, shared identity, and

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[40] Pew Research Center, "A Closer Look at Jehovah's Witnesses Living in the U.S." (Washington, DC: Pew Research Center, April 26, 2016).
[41] Pew Research Center, *2023–24 Religious Landscape Study*, religious switching chapter.
[42] Iannaccone, "Sacrifice and Stigma"; Iannaccone, "Why Strict Churches Are Strong."

behavioral distinctiveness) are what make leaving costly. And where costs rise high enough that exit ceases to be a credible threat, Hirschman's pathology follows: voice is suppressed rather than activated, an organization that knows its dissatisfied members cannot leave has no incentive to respond to them, and members who express doubts face social pressure, discipline, and the threat of the very exit costs that constrain them.[43]

4.2 Preference Formation Failures: Socialization and Endogenous Preferences

The religious economy literature inherits the assumption that consumer preferences are exogenous, treating individuals as rational consumers of religion who decide whether and what to believe through cost-benefit analysis relative to their initial endowments.[44] The assumption holds reasonably well for adult converts. Even entry into the most stigmatized strict groups is overwhelmingly a deliberative choice among perceived alternatives. Field research on the Unification Church found that the movement's supposedly irresistible recruitment techniques failed on nearly everyone exposed to them. Fewer than a quarter of workshop attendees joined even briefly, perhaps two percent of initial contacts became committed members, and most early joiners left within two years.[45] The assumption fails, however, for the most common case of religious affiliation, childhood entry. The vast majority of religious adherents worldwide are born into their religion and socialized into it before they have the cognitive, emotional, or social resources to evaluate alternatives, so the institution forms preferences before any meaningful choice is possible.[46] The asymmetry matters because groups that cannot win adults in open

[43] Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970). James D. Montgomery, "Dynamics of the Religious Economy: Exit, Voice, and Denominational Secularization," *Rationality and Society* 8, no. 1 (1996): 81–110, applies Hirschman to denominational change rather than to the failure of the disciplinary exit threat at issue here.
[44] Iannaccone, "Introduction to the Economics of Religion."
[45] Eileen Barker, *The Making of a Moonie: Choice or Brainwashing?* (Oxford: Basil Blackwell, 1984).
[46] Darren E. Sherkat and John Wilson, "Preferences, Constraints, and Choices in Religious Markets: An Examination of Religious Switching and Apostasy," *Social Forces* 73, no. 3 (1995): 993–1026, provide the closest

competition must grow by retaining children, the one mode of "recruitment" to which the exogeneity assumption cannot apply.

If preferences are endogenous to institutional membership, the high satisfaction and commitment that members of strict churches report cannot be taken as evidence of efficient market matching, because remaining in a group whose institution formed one's preference set reveals less than the model requires, however sincere and deliberate the commitment. Ethnographic work on women in conservative traditions documents how deliberate that commitment can be, with members actively cultivating the very dispositions their tradition prescribes.[47] The point is inferential rather than psychological, and it is standard in welfare economics: adaptive preference formation undermines revealed-preference inference in any market, and it carries no judgment about the authenticity of religious conviction.

Preference endogeneity is not unique to religion. Loyalty to a sports team is typically acquired in childhood, from family and place, long before any comparative evaluation of teams is possible, which is why decades of futility rarely cost a franchise its fans. That loyalty is real, but formed by inheritance rather than comparison shopping, it says little about the quality of the product. The same caution applies to religious membership, with one difference: a lapsed fan loses an allegiance and little else, while the born-in member of a strict church faces the exit costs described above. Endogenous preferences alone yield mistaken welfare inferences. Combined with high exit costs, they yield market failure.

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empirical precursor to this section, demonstrating with General Social Survey data that religious preferences are shaped by family networks, organizational membership, and social constraint.

[47] Saba Mahmood, *Politics of Piety: The Islamic Revival and the Feminist Subject* (Princeton: Princeton University Press, 2005); Orit Avishai, "'Doing Religion' in a Secular World: Women in Conservative Religions and the Question of Agency," *Gender & Society* 22, no. 4 (2008): 409–433. Mahmood argues further that the autonomous choosing subject is itself an artifact of liberal thought, a stronger claim not adopted here.

This argument is distinct from the human capital mechanism in the religious economy literature.[48] Accumulated "religious capital" (familiarity with doctrine, liturgical competence, and social ties within a congregation) is denomination-specific and largely non-transferable, so it raises the cost of switching even for individuals whose preferences are already formed. That is a switching-cost problem, which the market model handles imperfectly but recognizably, whereas a member who stays because the institution formed her preferences from childhood presents a preference-formation problem the model cannot handle at all, because the autonomous consumer it assumes never existed. The two mechanisms are additive, and strict churches typically impose both.

How severe the preference-formation problem is depends on how comprehensive the socialization is, and the ethnographic evidence maps the range. A classic study of an independent fundamentalist Baptist congregation found members who move daily between the church's comprehensive moral world and secular workplaces, schools, and kin networks, sustaining belief through actively maintained plausibility structures.[49] Socialization of that kind competes daily with rival secular inputs, and its subjects remain active negotiators. Where a community instead controls schooling, discourages outside media and association, and sanctions contact with leavers,[50] those rival inputs are removed by design, and childhood immersion, restricted information exposure, cultivated fear and guilt, and identity fusion between self and community operate with little counterweight. Only at the far end of the continuum does preference formation fail as a market input, and an equilibrium sustained under those conditions reflects the

[48] Laurence R. Iannaccone, "Religious Practice: A Human Capital Approach," *Journal for the Scientific Study of Religion* 29, no. 3 (1990): 297–314.
[49] Nancy Tatom Ammerman, *Bible Believers: Fundamentalists in the Modern World* (New Brunswick: Rutgers University Press, 1987).
[50] Grendele, Bapir-Tardy, and Flax, "Experiencing Religious Shunning"; Ransom et al., "Life after Social Death."

suppression of the sorting mechanism rather than its success, whatever satisfaction surveys report.

4.3 Thin Markets: Geographic and Social Constraints on Religious Competition

Tiebout sorting requires a sufficient number of competing providers to offer meaningful choice. In religious markets, this condition varies dramatically across contexts. Urban environments in religiously diverse societies approximate thick markets. A resident of a major American metropolitan area can choose among dozens of denominations, independent congregations, and secular alternatives. But many religious consumers operate in thin markets where effective competition is severely constrained.

Geographic concentration produces thin markets when a single denomination dominates a region. Mormons in the Intermountain West,[51] evangelical Protestantism in the rural South, and Catholicism in parts of Latin America and Southern Europe all represent contexts in which nominal pluralism masks an effective monopoly. In these settings, affiliation with a minority religion, or none, carries substantial social costs, and exit is constrained not by prohibition but by the absence of viable alternatives within the community.

Ethnic and linguistic embeddedness further constrains effective competition. For immigrant communities whose religious institutions also provide language maintenance, cultural programming, social services, and community belonging, the "religious market" is not separable from the broader market for social integration. Exiting the ethnic church means exiting the ethnic community, and the two exit costs compound each other. Similarly, for Indigenous communities whose religious practices are inseparable from cultural identity, language, and land, the concept of a competitive religious marketplace is analytically inapplicable.

[51] The Church of Jesus Christ of Latter-day Saints.

Thin markets, moreover, compound the exit cost problem. A disfellowshipped Witness in a small town loses community goods for which no local substitute exists, so exit produces social isolation rather than the re-sorting into a better-matched alternative that the competitive mechanism assumes.

4.4 Information Asymmetries: Gradual Revelation and Experience Goods

Complete information, the last of the Tiebout assumptions, fares no better in religious markets, where information asymmetries are pervasive and, in strict churches, structurally produced. Religious goods are a limiting case in the economics of information: their central claims cannot be verified even after consumption, placing them beyond experience goods, whose quality is learned only through use, among pure credence goods.[52] Unverifiability, though, afflicts every religion. What strict churches add is asymmetry over the temporal terms of membership, the behavioral expectations, financial obligations, and authority structures that could in principle be disclosed in advance.

A common strategy is gradual doctrinal revelation: converts first encounter an attractive package of community, purpose, and accessible theology, while the full terms are disclosed incrementally, often only after commitments (baptism, public testimony, social integration) that raise exit costs. The sequencing is a recognized organizational form: high-commitment groups extract sacrifice and investment step by step, deepening attachment as contributions accumulate, and the club goods model itself prescribes it, probationary periods and graded demands being its screening devices. The same graded structure defers full disclosure of the price until the capacity

[52] Phillip Nelson, "Information and Consumer Behavior," *Journal of Political Economy* 78, no. 2 (1970): 311–329; Michael R. Darby and Edi Karni, "Free Competition and the Optimal Amount of Fraud," *Journal of Law and Economics* 16, no. 1 (1973): 67–88. Robert B. Ekelund Jr., Robert F. Hébert, and Robert D. Tollison, *The Marketplace of Christianity* (Cambridge, MA: MIT Press, 2006), classify religious goods as "meta-credence" goods; Laurence R. Iannaccone, "Risk, Rationality, and Religious Portfolios," *Economic Inquiry* 33, no. 2 (1995): 285–295, concedes the point from within the religious economy literature.

to refuse it has diminished.[53] One denomination's pinnacle ritual, for instance, is administered only after a period of membership, tithing compliance, and worthiness interviews, and its full content, along with the scope of the commitments it entails, is not available for evaluation at the point of initial entry.[54] Membership in a strict church is thus an experience good bundled with high switching costs, a pairing that generates lock-in and dulls competitive discipline even in ordinary consumer markets.[55]

Information control extends beyond doctrinal content to institutional behavior. Strict churches often restrict access to critical information about institutional finances, leadership decisions, historical claims, and disciplinary processes. Ethnographic and interview studies on strict churches document distrust of outside media, discouragement of independent inquiry, and treatment of critical or "apostate" literature as spiritually contaminating.[56] The result is bounded choice: members choose freely, but within a self-sealing information environment in which the provider supplies the categories by which its own claims are evaluated, not the informational symmetry the model assumes.[57]

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[53] Rosabeth Moss Kanter, *Commitment and Community: Communes and Utopias in Sociological Perspective* (Cambridge, MA: Harvard University Press, 1972); Barker, *Making of a Moonie*; Iannaccone, "Sacrifice and Stigma"; Iannaccone, "Why Strict Churches Are Strong."

[54] The example is the temple endowment of the Church of Jesus Christ of Latter-day Saints. On its history and conditions of access, see David John Buerger, *The Mysteries of Godliness: A History of Mormon Temple Worship*, 2nd ed. (Salt Lake City: Signature Books, 2002).

[55] Paul Klemperer, "Competition When Consumers Have Switching Costs: An Overview with Applications to Industrial Organization, Macroeconomics, and International Trade," *Review of Economic Studies* 62, no. 4 (1995): 515–539.

[56] Andrew Holden, *Jehovah's Witnesses: Portrait of a Contemporary Religious Movement* (London: Routledge, 2002); Grendele, Bapir-Tardy, and Flax, "Experiencing Religious Shunning"; Ransom et al., "Life after Social Death."

[57] Janja Lalich, *Bounded Choice: True Believers and Charismatic Cults* (Berkeley: University of California Press, 2004).

In the municipal context, widespread consumer ignorance need not defeat sorting, because a well-informed minority of movers disciplines providers at the margin.[58] The religious analogue fails at both margins. Prospective adult converts, the market's movers, screen, compare, and overwhelmingly decline,[59] while born-in members face the exit costs, so the asymmetry that matters is intertemporal: the full price of membership becomes known only after the means of refusing it have been surrendered, and it falls most heavily on those whose entry was birth and for whom no pre-commitment evaluation was ever possible.

5 Theoretical Propositions

From this mapping follows a set of falsifiable propositions.

Proposition 1 (Conditional Market Efficiency). Religious market competition produces welfare-improving outcomes, as measured by member satisfaction, participation, and the quality of collectively produced goods, only when (a) exit costs are sufficiently low that dissatisfied members can credibly threaten to leave, and (b) member preferences are formed independently of institutional influence such that observed sorting reflects autonomous choice rather than adaptive preference formation.

Empirical tests could compare member satisfaction, exit rates, and institutional responsiveness across denominations that vary in exit cost intensity and socialization comprehensiveness. The longitudinal designs developed in the pluralism–participation literature,

[58] Paul Teske, Mark Schneider, Michael Mintrom, and Samuel Best, "Establishing the Micro Foundations of a Macro Theory: Information, Movers, and the Competitive Local Market for Public Goods," *American Political Science Review* 87, no. 3 (1993): 702–713.
[59] Barker, *Making of a Moonie*.

which avoid the statistical artifacts that undermined earlier cross-sectional work, provide a methodological template.[60]

Proposition 2 (Nominal versus Effective Religious Freedom). The gap between nominal religious freedom (the legal right to change one's religion) and effective religious freedom (the practical ability to do so) increases monotonically with denomination-level exit cost intensity.

Empirical evaluation could compare measures of exit cost intensity, drawn from denominational policies on disaffiliation, shunning, and social integration, with rates of successful religious transition, post-exit welfare outcomes, and reported freedom of choice among current and former members.

Proposition 3 (Childhood Preference Constraint). Children raised in strict religious communities face structurally constrained preference formation that violates the exogeneity assumption necessary for market self-correction. The intensity of this constraint increases with the comprehensiveness of religious socialization, measured by the degree of information control, social boundary maintenance, and identity fusion between the child and the religious community.

This proposition targets the most fundamental weakness of the market model as applied to religion, the fact that the typical religious "consumer" did not choose the "product," and predicts that children raised in more encompassing environments will exhibit more constrained preference sets as adults and more severe costs when they exit. Because comprehensiveness varies enormously even among conservative religious communities, as the ethnographic record shows,[61] the proposition also predicts within-category variation. Children of boundary-negotiating fundamentalist congregations should exhibit measurably less constrained preference

[60] Voas, Olson, and Crockett, "Religious Pluralism and Participation"; Olson et al., "Sacred Canopies or Religious Markets?"
[61] Compare Ammerman, *Bible Believers*, with Grendele, Bapir-Tardy, and Flax, "Experiencing Religious Shunning."

sets than children of communities that control schooling and sanction outside association. Empirical tests could employ intergenerational religious transmission data, measures of childhood information exposure, and longitudinal studies of preference change following exit from strict communities.

Proposition 4 (Denominational Variation in Market Failure). The deregulatory case for religious institutional autonomy is strongest for lenient, mainline denominations (where exit costs are low, preferences are relatively exogenous, markets are thick, and information is accessible) and weakest for strict, encompassing religious communities where all four Tiebout failure conditions are present simultaneously.

Market failure conditions vary systematically by denomination type, and the policy implications of the religious economy framework vary accordingly. The split empirical record in which firm-level club mechanisms are confirmed while market-level competition effects fail to appear, is consistent with the proposition's underlying logic.

Proposition 5 (Exit Cost–Strictness Entanglement). The club goods model's prediction that strictness is efficient[62] and the market failure model's prediction that high exit costs suppress competitive discipline are logically entangled features of the same institutional structure. Denominations with the highest-quality club goods will, ceteris paribus, exhibit the most severe market inefficiencies. The proposition is distinct from the finding that members' ideal strictness becomes endogenous under increasing returns to club size,[63] where the channel is preference formation within the competitive model rather than the credibility of the exit threat.

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[62] Iannaccone, "Sacrifice and Stigma"; Iannaccone, "Why Strict Churches Are Strong."
[63] Carvalho and Sacks, "Economics of Religious Communities."

Empirical tests could examine whether denominational strictness measures correlate positively with both club good quality metrics and exit cost intensity measures, confirming that the two move together rather than independently.

6 Policy Implications

If market logic is the appropriate lens for evaluating religious institutions, as the religious economy framework holds, then the same rational choice methodology that supports deregulation when markets function well supports regulatory intervention when they fail.

6.1 Religious Exemptions and Institutional Autonomy

The legal case for broad religious exemptions from generally applicable law (anti-discrimination statutes, employment regulation, educational standards, and financial reporting requirements) rests implicitly on the assumption that religious markets are self-correcting. If members can freely exit institutions whose practices they find objectionable, institutional autonomy serves individual choice. But where exit costs are high and preferences are endogenous, institutional autonomy protects the institution rather than its members, who are structurally constrained from exercising the exit option the argument assumes.

That is not to say religious exemptions are never warranted, only that the case for them varies with market conditions. Exemptions for lenient denominations with porous boundaries and accessible exit are defensible on standard market grounds. Exemptions for strict denominations that systematically suppress exit and control preference formation deserve greater scrutiny, because the disciplining market mechanism is not operative.

An analogous problem is well known from the multiculturalism debate. Group rights that protect cultural minorities can simultaneously oppress individuals within those groups, particularly women and children, because those with the least exit power are most harmed by institutional autonomy.[64] The Tiebout framework formalizes this insight: when exit is costly, institutional autonomy benefits those who govern the institution more than those who cannot credibly leave it. Because agency within demanding traditions is real, the policy problem lies in the institutional structures that make the cost of acting on a changed belief severe. Policy should target the cost structure rather than the belief.

6.2 Children's Rights in Religious Communities

Children bear the preference endogeneity problem most severely, as the primary subjects of religious socialization and the least capable of autonomous preference formation. The market model cannot justify institutional autonomy over children's religious formation, because children are not market participants, and to the extent that religious freedom jurisprudence treats that formation as an extension of parental religious freedom, it conflates the rights of the consumer (the parent) with the welfare of a non-participant (the child).

Children's rights within religious communities are thus a legitimate domain of public policy in their own right. Specific policy levers might include educational standards that ensure children in religious schools have access to information about the world outside their community, restrictions on religious organizations' ability to formally enroll or baptize minors, and legal protections for minors who seek to disaffiliate from their parents' religion. These interventions leave belief itself untouched, regulating only the structures through which it is transmitted under conditions that preclude autonomous choice.

6.3 Institutional Transparency and Exit Protections

Two complementary policy responses follow from the information asymmetry and exit cost failures. First, on transparency, religious organizations that enjoy tax-exempt status could be

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[64] Susan Moller Okin, "Is Multiculturalism Bad for Women?" in *Is Multiculturalism Bad for Women?*, ed. Joshua Cohen, Matthew Howard, and Martha C. Nussbaum (Princeton: Princeton University Press, 1999), 7–24; Susan Moller Okin, "Mistresses of Their Own Destiny: Group Rights, Gender, and Realistic Rights of Exit," *Ethics* 112, no. 2 (2002): 205–230.

required to disclose financial information, governance structures, and disciplinary procedures to members and prospective members, mirroring requirements imposed on other tax-favored entities.

Second, on exit protections, just as employment law limits non-compete agreements that unreasonably restrict workers' ability to exit, regulatory frameworks could address the mechanisms through which strict churches impose exit costs. Shunning policies that require family members to sever contact with disaffiliates, for instance, could be scrutinized as institutionally imposed exit costs that suppress the competitive mechanism. The tax-exempt status of religious organizations provides a natural policy lever. Conditioning exemption on practices that sustain rather than suppress the competitive mechanism is consistent with the market logic the exemption presupposes.

6.4 Scope and Limits of the Argument

This paper does not argue for state regulation of religious belief, nor that all religious institutions are coercive or that all religious markets fail. Its argument is internal to the religious economy framework: the deregulatory case for religious institutional freedom is a market argument, market arguments are valid only where market conditions hold, and where those conditions systematically fail, the case for regulatory intervention is as strong in religious markets as in any other domain of recognized market failure.

7 Conclusion

The religious economy framework has organized a large body of research in the social scientific study of religion. This paper takes the framework's own analytical tools and asks what they imply when applied in full. Decades of scrutiny of the Tiebout model, the structural analogue the framework implicitly adopts, have identified precisely where and when competitive sorting fails, and those failure conditions map onto religious markets, binding most tightly in strict, encompassing communities.

Making the Tiebout connection explicit sharpens both the framework's strengths and its limits. It is strongest where its assumptions hold, in religiously diverse, informationally open contexts with low switching costs, and weakest where they fail, in strict communities that raise exit costs, shape preference formation, restrict information, and exploit geographic or social monopoly power. The split empirical record in which firm-level predictions survive testing while market-level predictions do not is what this gradient predicts. The policy implications follow the same gradient: deregulation is justified in the first case and not in the second.

Proposition 5 identifies a tension the framework will eventually need to address. The literature's best-known result, that strict churches are strong because strictness solves the free-rider problem, is simultaneously a description of the institutional mechanism that disables the competitive market the framework assumes. The point extends to the theory of clubs generally, since internal solutions that operate through commitment investment weaken the external sorting mechanism on which club-market efficiency depends.

Future research could proceed along the tracks the propositions specify, from denomination-level exit cost indices and measures of the gap between nominal and effective religious freedom to quasi-experimental designs exploiting variation in religious market density and intergenerational studies of preference transmission. Such work should learn from the methodological lessons of the pluralism–participation debate, whose cross-sectional associations between market structure and vitality proved unreliable. Ethnographic and field studies are a natural source of data for the variables the theory treats as parameters, including the comprehensiveness of socialization, the severity of shunning, and the thickness of local markets.

Tiebout's model has been implicit in the study of religious markets for decades, and making it explicit helps clarify both the power and the limits of the market metaphor for religion, and the conditions under which religious freedom produces welfare-improving outcomes.

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