

THE CHURCH AND THE MARKET: A CATHOLIC DEFENSE OF THE FREE ECONOMY, by Thomas E. Woods, Lanham, MD: Lexington Books, 2005, ISBN: 0-7391-1036-5; 280 pages.

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Thomas E. Woods Jr.'s *The Church and the Market: A Catholic Defense of the Free Economy* sets out to accomplish several goals. The first is put to rest the common misperception that Catholic social thought categorically condemns the free market. Catholic thinking on economic matters, especially as expressed by the Scholastics of the School of Salamanca, is compatible with much of Austrian economics. A second goal is to show that elements of Catholic social thought can be enriched by the insights of economics.

The first chapter, entitled "A Defense of Economics," outlines the basic foundations of Austrian economics and emphasizes where it is in harmony with Catholic thinking. Both Catholics and Austrians emphasize human action and individual free will, critique socialism on moral and social grounds, and use deductive reasoning as a valid method for understanding phenomena.

Woods takes the position that economic law is based on natural law. Hence, he states, "if economic law exists, then it no more makes sense to say that economic law should be subordinate to moral law than it does to say that physical laws should be subordinate to moral law" (p. 29). Economics as a value-free tool for analysis of the outcomes of various policies is distinguished from the value-laden decision of which action to take.

Much of the second chapter, "Prices, Wages and Labor," is spent demonstrating that the Scholastic just price (or just wage, as the case may be) is the equilibrium market price. The point is well made that a disequilibrium price has no moral superiority over the equilibrium price as it merely replaces one allocation system over another and it discourages shortages from being eliminated. The chapter also offers a critique of many Catholics' support of the minimum wage and of unions from the perspective of welfare economics.

In the "Money and Banking" chapter Woods calls for a gold standard, a 100% reserve banking system, and the abolition of the Federal Reserve System. Also discussed are the Austrian theory of the business cycle and the moral implications of inflation. While this chapter says relatively little about Catholic social doctrine, as articulated in ecclesial pronouncements, it does explain how Scholasticism anticipated Austrian monetary thought.

Chapter four, "The Economics and Morality of Foreign Aid," questions the efficacy of aid as a tool for economic development. The link between international aid and development is not clear, as many successful countries rely on domestically

developed capital and social institutions. Furthermore, as a practical matter, much of the development funds end up in the hands of despotic governments.

The “Welfare State, Family, and Civil Society” takes up the fifth chapter. Woods argues that an overbearing state is a danger to the family. The family is the basic unit of society and rightfully must fulfill certain roles. The welfare state usurps some of these familial functions and tends to perpetuate the cycle of poverty.

The chapter on “Answering the Distributist Critique” focuses on Hilaire Belloc’s writings. It shows the weaknesses of an economic system that calls for workers to be mini-capitalists. Firms benefit workers by shielding them from market risks. Furthermore, the division of labor, which is so necessary for modern life, engenders dependence on others and makes the ideal of a nation comprised of only small independent business owners impossible.

Woods had set before himself a difficult task. The book’s objective to offer “a principled and unapologetic defense of the free market” (p. 2) to the religious writers who question it is hard to achieve for several reasons. Catholic social thought is multi-layered. It consists of authoritative ecclesial documents that define doctrine, i.e., official teaching relating to faith and morals, and it also includes the writings of individual commentators. Catholics are required to follow only the former. For example, concern for the poor is a moral precept binding on all Catholics while support for the early 20th century English distributism of Hilaire Belloc is not. Furthermore, as Woods explains, the Church often suggests prudential applications of moral principles to specific situations. However, ecclesial documents do not always explicitly differentiate doctrinal statements from suggestions for applications. These different dimensions of Catholic thought often leave room for diverse interpretations as to what Catholic social teaching says.

The economist faces another challenge in interpreting Church teaching. As statements of moral principles, there is no requirement for ecclesial documents to present a complete economic analysis of social problems. This makes it difficult at times to recover the underlying economic assumptions of a particular teaching. Furthermore, the Catholic vision of the human person is theological – the person is physical and spiritual, individual and social – and differs from the models used by economists. For example, in the Catholic worldview society is understood as organic and not simply a collection of individuals. Hence, assertions, such as that papal teaching assumes that a minimum wage “can be purely benign, and Pareto superior from the workers’ point of view” (p. 55), run the danger of reading too much into the encyclicals. The various levels and forms of expressions of Catholic social thought, as well as unstated assumptions, make a point-by-point comparison with liberal economic theory a complex endeavor.

To a large extent, this book is about faith in the market and whether the principles underlying it such as self-interest, freedom, and competition are sufficient regulatory devices. Here, there is a fundamental disagreement. Woods believes the market has a natural built-in governor. Church teaching holds that culture (which includes the economy) is created by humans who exercise stewardship over it. Although the Church

respects the freedom and creative power provided by the free enterprise system, it maintains there is a need to subject economic relationships to the moral law.

The Church and the Market makes a convincing case that the 16th Century Scholastics anticipated elements of Austrian economics. More generally, it shows that religion is not necessarily antithetical to an appreciation of what the study of economics can offer. Indeed, many of the founding members of the American Economic Association were clergy. Woods' contribution is that he reminds us of the theological origins of many economic concepts that we teach our undergraduates today.

The proposal that Catholic social teaching needs liberal economic analysis is less well supported. Nonetheless, Woods' argument that many religious writers should take the time to learn basic economic concepts is a position this reviewer is sympathetic with. Hence, this book calls for a deeper and respectful dialog between the economist and the theologian.