

The Church and the Market: A Catholic Defense of the Free Economy

Thomas E. Woods, Jr. 2005. Lanham, MD: Lexington Books. ISBN: 0-739-110-365, \$19.95 (pbk).

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This book is an essential read for those of us with vocations as economists and faith lives as Christians, and most especially for economists such as me who are Roman Catholics. Thomas Woods argues that there is a strong “hostility toward the market” in the social encyclicals, notwithstanding the favorable comments made by John Paul II in *Centesimus Annus*. This hostility has led Catholic supporters of the market to endorse compromised positions on a variety of issues including labor unions, wage rates, and monopoly. Interventionism is accepted *in principle*, the issue being only one of degree. Woods, on the other hand, is writing a *principled* defense of the free market which directs its response toward Catholics on the “right” who mistrust the market because they believe that Church teaching requires it (pp. 1–2). Woods says

...a great many Catholics with backgrounds in economics have been concerned that the means recommended by the popes may not have the results intended for them, and were even likely to make the condition of workers and poor still worse. Meanwhile, though, the impression has been given that to voice these misgivings is to involve oneself in some kind of disobedience to Church teaching. It is this unresolved difficulty that this book aims to address in the course of its defense of the market (p. 3).

So, does Woods resolve this difficulty?

I am one of those Catholics “on the right” who has misgivings about some aspects of the market. I am sympathetic to some aspects both of distributism, which Woods critiques, and agrarianism, which he does not. While I am not a full-blown “Austrian,” I have read Austrian economics for many years and have incorporated a good deal of it in my teaching of undergraduates. At a minimum, there are many valuable insights contained in the works of Austrians which are largely absent in the literature of neo-classical economics. I have long been persuaded that the contributions of Austrian economics extend well beyond filling in the “gaps” in neo-classical economics, but that role alone would have been sufficient to establish the need for a dialogue between Catholic social teaching and Austrian economics. That such a dialogue has been ongoing for a number

of years is clear from the works of Michael Novak, the creation of the Acton Institute's Center for Economic Personalism and the *Journal of Markets & Morality*, and contributions from many other scholars in this field.

Before reading Woods' contribution to this dialogue, I had already been persuaded that Mises' utilitarianism and Hayek's evolutionary rationalism would not do for any Christian economist. On the other hand, Murray Rothbard, a student of Mises who also insisted on the value neutrality of praxeology and economics, claimed that objective knowledge of the good is not only possible, but that it should also influence policy through the introduction of a system of ethics. Here the economist must speak and as an ethicist and not as an economist—something which Rothbard did many times. My comments are not intended to detract in any way from the extraordinary contributions of these scholars to technical economics (Aristotle's *chrematistike*). But as to the journey into political economy, i.e. economics as a moral science (Aristotle's *oikonomike*), it seemed to me that only Rothbard could provide a potential point of departure. The fact that Thomas Woods was a student of Rothbard was all the more reason to be hopeful about the content of this book.

I eagerly began reading *The Church and the Market* with the hope of finding greater clarity on the “unresolved difficulty” identified by Woods: first, is an Austrian defense of the free market contrary to or consistent with the social teaching of the Catholic church, and with Catholicism in general; and second, if the defense is contrary to the Catholic church's teaching, may a faithful Catholic demur from that teaching without being disobedient? Some aspects of the book present a “defense of the market” that is already well-known to neoclassically trained economists. However, Woods' perspective is rooted in the Austrian school, and readers may find some new insights there if they have not already delved into that literature.

In his introduction, Woods quotes Leo XIII, Pius XI, and John Paul II to make it clear that the Catholic Church does not claim to be competent in matters of technical economics. Since Pius XI acknowledged in *Quadragesimo Anno* (1931) that economics and moral science use distinct principles in their own spheres of inquiry, the portions of encyclicals that deal with “empirical judgments about the economy” are not authoritative. Fair enough. At this point it might have been helpful if Woods had simply recited the traditional understanding that different levels of teaching authority apply to various statements found in encyclicals, and that the level of authority that attaches to “prudential recommendations for the

reform of economic life” is not strictly binding. Fortunately for Catholic economists, this is the level at which economists find painfully ill-advised recommendations such as Pius XI’s suggestion that firms which cannot pay a living wage consider going out of business.

It is for this same reason that I am perplexed by Woods’ quotation of economist and political philosopher William Luckey. He cites Luckey: “The fact that Catholic economic teaching, put forth as unchanging and required of belief, did not square with what Austrian [that is, free-market] economists know to be true, has created an agonizing crisis of conscience for such economists” (p. 6). I count myself among those economists who have agonized from time to time over the content of Catholic social teaching, but it was never because of the belief that Catholic economic teaching as it is expressed in the encyclical tradition is “unchanging and required of belief.” That such a view may be prevalent among Catholic economists is both surprising and disappointing. Be that as it may, Woods is certainly correct in arguing that this need not be an impediment to the work of free-market economists. If, for a moment, we assume that free-market economics *cannot* be shown to be compatible with the *prudential* teaching contained in Catholic social encyclicals, it is safe to say that Woods has demonstrated that a faithful Catholic may demur from that aspect of the Church’s teaching without being disobedient. Indeed, “*it should not be controversial to conclude that living-wage legislation cannot be a moral imperative*” (p. 213, emphasis in original). Let me hasten to add, however, that in critiquing living-wage legislation, Catholic free-market economists must be careful not to employ a system of ethics that is contrary to the binding content of encyclical teaching.

Woods’ opening chapter is intended to demonstrate that “Catholicism and *much* of Austrian economics are eminently compatible” (p. 8). Woods provides an overview of Austrian economics and a response to the criticisms of a Catholic publisher who is neither an economist nor, as evidenced by his statements, a person familiar with Austrian economics. Woods dispenses with these criticisms handily and identifies Murray Rothbard as an Austrian theorist whose work is compatible with Catholic social teaching. Woods is surely correct at least in the sense that Rothbard rejected utilitarianism and argued that economic policy should be grounded in “ethical principals” rather than the neo-classical concept of efficiency. Woods also finds support in what might seem to be an unlikely place—the “Southern Agrarian” Richard Weaver. Weaver was one of the “founding fathers” of the post-World War II conservative renaissance and a strong cultural conservative. Woods writes, “[Weaver] acknowledges the

existence of natural constraints that limit what is possible in this world. Praxeology, he writes, is but an extension of these insights. It teaches us ‘how things work because of their essential natures.’ It is therefore, ‘not only presumption, it is folly to interfere with the workings of praxeology’” (p. 28). Weaver identifies a core belief shared by conservatives and libertarians, i.e. that we cannot wish away nature and praxeology—“the laws that regulate man’s affairs”—in the pursuit of a “Utopia” (pp. 28–29). Woods provides an invaluable service by reminding us that Weaver—the intellectual heir to the Southern Agrarians—proposed a view of the relationship of social science and social philosophy which parallels that of Murray Rothbard.

In a series of chapters on “Price, Wages, and Labor,” “Money and Banking,” “The Economics and Morality of Foreign Aid,” “The Welfare State, the Family, and Civil Society,” and “Answering the Distributist Critique,” Woods provide an Austrian perspective on a wide range of issues. Due to the limitations of space, I will focus on the discussion of prices in the first of these chapters. There Woods provides a brief but enlightening description of the dominant influence of the German Historical School on the formation of Catholic social thought. He argues that the German Historical School promoted a distorted picture of scholastic economic thought regarding just price (pp. 41–46). As a remedy, the scholarship of Alejandro Chafuen and Murray Rothbard is presented to support the view that the Spanish scholastics considered the free-market price to be the just price of a good.

Woods takes exception to a view shared by many of the Spanish scholastics that in cases of emergency the just price is one which the state imposes (p. 45). Woods proceeds with a fairly standard critique which is not uniquely Austrian. The same discussion could just as easily have been provided by a Chicagoan. In addition, Woods’ ethical case for price rationing is weakened by the fact that he does not make explicit the ethical system upon which this prudential judgment is based. Woods concludes his discussion of price controls by stating that “the demands of morality can be satisfied only by means of the price that is reached through the voluntary agreements between buyer and seller. The market price, therefore, may with good reason be viewed as the *only* just price” (p. 50). In support of this view he cites Navarrus’ argument against price controls.

Woods’ discussion appears to have a two-fold purpose. The first is to show that Catholic economic thought has a long-standing but little recognized pro-market pedigree. The second purpose is less clear. Is it to suggest that this pedigree offers a sufficient standard by which to judge the

morality of the issue? Woods is clearly successful with regard to the first of these purposes. However, Woods' closing remarks are less satisfying:

It would be to stretch the idea of morality beyond all recognition to claim that a measure that creates ill will between buyers and sellers, provides no incentive to economize on the rationed good (or to subordinate less urgent uses to more urgent ones), and actively prevents the *alleviation* of a shortage could in any way be described as morally superior to the free market (p. 50).

These utilitarian standards strike me as a rather weak note on which to conclude the discussion. Other than to characterize it as "ill will," how would one describe the relationship between a buyer and a seller when in the act of fleeing the ravages of a hurricane the buyer finds that the seller has quadrupled the price of a hotel room? And as to rationing according to urgency, price competition rations according to willingness and *ability* to pay, and so urgency is always conditioned by the market's evaluation of a person's capacity to create market value. Finally, is the elimination of a shortage an adequate moral standard in and of itself? A price ceiling imposed on the services of prostitutes would also create a shortage. My point is not that these standards are wrong; rather it is to ask whether they are sufficient to persuade us that "much" of the Austrian variety of free-market economics is "eminently compatible" with Catholicism.

My question is deliberately open-ended. Is it possible that Austrian economics or praxeology *qua* economics is compatible with Catholicism? Woods believes that it is and while I think he does a great deal in this book to promote that view, I wish he had developed that argument more fully. Perhaps the level of readership at which the book is directed effectively prohibited that discussion. As a Catholic economist, I consider that issue to be the *sine qua non* of the matter, but I do not want to critique the book the author did not intend to write.

Woods himself only claims that "Catholicism and *much* of Austrian economics are eminently compatible." His phrasing prompts the reader to ask whether Woods harbors some doubts as to the compatibility of at least some aspects of Austrian economics with Catholicism. Which aspects are those? Does he mean Austrian economics as a *wertfrei* science (Aristotle's *chrematistike*) which is *not* a defense of free-markets but rather an explanation of how they work? His concluding chapter, *In Omnibus, Caritas*, suggests otherwise (pp. 216–217). Or does he mean Austrian economics as political economy (Aristotle's *oikonomike*) with an adjoining libertarian, or utilitarian ethics? To dispute the prudential teaching successfully is important, but the value of this contribution to the

literature would be enhanced by a greater measure of clarity regarding the ethical foundation for this argument.

Woods certainly demonstrates that a defense of the free-market (Austrian or otherwise) is *not* compatible with many aspects of Catholic social teaching *at the prudential level*, and that disagreement at that level does not constitute disobedience for a Catholic economist. I would be especially interested in Woods' response to the question of whether his book contains the implicit argument that Austrian economics as a *wertfrei* discipline is compatible only with a libertarian ethics, and that libertarian ethics should form the basis for Catholic social teaching. Regardless of the answer, there is no question that Woods' book deserves the attention of the readership of *Faith & Economics*.

References

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