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**Religious Subsidies, the Rise of Evangelicalism and its Consequences  
in Congressional Politics**

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# Religious Subsidies, the Rise of Evangelicalism and its Consequences in Congressional Politics

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We examine how religious subsidies contributed to the rise of Evangelicals and the decline of the Catholic church, a commonly observed trend in the Christian world. Using the Brazilian experience as a showcase, we build and estimate a dynamic game of church entry using temple entry/exit data across municipalities for 1991-2018. Our counterfactual analysis shows that Evangelicals gain market share from Catholics as tax exemptions to all churches increase entry of smaller churches. The growth of Evangelical churches was accompanied, at the same time, by a dramatic increase in the participation of Evangelical groups in various spheres of the Brazilian politics. Motivated by this fact, we then analyzed consequences of religious subsidies and the rise of Evangelicals on the composition of the Brazilian Congress. Through an event-study, we estimated that the opening of an Evangelical temple leads to a significant increase in the vote share of the Congressional Evangelical caucus. Combining the results of the dynamic game and the event-study estimates we show that the share of votes to Evangelicals elected to the Brazilian Congress would have been 20% lower if state subsidies had been removed. Overall, our results suggest that tax subsidies have asymmetric effects on the spread of different religious denominations as well as a consequential role in the growing political representation of Evangelical groups.

## The Rise of Evangelicalism

In the last few decades the global religious landscape has undergone profound transformations. Despite the multifaceted nature of these changes, two important trends have been highlighted by scholars (Chaves, 2011; Putnam et al., 2012; Barro and McCleary, 2019). The first concerns the falling levels of overall religiosity experienced by different populations

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across the world, irrespective of socio, cultural and political traditions. Levels of religiosity in terms of belief and practice are at historically low levels across most OECD countries; and agnosticism and/or atheism have been steadily rising in most countries (Pew, 2018). The second key shift in the world of religion is the dramatic rise of Evangelicals, especially Pentecostal and Charismatic churches, which now command a quarter of world Christianity (Pew, 2006b).<sup>1</sup> Brazil, the largest Catholic nation in the world, has seen the simultaneous spread of Evangelicals and the decline of its Catholic majority in the last decades, and a corrosion of the Roman Church's influence across various dimensions (Alves et al., 2017). A similar pattern can be found to a varying degree in most of Latin America and among US Latinos, as well as in many parts of Africa and Asia.

## Religious Subsidies

While the literature has analyzed alternative explanations for this second trend<sup>2</sup>, the role of religion financing remains an under-explored topic. In a recent research paper we studied how public financial support to religions affects the relative shares of Catholics and Evangelicals and discusses important political consequences of this phenomenon to modern democracies. Our focus on the interplay between subsidies to churches and the structure of religious markets is motivated by two facts. First, the literature has emphasized that state subsidies are central to understand many aspects of religious markets – more than other factors, such as church's theology, practices and polity (Iannaccone and Bose, 2010). The central role played by state support in religious markets is emphasized in Barro and McCleary (2019), which states that an important issue in the economics of religion is "*(..) how religiosity responds to economic developments and to government regulation, subsidy and suppression. Other questions concern (...) how state subsidies and regulation influence religious activities.*" Second, subsidies to one or more religions are pervasive and adopted by a large number of countries in all continents (Pew, 2017).

While churches likely grow as a result of the sizeable financial benefits that most countries grant to one or more churches in the form of subsidies (Pew, 2017; Cragun et al., 2012), understanding their consequences to the structure of religious markets is not straightforward. The effect of subsidies on the distribution of market shares across denominations will depend

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<sup>1</sup>The term *Evangelical* encompasses most theological conservative Protestants (Putnam et al., 2012). In Latin America it is commonly used as an umbrella concept that includes first and foremost Pentecostals, Neo-Pentecostals, and Neo-Charismatic movements. Members of the Historical Protestant churches, such as Lutherans and Calvinists, are not covered by the term.

<sup>2</sup>Examples include the role of Evangelical mass media (Corbi and Komatsu, 2019; McCleary, 2017), a different set of values and beliefs (Pew, 2006a), and church community as a source of informal insurance (Auriol et al., 2020)

not only on the form of the subsidy (Dunne et al., 2013; Fan and Xiao, 2015; Maican and Orth, 2018) but also on asymmetries in the technologies employed by churches to build and operate places of worship – or the business model – which, as we document, seem to differ significantly between Evangelicals and the Catholic Church.

## State Subsidies and Church Competition

To overcome these challenges, we use insights from the industrial organization literature to develop a dynamic game of church entry (Ericson and Pakes, 1995; Aguirregabiria and Mira, 2007; Bajari et al., 2007; Pesendorfer and Schmidt-Dengler, 2008). Our model assumes that temples operate as profit maximizing units (Rennhoff and Owens, 2012; Walrath, 2016; Hanson and Xiang, 2013). Conditional on local market characteristics (size, number of other competing churches, etc.), churches decide to open temples in that market by weighing the present value of the expected flow of profits generated by temples and sunk entry costs incurred by churches to open temples. To estimate the parameters of the model – including sunk entry costs and fixed operating costs – we employ data on entry/exit of temples in a sample of Brazilian municipalities between 1991 and 2018. Brazil is an interesting case to study the effects of subsidies on the distribution of market shares between Evangelicals and Catholics because Evangelicals have been growing steadily over the last decades and because, in Brazil, as in many other countries, all churches do not pay taxes to any government sphere.

The estimates indicate that competition between churches is relevant to explain entry and exit of temples in Brazilian municipalities. In particular, the presence of a temple of an incumbent church in a given market reduces significantly the profits of other churches operating in that market. Perhaps more interestingly, our results show that Evangelical churches and the Catholic church have very different business models. Entry costs of Evangelical churches are substantially smaller than the entry costs of the Catholic church; on the other hand, fixed operating costs of Catholic temples are much smaller than fixed operating costs of Evangelicals. As illustrated in Figure 1, these findings are consistent with the fact that Evangelical temples are more functional and usually operate in rented spaces – which tend to reduce entry costs and increase fixed operating costs – while Catholic temples are more elaborated and operate in properties owned by the Roman Church.

These differences in the business model adopted by Catholic and Evangelical churches seem to suggest that taxation of temples profits may have asymmetric effects on Catholic and Evangelical churches. To examine more closely this issue we use the model to simulate the distribution of market shares – measured as the number of temples of a given denomination in a given market/year divided by the total stock of temples operating in that market/year –

between Evangelical denominations and the Catholic Church under a counterfactual scenario where temples pay a 30% tax rate – close to the average corporate tax in Brazil – on variable profits. We compare the distribution of market shares in this scenario with the distribution of market shares under the baseline scenario where churches are exempt from paying taxes to the government.

Figure 1: Example of Catholic *vs* Evangelical Church Buildings



(a) Catholic Church Façade

(b) Evangelical Church Façade



(c) Inside of a Catholic Church

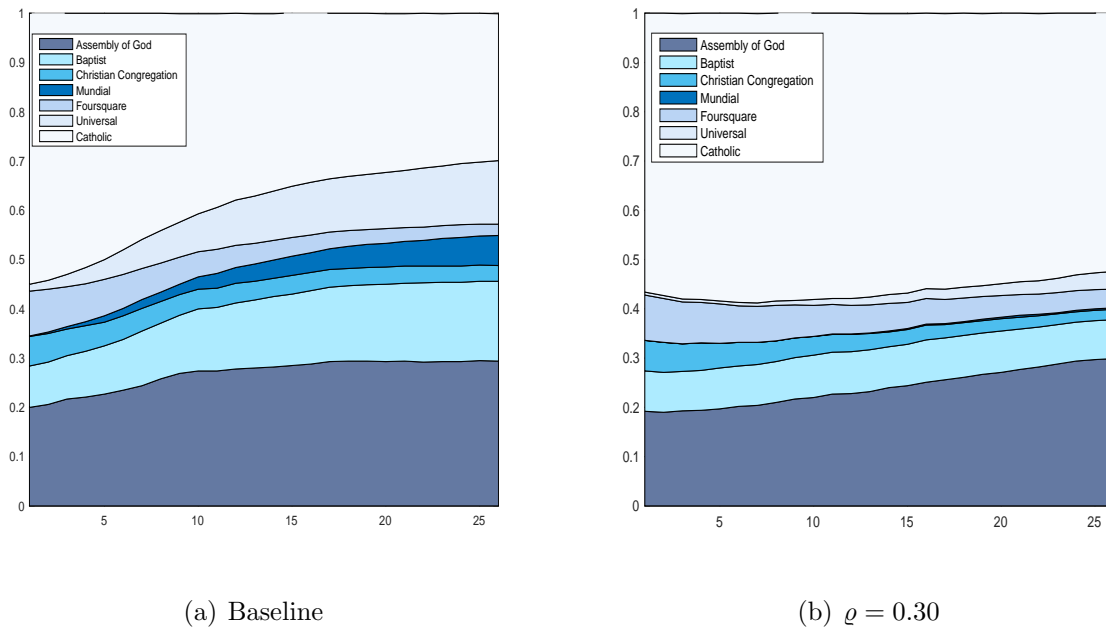
(d) Inside of an Evangelical Church

Figure 2 shows, from 1992 to 2018, the share of the six largest Evangelical denominations in Brazil<sup>3</sup> in the baseline scenario – panel (a) – and in the scenario where all churches pay a tax rate of 30% on their variable profits – panel (b). According to the figure, the share of the Assembly of God (the largest Evangelical denomination) would have grown from approximately 20% in 1992 to 30% in 2018 – and the stock of temples of this denomination

<sup>3</sup>Assembly of God, Baptist, Christian Congregation, Mundial, Foursquare and Universal.

would have grown from 34 in 2012 to 52.5 in 2018; the share of the Baptist Church would stay stable at around 8% (14 temples) during the whole period; the share of the Catholic church would also remain relatively the same (56% in 1992 and 53% in 2018) – and its stock of temples would fall slightly from 100 in 1992 to 92 in 2018; the share of all other Evangelical churches, on the other hand, would have fallen from 16% in 1992 to 9% in 2018 and the joint stock of temples of these group would have fallen from 28 (1992) to 17 (2018). Figure 2 suggests that subsidies spurred the opening of temples of all denominations, but benefited more Evangelical churches, in particular small Evangelical denominations.

Figure 2: Predicted Shares – Baseline and  $\rho = 0.30$

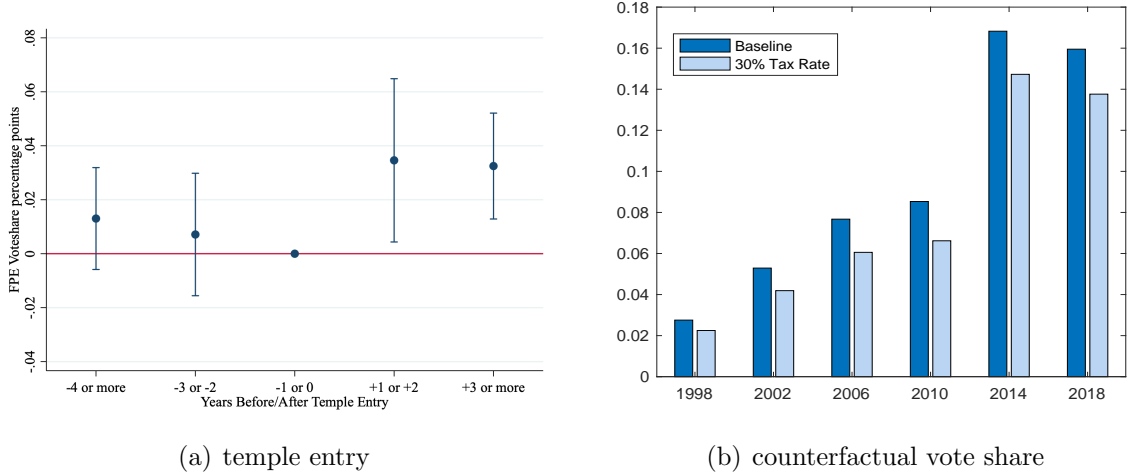


## Political Consequences of Subsidies to Religions

As we illustrated, subsidies to churches are important to explain the growth of Evangelicals. The rise of Evangelicals, and Pentecostals more specifically, likely has further consequences to various aspects of modern societies. Perhaps, the most obvious of these consequences is the remarkable increase in the political representation of Evangelical groups in various political instances across countries (Pew, 2006a). In Brazil, where the number of representatives directly tied to Evangelical groups jumped from 27 in 1994 to 187 in 2018, this phenomenon is particularly evident. Motivated by this fact, we also simulate the effects of religious subsidies on the composition of the Brazilian Congress.

To do this we explore the staggered timing of church entry decisions across municipalities

Figure 3: Evangelical Temple Entry and FPE Election Outcomes



within an event-study framework and estimate the responses of the vote share received by Evangelical members of Congress to the entry of Evangelical churches in Brazilian municipalities.<sup>4</sup> Then, combining these estimates with the counterfactuals produced by the dynamic game, we show that subsidies to churches had a substantial effect on the vote share received by Evangelical candidates. As illustrated by Figure 3a, we find an increase of 3.5 percentage points after temple entry in the vote share received by members of Congress that form the Evangelical Parliamentary Front (FPE, in portuguese) – the evangelical caucus in Brazil.<sup>5</sup> Importantly, our results indicate that the entry timing of a Pentecostal temple is not designed as a response to trends in political outcomes. Part of the effect comes from mobilization through higher turnout.<sup>6</sup> Finally we combine these estimates with our counterfactual tax scenarios and show that the Evangelical vote share in Congressional elections would have been on average approximately 20% lower if churches were taxed (see Figure 3b).

<sup>4</sup>More precisely, the outcome of interest is the vote share of elected members of the Evangelical Parliamentary Front (FPE, in portuguese), the Evangelical caucus in Brazil.

<sup>5</sup>Related to this result, [Corbi and Komatsu \(2019\)](#) document that religious media complement the effect of temples in increasing membership and evangelical political participation.

<sup>6</sup>These findings are in consonance with survey evidence that shows that faithfuls of Pentecostal denominations are more prone to follow political orientations of their churches than faithfuls of other religions. See Datafolha survey at <http://arte.folha.uol.com.br/poder/2016/12/25/evangelicos-catolicos-costumes/>.

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