THE AUSTRIAN AND NEOCONSERVATIVE VIEWS OF THE MARKET

DAVID F. DIETEMAN

CASE WESTERN RESERVE UNIVERSITY SCHOOL OF LAW

CATHOLIC UNIVERSITY OF AMERICA SCHOOL OF PHILOSOPHY

AUSTRIAN SCHOLARS CONFERENCE 6

AUBURN, ALABAMA
MARCH 25, 2000

Fr. Richard John Neuhaus and Michael Novak are two exemplars of an intellectual tradition, which has come to be referred to as neoconservatism. In his book *Doing Well & Doing Good*, Fr. Richard John Neuhaus relies upon the papal encyclical *Centesimus Annus* to make his case for a Catholic approach to economics which favors the free market. Similarly, Michael Novak attempts to merge Catholic social teaching with free-market economics. In the end, however, the arguments advanced by Neuhaus and Novak collapse as a result of internal contradictions. The failure of neoconservative economics is in marked contract to the systematic exposition of economic reality developed by the Austrian School of Economics, most especially by Ludwig Von Mises, Frederich Hayek, and Murray Rothbard.

I. The Austrian School

Carl Menger (1840-1921) is traditionally regarded as the father of the Austrian School of Economics. Menger was influenced by the work of a former Catholic priest, Franz Brentano (1838-1915). Brentano (who was a strong influence upon Edmund Husserl) developed the concept of mental action as "intentionality."[1] The concept of intentionality (which was also utilized by Husserl, and later adapted by Heidegger) was used by Menger, in his *Principles of Economics*, to explain the nature of economic value. As David Gordon explains,

---

1 "As Husserl himself put it in 1932: 'Without Brentano I should have written not a single word of philosophy.'" Barry Smith, *Austrian Philosophy: The Legacy of Franz Brentano*, LaSalle, Ill.: Open Court Press, 1994, pp. 26-27.

> a preference in Menger's system is a judgment: I like X (or I dislike X). The judgment in question is an *act* of preference: as the intentionality of thought grasps an object, so does a judgment of preference "move" toward an end. In slightly different terms, to prefer something is to evaluate it: to rant it on one's scale of values.[2]

Menger and Brentano, in their use of intentionality, were squarely within the Aristotelian tradition in philosophy, as their positions consist in accepting certain characteristically Aristotelian positions as true, for example, that "The world exists, independently of our thinking and reasoning activities," and that "There are in the world certain simple 'essences' or 'natures' or 'elements,' as well as laws, structures, or connections governing these, all of which are strictly universal."[3] As Barry Smith explains,

> Austrian Aristotelianism is first and foremost a doctrine of ontology: it tells us what the world is like and what its objects, states, and processes are like, including those capacities, states, and processes we call knowledge and various different science. More generally, it tells us what sorts of relations obtain between the various different segments of reality. Austrian apriorism, on the other hand, brought together in a thesis to the effect that the is organized, to no small part, in intelligible fashion, so that philosophical investigations (in formal and material ontology, in the ontology of nature, mind, and society and in other areas 'midway between logic and physics') can serve as a natural complement to work in the empirical sciences. The thesis implies further that we are all of us already in possession of substantial portions of knowledge of the way the world is, and of the way its parts and moments hang together. Intentionality is a form of relational contact with reality. It is this thesis which lies at the heart of Austrian philosophy as this was developed by Brentano's disciples.[4]

Mises makes a strong point: economics is a discipline akin to mathematics or logic, and given its practical consequences, is not a subject for ungrounded speculation. A similar point is made by Henry Hazlitt, who writes that

---

2 David Gordon, *The Philosophical Origins of Austrian Economics*, Auburn, Alabama: Ludwig von Mises Institute, 1987, p. 21.

3 Smith, *Austrian Philosophy*, 320-29.

4 Smith, *Austrian Philosophy*, 332.

> Economics ... is a science of recognizing *secondary* consequences. It is also a science of seeing *general* consequences. It is the science of tracing the effects of some proposed or existing policy not only on some *special* interest *in the short run*, but on the *general* interest *in the long run*.
>
> In seeing that economics is a science of tracing consequences, we must have become aware that, like logic and mathematics, it is a science of recognizing inevitable *implications*.[5]

It is, therefore, of great importance that one does not confuse the moral or political importance of human economic action with a proper economic understanding of human action itself. It is a fundamental insight of the Austrian school that economics itself is properly characterized as non-political, or apolitical.[6] This is in marked contrast to neoconservatism, which we will now consider.

II. Neoconservatism.

Fr. Richard John Neuhaus and Michael Novak, in contrast to the Austrian School, attempt to understand economics in the light of religious beliefs.

A. Fr. Richard John Neuhaus

Neoconservatism is perhaps best characterized by the following passage by Neuhaus in *Doing Well & Doing Good:* "Economics, politics, and social policy are by no means the most important questions

---

5 Henry Hazlitt, *Economics in One Lesson*, New York: Harper, 1946; New York: Crown Books, 1979, p. 193.

6 Ralph Raico, "The Austrian School and Liberalism." Lecture, June 15, 1997, Auburn University.

in life. But they are important. To the extent that Christians think about them, they should want to think about them *Christianly*."[7] Matters become problematic when Neuhaus later writes that

> Economics is often called 'the dismal science,' and many people are inclined to think it is more an art than a science. Some go further and say that it resembles nothing so much as a kind of superstition. I confess to harboring robust skepticism about economics as a science.[8]

This differs fundamentally from the account presented earlier by Henry Hazlitt, namely that economics is the science of tracing consequences and inevitable implications, in the short and long run, for all human actors. This skeptical comment by Neuhaus also differs radically from the view of Ludwig von Mises, who writes that

> Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors; we know that they influence both the choice of the ends and that of the means, although our cognizance of the mode of their operation is rather vague. There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and from the physiological law.
>
> The elucidation and the categorical and formal examination of this third class of laws of the universe is the subject matter of praxeology [the study of human praxis, or action] and its hitherto best-developed branch, economics. The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and

---

7 Fr. Richard John Neuhaus, *Doing Well & Doing Good: The Challenge to the Christian Capitalist*. New York: Doubleday, 1992, p. 18.

8 *Ibid*., 19.

> warnings, they will not annul economics; they will stamp out society and the human race.[9]

For Mises, economics is to be studied just as physics and physiology are studied, i.e. as an inquiry that can lead the human mind to truth. This is the fundamentally Aristotelian nature of Austrian methodology.

Neuhaus' argument is an odd position for a religious man to take, given the historical animosity toward religion present in modernity. Nietzsche and Marx both denounce Christianity as "superstition," and the ranks of modern philosophy are crowded with skeptics and agnostics. More importantly, this admission by Neuhaus throws the whole of neoconservative economics into question *ab initio*, as it is clear that Neuhaus is not approaching from the belief that there is any unique truth to be found in economics. Admittedly, Neuhaus' skepticism about the validity of economics as a discipline may be, on occasion, truly predicated of mathematical "mainstream," Neoclassical, or Marxian economics, all of which have been criticized for various blunders and miscalculations. Even so, it is incorrect to dismiss economics as unscientific. Much of what today passes for literary criticism, philosophy, theology, psychology, and jurisprudence also deserves suspicion; the works of Richard Rorty, Matthew Fox, Ronald Dworkin, and Catherine MacKinnon come to mind. It would nonetheless be a grave error to discard whole disciplines as unscientific or worthless simply because of the state of these disciplines today (with the possible exception of sociology). What is needed is not a "Christian understanding of economics," but Christians who understand economics, just as Christians understand auto repair and medicine.[10] The danger in

---

9 Ludwig von Mises, *Human Action : A Treatise on Economics*. Scholar's Edition. Auburn, Alabama: Ludwig von Mises Institute, 1999. Ch. XXXIX. Available at http://www.mises.org/humanaction/chap39sec3.asp.

10 This is itself open to question. It is not at all clear that Christians have more of a need for knowledge or economics than persons of other faiths, although Neuhaus argues that Christians need to understand economics to remedy the historical Christian misunderstanding of economics. Absent such a palliative,

Neuhaus' phraseology is that it lends itself to the solipsism that is so prevalent in the post-modern atmosphere of contemporary academe. A "Christian economics" ought to be as ridiculous as "feminist jurisprudence" or "lesbian literary criticism."

Neuhaus himself does not clearly understand economics, as he blurs the line between economics and ethics in writing that "Private property is not entirely private. That is, it is not something to be grasped entirely for itself, or for oneself. Ownership can be *legally* free and clear, but it is not *morally* free and clear."[11] Although this is true, it not helpful to a sound economic understanding of the nature of property. Neuhaus' further attempt to justify private property is equally unhelpful. He argues that

> The possession of property can be and should be put to a moral testing. The test is whether it expands the circle of exchange and productivity. Does it contribute to the vibrancy of an economy of "free work, of enterprise, and of participation"?...The most fervent advocate of the market economy should have no argument with that. The non-utilization of resources and the exclusion of others from the circle of exchange and productivity are dumb ways of conducting business.[12]

Although it is true that discrimination, protectionism, and waste are foolish, markets themselves punish this unprofitable behavior. The moral testing urged by Neuhaus is, therefore, unnecessary. Whether or not Neuhaus castigates lazy businessmen for not using their resources to make a profit, such businessmen will eventually go out of business. The moral testing, then, is redundant. Such "moral testing" may also be dangerous, however, since it implies that there is someone to administer the test who might then redistribute property to more efficient entrepreneurs. If the action of markets accomplishes this redistribution, there

---

however, the world would be a better place – wealthier, less violent, more smoothly ordered – if the great mass of humanity which elects the world's tyrants understood private property, i.e. capitalism and freedom.

11 Neuhaus, 187.

12 Neuhaus, 190-191, quoting Pope John Paul II, *Centesimus Annus.* 1991. Paragraph 43.

is no objection to be made by the Austrians. If it is to be the task of the state to accomplish this end, however, then Neuhaus' neoconservative economics is squarely at odds with the Austrian critique of economic interventionism.

Fr. Neuhaus interprets *Centesimus Annus* to mean that there exist "two economic systems, both called capitalism," where one capitalism (the bad kind) lacks "a strong judicial framework that places it at the service of human freedom."[13] Neuhaus errs here: there are not two "capitalisms," and it is a misreading of *Centesimus Annus* to claim that the Pope conceives of two "capitalisms." In *Centesimus Annus*, the Holy Father wonders

> Can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model that ought to be proposed to the countries of the Third World?
>
> If by "capitalism" is meant an economic system that recognizes the fundamental and positive role of business, the market, private property, and the creativity in the economic sector, then the answer is certainly in the affirmative, [although it is] perhaps more appropriate to speak of a "business economy," "market economy," or simply "free economy."[14]

The Pope does not conceive of two opposite realities which both may be properly called "capitalism." Rather, the Pope articulates a view of capitalism – the free economy – which is precisely the view articulated by the Austrian School. John Paul seems to reserve his criticism for various statist schemes, such as corporatism, fascism, or socialism (state capitalism) which pretend to serve human freedom while instead serving only the bureaucrats who control the state. As Mises writes,

---

13 Neuhaus, 56, quoting Pope John Paul II, *Centesimus Annus.* 1991. Paragraph 42.

14 Pope John Paul II, *Centesimus Annus.* 1991. Paragraph 42. Reprinted in Neuhaus, 56; 299.

> Capitalism and socialism are two distinct patterns of social organization. Private control of the means of production and public control are contradictory notions and not merely contrary notions. There is no such thing as a mixed economy, a system that would stand midway between capitalism and socialism....This third system that the economists call interventionism does not combine, as its champions claim, some of the features of capitalism with some of the features of socialism....Marx and Engels...considered [interventionism] as first steps on the way toward the establishment of full communism.[15]

Neuhaus fails to consider that the judicial framework which the Pope finds necessary to "good" capitalism might be a private legal order, such as that envisioned alternatively by Hayek or Rothbard.

Neuhaus also errs in claiming that libertarianism (a current term for the liberalism, or "classical liberalism," of the Austrian School)

> will likely have little or nothing to contribute in meeting the challenge that [Pope] John Paul [II] poses. That reformist challenge is to think through and act upon the ways in which the free economy should be related to culture, morality, and politics in the rightly ordered society.[16]

Pace Neuhaus, it is precisely the liberal tradition which explains the interrelationships of market, culture, morality, and politics in society. A vast segment of the works inspired by the Austrian School is devoted to precisely these issues, since, once the logic of economic science has been deduced, it remains to see what practical implications can be derived from economics. The implications of economics for other disciplines constitutes the basis of the philosophy and political science of the Austrians.[17] According to the Austrian School, capitalism is the economics that, by its foundation in private property, makes a just society

---

15 Ludwig von Mises, *The Anti-Capitalistic Mentality*. Princeton: Van Nostrand, 1956; Grove City, Penn.: Libertarian Press, Inc., 1973, p. 65.

16 Neuhaus, 169.

17 Of course, in the case of philosophy, it should be remembered that an Aristotelian metaphysics and epistemology influence the Austrian method in economics, and are thus not the sort of philosophy described above. Rather, economics (based on an Aristotelian outlook and thus influenced by philosophy) in turn influences philosophy by raising certain philosophical questions on the basis of truths unique to economics.

possible. This Austrian view of the market is entirely compatible with the writing of Pope John Paul examined above.

Neuhaus later writes that

> The way to think about society, says [Pope] John Paul [II], is by primary reference to the acting person, and the acting person in community. Thus the controlling concept becomes that of the "subjectivity of society." A healthy society is ordered by the free interaction of subjects who must never be viewed and should never view themselves as objects.[18]

Here, Neuhaus' Kantian injunction to men not to "view themselves as objects," contradicts his earlier claim that the libertarian view of society has nothing to offer Catholics, for the Kantian view he postulates is precisely the libertarian (liberal, classical liberal) view of society. It would seem, then that liberals do have something to offer to Catholic thought about the moral and political implications of economics. Many of the claims which Neuhaus himself makes are also made by liberals such as Mises and Rothbard, for example that it is necessary to distinguish between what is *public* and what is *governmental*, so that "public" schools are more properly referred to as "government schools or state schools."[19]

Neuhaus makes additional disappointing claims, for example, that "consumers must be educated to make wise discriminations, the mass media must inculcate responsibility,"[20] and his puzzling formation of the relationship between the government and the market in the statement that "While the state should sometimes intervene, it should not interfere."[21] It is not at all clear how the government can intervene in

---

18 Neuhaus, *Doing Well & Doing Good*, 239.

19 Neuhaus, 252. See Murray N. Rothbard, *Education: Free and Compulsory*. Wichita, Kan: Center for Independent Education, 1975; Rothbard, *For a New Liberty: The Libertarian Manifesto*, San Francisco: Fox & Wilkes, 1973; Ludwig von Mises, *Omnipotent Government*: *The Rise of the Total State and Total War*. New Rochelle, New York: Arlington House, 1944, 1969.

20 Neuhaus, 251

21 Neuhaus, 257

the free market and not interfere. Neuhaus claims that the distinction is prudential, and notes that "John Paul is exceedingly cautious on this score."[22] Such an explanation does not help to clarify an obscure if not contradictory notion. Similarly, the "consumer education" which Neuhaus prescribes begs the questions of who will teach the consumers, and whether they really need to be taught at all. It may be that such teaching would take the form of private exhortation, such as religious persons explaining to their fellow citizens why pornography is destructive of one's moral character. Yet it is not clear that Neuhaus has anything like this in mind.

Finally, Fr. Neuhaus misconceives the nature and function of profits. Neuhaus considers the cautionary example of a businessman who awards himself bonuses while destroying his company.[23] Such a cheat would be short-sighted indeed, as no one would hire him again, nor would any venture capitalist provide him with financing for another company, so that the man would have no way to make a living other than by producing value for someone willing to employ him. As Henry Hazlitt also observes, in a free economy, the workers from this cheat's company would very likely be working again. Although the workers would be harmed in the short-run by uncertainty about employment prospects (and there may be some long-term harm to those who are too old or simply unable to adapt to a new job), the long-run harm caused by such a man would be chiefly to himself.

Neuhaus also disappoints in his claim that his fellow neoconservative, Michael Novak, was a premature antisocialist by virtue of his having published *The Spirit of Democratic Capitalism* in 1982[24].

---

22 Ibid.
23 Neuhaus, 195.
24 Neuhaus, 49.

It is odd that Neuhaus should consider Novak, writing 60 years after Mises' *Socialism* (nine years after the death of Mises, eight years after Hayek won the Nobel Prize), "premature." It appears that Neuhaus seeks to reinvent the science of economics using scripture, faith, tradition, and an ungrounded aversion to fuzzy notions of laissez-faire capitalism and socialism as his only building blocks. While this may be noble, it is not likely to meet with success. This is akin to creating "Catholic organic chemistry" based upon scriptural interpretation. Novak, like much of the world, is 60 years tardy in his antisocialism, and tardier still if Adam Smith, as Mises contends in *Human Action*, is taken to have refuted all rational arguments for socialism. Novak and Neuhaus are tardier still in comparison to the Salamanca School of the 14th Century.

B. Michael Novak

The neoconservatism of Michael Novak differs from that of Neuhaus in that Novak does not focus upon *Centesimus Annus* (Novak's *Spirit of Democratic Capitalism* was published nine years before the encyclical) and economics itself, but upon the place of economics in an account of the moral superiority of Western civilization. Novak does not write about capitalism, but about "democratic capitalism." Novak demonstrates a severe misunderstanding of economics, as well as a severe misunderstanding of the relationship between morality, politics, and economics. In part, this misunderstanding manifests itself in Novak's fuzzy and indistinct economic theories.

Novak writes that "The theoreticians of our system ... make it sound more crass in theory than it actually is in practice."[25] This sentence follows Novak's reference to Adam Smith, Ayn Rand, and Milton Friedman, as well as his attempt to excuse an anti-capitalistic remark made by the French socialist Bernard-Henri Levy, in the bastion of progressivism, *The New Republic*. This brief sentence of Novak's raises several questions which, it will be seen, haunt and ultimately undermine his attempts to construct a coherent neoconservative system.

First, what does Novak mean by "our" system? Novak writes about "democratic" capitalism, but certainly Ayn Rand, as one cannot miss in reading *Atlas Shrugged*, is not an adherent of any system of capitalism which might be called "democratic," if that is taken to mean that the ballot box controls the market. Indeed, the very notion goes against the central tenet of *Atlas Shrugged*. Second, Novak errs in trying to excuse Bernard-Henri Levy for what is either Levy's intellectual incompetence or sheer bias by stating that Levy "might have seized upon certain sentences" in Smith, Rand, or Friedman to make capitalism look evil in theory. Novak would be wiser to recognize Levy as an intellectual adversary and to leave Levy to his misconceptions. Third, Novak's reference to "democratic capitalism" must necessarily call his whole neoconservative enterprise into question. This is because there is either capitalism or socialism, whatever sort of political arrangement might exist. It is certainly possible to practice capitalism under a monarchy, as the Dutch, British and Italians (as well as the American colonies prior to 1776) historically did. Novak's use of the term "democratic" capitalism proves conclusively that he is not concerned with capitalism at all, but with a form of interventionism which is not vastly different in its essence

---

25 Ibid.

from "market socialism." Market socialism is defined as a market order that fails to respect private property rights, i.e. state ownership of the means of production which seeks to imitate the operation of a market. This is in no way significantly different from the "democratic" capitalism of Michael Novak, which allows for a market only to the extent that it is interfered with by democratic action.

Novak defines "democratic capitalism"

> as "three systems in one: a *predominantly* market economy; a polity respectful of the rights of the individual to life, liberty and the pursuit of happiness; and a system of cultural institutions moved by ideals of liberty and justice for all."[26]

Novak begins by explaining that his "argument is that...political democracy is compatible in practice only with a market economy."[27] This is utterly false. As Thomas Sowell argues, freedom has often existed without democracy.[28] Indeed, democracy is often contrary to the individual freedom to deviate from the path of the mob. It is an insight of the Austrian School of economics to note that freedom is only possible in a market; private property is the foundation of political freedom, since a man is not in any sense free if he cannot control his physical surroundings.[29] Democracy is not the *sine qua non* which Novak would have it to be.

Novak later adds to his definition of "democratic" capitalism, writing that

---

26 Ibid., 14. Emphasis in original.

27 Ibid.

28 "Democracy and freedom are too often confounded. Britain ... did not have anything close to democracy until the Reform Act of 1832. But it had freedom long before that. The fundamentals of freedom – limited government, separation of powers, an independent judiciary, free speech, jury trials – existed in Britain for may generations before the franchise was extended to most males....Just as freedom can exist without democracy, so democracy can crush freedom. During the Reconstruction era after the Civil War, blacks in the South had many rights that they lost when the occupying Union army was withdrawn and democratically-elected state governments took over, ushering in the Jim Crow era." Thomas Sowell, *Barbarians Inside the Gates and Other Controversial Essays*. Stanford, Calif.: Hoover Institution Press, 1999. p. 90.

29 Murray Rothbard, in *The Ethics of Liberty*, advances the argument that ...

> Ours is *not* a system of "free enterprise" only, nor of "private property," nor of "individual liberties," nor of "limited government" alone. These are locutions proper to a preoccupation with the economic sphere, and they seem to be favored by writers and speakers whose interests are mainly those of economics and business. They will not suffice as descriptions of our system as a whole, as it actually is experienced. They will not command the full loyalties, nor express the full interests, of all who enjoy the fruits of our system....The designation "democratic capitalism" is intended to go beyond a description of the economic system merely, and to include the political system and the cultural system, too.[30]

Novak is thus concerned to thoroughly describe the whole of contemporary Western civilization and to "command the loyalties" of the intellectual and working classes. In this regard, it should be remembered that *The Spirit of Democratic Capitalism* was published in 1982, only two years into the Reagan dynasty and the rebirth of American conservatism.[31] Novak, then, was writing for a largely hostile audience, since he was writing in the hope of mainstream acceptance. Nonetheless, Novak misunderstands economics, the relationship between economics and politics, and the relationship between economics and morality.

Both market socialism and "democratic" capitalism, as with all interventionist efforts, must in the long run either return to pure capitalism or slide fully into the chaos of socialism. Bastiat argues that one must

> See if the law takes from some persons what belongs to them, and gives it to other persons to whom is does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.
>
> Then abolish this law without delay, for it is not only an evil itself, but also it is a fertile source for further evils because it invites reprisals. If such a law ... is not abolished immediately, it will spread, multiply, and develop into a system.

---

30 Ibid., 7.

31 The flaws and failures of Ronald Reagan aside, the 1980s did witness a resurgence of vocal desires for smaller government, lower taxes, and the return of stolen liberties.

> The person who profits from this law will complain bitterly, defending his *acquired rights*. He will claim that the state is obligated to protect and encourage his particular industry; that this procedure enriches the state because the protected industry is thus able to spend more and pay higher wages to the poor workingmen.
>
> Do not listen to this sophistry by vested interests. The acceptance of these arguments will build legal plunder into a whole system. In fact, this has already occurred. The present-day delusion is an attempt to enrich everyone at the expense of every one else; to make plunder universal under the pretense of organizing it.[32]

To leave the decision of whether to sanction labor union violence,[33] or whether to pay farmers not to grow food, or indeed whether or not to forcibly seize people's income by means of taxation should not be left to democracy, because of the "sophistry of vested interests" mentioned by Bastiat. It is of course possible for Novak to contend that he means by "democratic capitalism" only capitalism as practiced today in Western democracies. But then his terminology becomes unsupportable, as the work "democratic" either modifies capitalism in a significant way, or it is redundant, or a misplaced modifier.

Novak, however, makes the case against neoconservatism simple by himself equating "democratic capitalism" and socialism. Novak claims that

> there is a difference between a defense of the free market and a defense of democratic capitalism. Even socialists may concede the superiority of the free market as a system of *exchange*. They may even agree that the free market properly results in some limits upon government and in some of the good features of a liberal polity. But they still do not accept capitalism. Accepting the market principle – and calling the result social market democracy – they may still wish to build certain moral preferences into economic activities over and beyond the freedom of the market. They may wish to build public housing, give income supplements to the poor, provide

---

32 Bastiat, *The Law*, 21-22.

33 On labor union violence as sanctioned by the New Deal, see Morgan O. Reynolds, "An Economic Analysis of the Norris-LaGuardia Act, the Wagner Act, and the Labor Representation Industry," *Journal of Liberatarian Studies*, vol. VI, Nos. 3-4 (Summer/Fall 1982), 227-235, 233. Available at http://www.libertarianstudies.org.

> health care from public funds, and the like. Since these things may also be done under democratic capitalism – which is not an economic system merely – socialists at this point are not so easy to distinguish from those who approve of social welfare programs on nonsocialist grounds. Many "neoconservatives" like Irving Kristol and "neo-liberals" like Senator Daniel Patrick Moynihan – the differences between the two deserve to be remarked – remain committed to social-welfare democratic capitalism. ... But they ground their own vision of social welfare, not in socialism, but in the imperatives of the moral-cultural system of democratic capitalism.[34]

Thus, Novak is aware of the logical identity between "democratic capitalism" and "social democracy," but he remains unaware of the practical implications of such an identity. Although Novak concedes that his "democratic capitalism" will strive for the same practical goals as "social democracy," he is not in any way disturbed by such a concession. Incredibly, Novak claims that the socialists must now find "new ground of their own."[35]

In the introduction to *The American Vision*, Novak aims to consider the advantages "of having been nourished in a democratic capitalist system..."[36] In short, Novak's project boils down to the insight that, by and large, it has been better to live in the West than under totalitarianism.

Yet, this does not explain Novak's concomitant claim that "Since World War II...the number of both capitalist and socialist systems has multiplied."[37] As Mises demonstrates, there is capitalism and socialism, and there is no middle way, unless chaos is considered an alternative. Of course, since socialism is merely chaos, there really only are two alternatives: private property or totalitarianism. Novak misses this essential point entirely.

---

34 Novak, *The Spirit of Democratic Capitalism*, 111-112.
35 Ibid, 223.
36 Novak, *The American Vision*, 2-3.
37 Ibid.

Novak writes in circles at times. He acknowledges that capitalism is "wealth-conferring" and efficient.[38] He notes that "democracy apart from capitalism is very difficult to achieve," and that "welfare states" are "more properly called socialist."[39] He also acknowledges that concern for one's family encourages long-term economic planning,[40] and that the economic rationality inherent in markets nourishes the virtues of self-government.[41] He concedes that unplanned markets are orderly, not anarchic.[42] His account of the need for "intelligence" in markets sounds at least similar to the Austrian concept of entrepreneurship.[43] He advances a Hayekian argument against central planning.[44] Finally, he claims that "The very structure of democratic capitalism...is aimed at...a new order of community, the community of free persons in voluntary association."[45]

His elaboration of these claims, however, reveals misunderstandings. He makes repeated references to the "founders of democratic capitalism."[46] Elsewhere, he writes that

> There are serious flaws in the sort of efficiency generated by democratic capitalism. Unplanned and unguided, our system permits shortages in some areas and unnecessary abundance and wastage in others, until the market corrects them; and in some areas the market does not work well.[47]

---

38 Ibid, 8-9.

39 Ibid, 9.

40 Novak, *The Spirit of Democratic Capitalism*, 163.

41 Ibid, 181.

42 Ibid, 113-115. He does, however, confuse "anarchic" with "chaotic."

43 Compare Novak, *The Spirit of Democratic Capitalism*, 103, to the works of Kirzner, Mises, and Rothbard on entrepreneurship.

44 Novak, *The Spirit of Democratic Capitalism*, 104-112. Here, Novak contends that a central planner could not assemble all the information necessary to intelligently plan the economy.

45 Ibid, 129. He goes on to note that the "four fundamental elements" of democratic capitalism are 1) world development, 2) he corporation, 3) interdependence, and 4) an ethos of cooperation. See pp. 129-134.

46 Ibid, 104; 117.

47 Novak, *The American Vision*, 9.

Novak thus advocates central planning and "guidance" of the economy (although he does not specify by whom). He is also wrong to claim that shortages, abundance and waste that are ultimately corrected by markets are a "serious flaw" of markets. It is a benefit of markets that they do correct shortages (because of the possibility of profits), abundance (because of low prices) and waste (because of the need to make profits and avoid losses), while planned economics do not correct such misallocations of resources precisely because they cannot. This is a chief point of the socialist calculation debate. Socialism, Mises

and Hayek contend, cannot rationally allocate resources because it lacks market prices.[48] It is disheartening for Novak to be ignorant of such a key element of capitalist theory.[49]

---

48 Mises puts the matter bluntly: "Where there is no free market, there is no pricing mechanism: without a pricing mechanism, there is no economic calculation." Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," in F.A. Hayek, *Collectivist Economic Planning*, London: Routledge, 1935, p. 111. Quoted in Robert Bradley, Jr., "Market Socialism: A Subjectivist Evaluation," *Journal of Libertarian Studies*, vol. V, No. 1 (Winter 1981), 23-39, 23. Consider also the following passage from Hayek describing the operation of the price system in a market: "It is worth contemplating for a moment a very simple and commonplace instance of the action of the price system to see what precisely it accomplishes. Assume that somewhere in the world a new opportunity for use of some raw material, say, tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose – and it is significant that it does not matter – which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the effect will rapidly spread throughout the entire economic system. This influences not only all the uses of tin but also those of its substitutes and the substitutes of these substitutes, the supply of all things made of tin, and their substitutes, and so on. All this takes place without the great majority of those instrumental in bringing about these substitutions knowing anything at all about the original cause of these changes. The whole acts as one market, not because any of its members surveys the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all. The mere fact that there is one price of any commodity – or rather that local prices are connected in a manner determined by the cost of transport, etc. – brings about the solution which (if conceptually possible) might have been arrived at by one single mind possession all the information which is in fact dispersed among all the people involved in the process." F.A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, 1-18 (1945). Here, Hayek demonstrates why he lost the socialist calculation debate to Mises. Although Mises argues for the logical impossibility of calculation without prices, Hayek holds out the logical possibility that some omnipotent socialist (today, an omnipotent socialist computer) could somehow be programmed with all possible variables needed to duplicate the price system. This is of course impossible, since the information programmed into such a computer (or known by a man) would be outdated as soon as it was programmed, and the central planner could therefore never imitate the flexibility of the market and its entrepreneurs. More importantly, this information is too vast to ever be grasped by the human mind, let alone entered into a database. See also Trygve J.B. Hoff, *Economic Calculation in the Socialist Society*. Trans. M.A. Michael. London: W. Hodge, 1949.

49 It is similarly disheartening to find Novak argue that fiat money is spiritually preferable to "physical money" such as gold. As Novak writes, "Theologians have not sufficiently reflected on the psychological nature of money. New inventions in accounting and contract law, and later still in the monetizing of public debts, turned attention away from the physicality of money. Less and less did individuals handle physical money; more and more money became a book-keeping record. Money in this sense became intellectualized. Gold, silver, and materials of barter were largely supplanted by symbolic paper. Moreover, this paper came to depend to an unprecedented degree upon public trust. Thus, in our day, economists measure 'consumer confidence,' 'inflationary psychology,' 'business confidence,' [and] 'investment climate.' The stability of societies has become an important factor in the value of their public currencies and their economic assets." Novak, *The Spirit of Democratic Capitalism*, 100. This preposterous account of the history of money - and of the alleged virtues of government fiat money - is in stark contrast to the monetary theories of the Austrians. See Ludwig von

Despite Novak's claims which might otherwise seem correct, taken in the context of the whole of his writing, they are more properly regarded as sound bites thrown in to any genuine capitalists who might be reading. Novak's system fails completely. He does not write explicitly of *homo economicus*,[50] yet his criticisms of capitalism necessitate such a non-entity as this Neoclassical conception of humanity.[51] Novak considers five "disadvantages of democratic capitalism:" 1) "concentration on the pragmatic does no make [men and women] noble, virtuous or happy;"[52] 2) "the habit of seeking a practical compromise...may leave the spirit unhappy about not having cleaved to inwardly nourishing ideals;"[53] 3) "the desires actually expressed in the marketplace are the ones business rushes to fill ... nourishes a hedonism;"[54] 4) "the appeal ... to the self-interest of each individual...heightens the impression made by the system as a whole that it is based on a radical form of selfishness;"[55] and 5) "the strength of the business community and of its

---

Mises, *The Theory of Money and Credit*. Trans. H.E. Batson. New Haven: Yale University Press, 1953; Murray N. Rothbard, *The Case Against the Fed*. Auburn, Alabama: Ludwig von Mises Institute, 1994; Rothbard, *What Has Government Done to Our Money?* Auburn, Alabama: Ludwig von Mises Institute, 1990; Rothbard, *The Case for a 100 Percent Gold Dollar*. Auburn, Alabama: Praxeology Press of the Ludwig von Mises Institute, 1991.

50 Surprisingly, Fr. Neuhaus does postulate the existence of the elusive *homo economicus*: "Our activity as economic man, *homo economicus*, is not the main thing in most of our lives. ... But it is an important dimension of out lives, and, in Christian teaching, this dimension of life, too, should be brought under the lordship of Christ." *Doing Well & Doing Good*, 25.

51 *Homo economicus*, or "economic man," is defined as "The name given to the 'construct' in economics whereby individuals are assumed to behave as if they maximize UTILITY, subject to a set of constraints of which the most obvious is income. Economic man is then 'rational' if he pursues this objective although he may face obstacles, such as imperfect information, which prevent him actually achieving the goal. Rational man in economics may however pursue objectives other than the maximization of utility, in which case he is rational if he pursues that goal in a self-consistent manner." *The MIT Dictionary of Modern Economics*, 4th Ed., David W. Pearce, Ed. Cambridge, Mass.: MIT Press, 1992, p. 120. See also Shaun Hargreaves-Heap and Martin Hollis, "Economic Man," in *The New Palgrave: A Dictionary of Economics*, vol. 2. John Eatwell, Murray Milgate, and Peter Newman, eds. London: Macmillan, 1987, pp. 54-55. The Palgrave definition, it should be noted, treats Marx, Bentham, Hobbes, the Neoclassicals, Hume, Kant, and the Rational Expectations School, but no Austrians.

52 Novak, *The American Vision*, 12.

53 Ibid.

54 Ibid, 12-13.

55 Ibid, 13.

intellectual specialists in concentrating upon the practical order carries with it profound weakness in the fields of theory and ideology.'[56]

Four of the five "disadvantages" of capitalism that Novak postulates necessitate a *homo economicus* view of man. The disadvantages that Novak postulates assume that a man who runs a business or seeks to make a profit by his labor for an employer does nothing else on earth. This is despite the fact that Novak writes glowingly about "our own experience," "our own families,"and "How faithfully intellectuals continue to maintain contact with their own origins.'[57] Instead of conceiving of man as being born into a family, raised in a church, and dwelling in a community, Novak faults capitalism – private property – for not providing things which it does not seek to provide and which it is not meant or conceived to provide, namely moral character education (which, for Aristotle, encompasses a proper disposition toward pleasures and toward one's self), spiritual fulfillment, and a liberal education. In short, Novak's first, third, and fourth "disadvantages" are identical, since being virtuous includes conquering selfishness and pleasure. The second "disadvantage" arguably also could be included in the first, since the concept of "inwardly nourishing ideals" does not logically exclude something like the Aristotelian virtues, and does not necessarily have to mean any sort of religious faith. Additionally, and inexplicably, Novak spends Chapter Four of *The American Vision* discussing in detail the ways in which those in Europe and America (particularly in America) provide for their spiritual, social, and emotional needs. If Americans in fact

---

56 Ibid.
57 Ibid, 2-3.

provide for such needs, then the disadvantages which Novak attributes to capitalism are shown to be false.[58]

Finally, Novak's fifth disadvantage is not a disadvantage at all, but merely the result of Novak's ignorance. *Pace* Novak, the Austrian School (and many economists before the Austrians) have developed sound theories of private property and capitalism, of which Novak seems blissfully unaware.

It is a further fault of Novak's work that he defends capitalism on merely utilitarian grounds. Rich people are good for Western civilization because they produce nifty architecture, sometimes invest wisely, and provide something to which poor people may aspire. Novak claims that this precludes him from being a "democratic socialist."[59] Here, Novak has missed the mark. It is not merely the fact that economic activity "enlarges the realm of choice" and thereby "increases personal liberty."[60] Mere economic activity is not sufficient to preserve either choice or liberty. Only economic liberty allows for political liberty. Absent the freedom to use his physical property as he sees fit, a man's political liberty is empty.

---

58 Similarly, Novak argues that "A market system entails great human losses. For realists, this was a foregone conclusion." *The Spirit of Democratic Capitalism*, 120. The human losses alleged by Novak, however, are not unique to capitalism. Old communal ties and the heroic spirit were more horribly repressed in the Soviet Union and China than in the West. Similarly, there is no reason to support that men in capitalist societies are any more rapacious, avaricious, socially mean, cowardly, or hedonistic than in socialist or formerly communist countries. Indeed, the privations of socialism and communism may encourage an inordinate attachment to material things. Yet this escapes Novak.

59 Novak, *The Spirit of Democratic Capitalism*, 210-214; 213. If one is concerned that Novak's views might have changed since 1982, there is no evidence of such a transformation. In a 1997 address at Salve Regina University in Providence, Rhode Island, Novak argued that corporate executives are entitled to large salaries because the wealthy tend to be philanthropic. This may be true, but it misses the point, namely that wages reflect the productivity of labor, and furthermore that there is no superman outside the market who is able to determine "objectively" or "scientifically" what someone "ought" to earn.

60 Novak, *The Spirit of Democratic Capitalism*, 102-103.

III. The Failure of Neoconservatism, the Splendor of the Austrians

On page one of *The American Vision*, Novak demonstrates his misunderstanding of economics. He purports to describe "democratic capitalism," i.e. a unified theory of morality, politics, and economics. This is contrary to the Austrian insight that economics is an independent discipline. The neoconservatism of Michael Novak is an attempt to justify Western civilization as it has evolved in the United States today, and not a rigorous theoretical examination of economics, politics, or ethics. Novak blurs the distinction between three separate and distinct intellectual disciplines, losing sight of the truth in the process. This is a fatal defect of his system.

Novak appears unacquainted with the magnum opus of Ludwig von Mises, *Human Action*. Novak writes in *The American Vision* that "There is no 'Capitalist Manifesto,"[61] and also that "There is no single book one would willingly place in the hands of a serious inquirer and say: 'Here is our full moral, political, and economic vision."[62] An immediate criticism prompted by this neoconservative foray into economics is that it adds nothing to the Austrian view. The Austrians concede that economics is not a general theory of human existence. Economics is economics, and cannot and should not supplant philosophy, theology, and history. Yet this is what the neoconservative aim to do, in the process distorting not only economics, but philosophy and theology as well. The neoconservative, for moral and theological

---

61 Michael Novak, *The American Vision: An Essay on the Future of Democratic Capitalism*, Washington, DC: The American Enterprise Institute, 1982. American Enterprise Institute Studies in Political and Social Processes, pg. 14.

62 Ibid, 1.

reasons, are concerned with justice. Yet in their zeal to apply ethical and theological notions to economics, they have not paused to first study economics qua economics.

Of course, if candidates are sought for a "capitalist manifesto" (in the proper sense, and not as a general theory of human existence), one should happily give to serious inquirers any of the following: Mises' *Mises Hunam Action* or *Liberalism*, Rothbard's *Man, Economy, and State*, and Hoppe's *Theory of Capitalism and Socialism*. If Novak persists in seeking a unified theory of philosophy, politics, and economics, Rothbard's *The Ethics of Liberty* arguably meets the requirements. Indeed, the list of possible "capitalist manifestos" could also include works by Bastiat, Hayek, Smith, Hazlitt, and others. That Novak is apparenatly unaware of these works, so that he does not so much as mention them in *The Spirit of Democratic Capitalism* even to criticize them, does not bode well for neoconservatism.[63]

Novak and Neuhaus are interventionists for moral reasons, and not properly capitalists at all. This should be readily seen by an analysis of the term "neoconservatism" itself, following the argument of Friedrich Hayek in "Why I am Not a Conservative,"his famous postscript to *The Constitution of Liberty*. As Hayek contends,

> Conservatism proper is a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change....Let me now state what seems to me the decisive objection to any conservatism which deserves to be called such. It is that by its very nature it cannot offer an alternative to the direction in which we are moving. It may succeed by its

---

63 It must be noted that Novak appears to have learned of the Austrian School at some point between 1982 and 1997, as evidenced by his glowing praise of the Austrians in a 1997 *First Things* article, "Economics as Humanism." Novak remains committed to his humanistic general theory of Western civilization, and the article does not go beyond a brief exposition of methodological subjectivism, entrepreneurship and the concept of human action. Strangely, Novak does not seem to find the insights of the Austrian School incompatible with his own, not very Austrian, works. Nichael Novak, "Economics as Humanism." *First Things*, 76 October 1997, pp. 18-19. Available at http://www.firstthings.com/ftissues/ft9710/novak.html.

> resistance to current tendencies in slowing down undesirable developments, but since it does not indicate another direction, it cannot prevent their continuance....What the liberal [libertarian] must ask, first of all, is not how fast or how far we should move, but where we should move....this difference between liberalism and conservatism must not be obscured by the fact that in the United States it is still possible to defend individual liberty by defending long-established institutions. To the liberal they are valuable not mainly because they are long established or because they are American but because they correspond to the ideals which he cherishes.[64]

The neoconservatives Novak and Neuhaus (pardon the alliteration) do not provide, nor do they so much as propose to provide, a positive theory of economics. Instead, they attempt to reconcile fuzzy notions of capitalism and markets with Catholicism in general (in the case of Novak) or with papal encyclicals in particular (in the case of Neuhaus).

Even so, the neoconservative economics of Novak and Neuhaus is not entirely bad. Consider Neuhaus' acknowledgment that

> many people are hesitant about thinking Christianly about economics because much Christian thought about economics has turned out to be nonsense, and very destructive nonsense at that. Still today, those who traffic in grand moral visions tend to exhibit a contempt for the real world of economic behavior, and especially for behavior in the free economy that is usually called capitalism.[65]

Neuhaus is correct in his estimation that much Christian writing about economics is sheer (and dangerous) nonsense. Those writing on economics from a faith-based perspective tend, by and large, to ignore the need to understand economics, writing instead as if they possess a fiat power based upon the Gospels to nullify supply and demand. Consider, for example, the work of Mark and Louise Zwick of the Houston

---

64 Friedrich A. Hayek, *The Constitution of Liberty*. Chicago: University of Chicago Press, 1950, pp. 397-399.

65 Neuhaus, 20-21.

Catholic Worker House, who attack profits and corporations in the name of distributism,[66] the mistaken rantings of Orestes Brownson,[67] or the preposterous decision by the University of Notre Dame to boycott goods produced in "sweatshops.'[68] Notre Dame is apparently unconcerned about the unemployment in poor nations which necessarily results from such a decision to cater to American textile unions and other "humanitarian" interests. Bastiat, however, observes that

> legal plunder can be committed in an infinite number of ways. Thus, we have an infinite number of plans for organizing it: tariffs, protection, benefits, subsidies, encouragements, progressive taxation, public schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on, and so on. All these plans as a whole – with their common aim of legal plunder – constitute socialism.[69]

The good intentions of Christian reformers cannot serve to cleanse legal plunder of its true nature as plunder, nor can they serve to turn falsehoods into truth. The Zwicks, of example, contumaciously quote Scripture and Chesterton while attacking Michael Novak as if he were the spokesman of capitalism.[70] It may be that they are the sort of thinkers Mises has in mind when he writes that

---

66 Mark and Louise Zwick, "Roots of the Catholic Worker Movement: Distributism: Ownership of the Means of Production and Alternative to the Brutal Global Market." Available at http://www.cjd.org/paper/roots/rdistrib.html.

67 "The owner who is involved in the systematic exploitation of poor laborers is frequently one of our respectable citizens; perhaps he is praised in the newspapers for his liberal donation to some charitable institution. He passes among us as a pattern of morality, and is honored as a worthy Christian. ... It is for the interest of the trader to cheat – to buy under value and to sell over value; it is for the interest of the master to oppress the workman. ... Thus is the interest of one opposed to the other. ... Wages is a cunning device of the devil, for the benefit of tender consciences who would retain all the advantages of the slave system, without the experience, trouble, and odium of being slave-holders." Orestes Brownson, "The laboring classes," *Boston Quarterly Review*, 1840. Quoted by Neuhaus, 66. Brownson gets economics utterly wrong. He espouses the labor theory of value (also espoused by Marx), so that labor is "exploited" by wages (which Brownson is unable to distinguish from chattel slavery). Brownson also considers buying on he cheap to be "cheating," presumably because he accepts objectives value theory, such that a thing is objectively worth x and not a penny less (or more).

68 Margaret Fosmoe, "N.D. taking anti-sweatshop steps," *South Bend Tribune*, March 2, 1999. Available at http://www.southbendtribune.com/99/mar/030299/local_ar/162200.htm.

69 Ibid., 22.

70 Ibid., Note 66.

> People may disagree on the question of whether everybody ought to study economics seriously. But one thing is certain. A man who publicly talks or writes about the opposition between capitalism and socialism without having fully familiarized himself with all that economics has to say about these issues is an irresponsible babbler.[71]

Hayek chose the title of "The Road to Serfdom" to signal to the "well-meaning" British socialists that their policies were identical to the policies of Lenin, Stalin and Hitler. No matter that Neuhaus, Novak, the University of Notre Dame and those of the Catholic Worker movement desire to help human beings in accordance with the Gospel; their ideas are mistaken, and the way they have chosen to "help" can lead only to human misery and the destruction of wealth.

Concluding the examination of the virtues of neoconservative thought, it should be noted that Neuhaus observes that not all theistic systems respect individual liberty; Islam, he observes, is theistic but illiberal. Neuhaus therefore is at least aware of the dangers to liberty posed by theocratic or near-theocratic regimes. Neuhaus also perceives the need for the state to be a minimal or non-existent element in society.

> The notion of devolving or decentralizing state functions assumes that the functions belong to the state in the first place....In the concept of the subjectivity of society, the point is that these functions – such as economic activity, education, health, and social services – properly belong to the free associations of the people of the society. The state has an important *ancillary* role in providing a framework of law and order in which people can attend to the business that is properly theirs.[72]

This is, within close bounds, the view of the Austrian School. Murray Rothbard takes the argument to its logical conclusion, i.e. that if we investigate matters closely, we will find that anything which has been or can

---

71 Ludwig von Mises, *The Anti-Capitalistic Mentality*, 47.

72 Neuhaus, 244.

be provided by the market should be provided by the market, and furthermore that there is nothing which the market either cannot or has not provided.

Although Neuhaus makes claims such as that presented above, which comport with Austrian theory, his frequent departures from such claims effectively negate them, so that his neoconservatism, in the end, is an interventionist theory. Also, Neuhaus' argument in favor of markets pale in comparison with Austrian praise for markets. Consider the following passage from Mises:

> What gives to individuals as much freedom as is compatible with life in society is the operation of the market economy. The constitutions and bills of rights do not create freedom. They merely protect the freedom that the competitive economic system grants to the individuals against encroachments on the part of the police power.
>
> In the market economy people have the opportunity to strive after the station they want to attain in the structure of the social division of labor. They are free to choose the vocation in which they plan to serve their fellow men...under capitalism everybody is free to challenge the vested interests of everybody else. If he thinks that he has the ability to supply the public better or more cheaply than other people do, he may try to demonstrate his efficiency. Lack of funds cannot frustrate his projects. For the capitalists are always in search of men who can utilize their funds in the most profitable way. The outcome of a man's business activities depends alone on the conduct of the consumers who buy what they like best.[73]

The neoconservatives not only fail to properly conceive of economics, but fail to properly conceive the history of Catholic economic thought. Neuhaus claims that "Capitalism came at the too high price of abandoning the social and economic order of the Middle Ages, and required an embrace of the radical individualism associated with the Protestant heretics."[74] Novak vaguely describes the historical rise of

---

73 Mises, *The Anti-Capitalistic Mentality*, 99-100.

74 Neuhaus, 65.

capitalism in Chapter Five of *The Spirit of Democratic Capitalism*, and gives mention to "the Dominican scholar Cajetan (1469-1534)" as having been "the first theologian to break from conceptions of a static economic world to those of a changing world."[75] Neuhaus' claim is historically false, while Novak's is inadequate to both a history of capitalism and of Catholic economic thought.

As is meticulously detailed by Murray Rothbard, the late thirteenth century witnessed the development of utility theory by the Franciscan Pierre de Jean Olivi (1248-98).[76] Olivi was the first thinker to develop subjective utility theory, and also "the first to bring into economic thought the concept of capital (*capitale*) as a fund of money invested in a business venture."[77] And yet, contrary to the thought of the neoconservatives, and other maniacal Christian dabblers in economics, who fear that capitalism must in some way pervert the soul by necessity, Olivi was "the leader of the rigourist wing of the Fransiscan order that believed in living in extreme poverty" and "the main leader of the Spiritual Franciscans, who believed devoutly in following faithfully the rule of total poverty laid down by the founder of the order, St. Francis of Assisi (1182-1226)."[78]

Olivi's works, suppressed by his religious enemies, were rediscovered by San Bernardino of Siena (1380-1444), a member of the Strict Observant wing of the Franciscans.[79] Rothbard writes of Bernardino that

---

75 Novak, *The Spirit of Democratic Capitalism*, 98.

76 Murray N. Rothbard, *Economic Thought before Adam Smith. An Austrian Perspective on the History of Economic Thought*, vol. 1. Cheltenham, England: Edward Elgar, 1999, p. 60.

77 Ibid., 61.

78 Ibid., 62. Olivi's rivals, the Conventual Franciscans, attempted to destroy all copies of his works, in part because of the conflict between the Conventuals and Spirituals, and also in part because Olivi had dallied with the Joachimite heresy. Ibid., 60-63.

79 Ibid., 62; 81.

> The great mind, and the great systematizer, of scholastic economics was a paradox among paradoxes: a strict and ascetic Franciscan saint living and writing in the midst of the sophisticated capitalist world of early fifteenth century Tuscany. While St. Thomas Aquinas was the systematizer of the entire range of intellectual endeavor, his economic insights were scattered in fragments throughout his theological writings. San Bernardino of Siena was the first theologian after Olivi to write an entire work systematically devoted to scholastic economics.[80]

After Bernardino, the Spanish Scholastics of the School of Salamanca, including Martin de Azpilcueta (1493-1586) and Luis de Molina (1535-1601), developed the existing "purchasing-power parity theory of exchange rates" and "the supply and demand analysis of the value of money."[81] The synthesis of theology and economics which Novak and Neuhaus seek to perform, then, was perhaps written between four and six hundred years ago.

Less one attempt to excuse the neoconservatives for their ignorance of Olivi, Bernardino, and the School of Salamanca, it must be noted that the works of Bernardino at least were known as early as the 1930s. Amintore Fanfani, an Italian historian (and a Roman Catholic), related that "St. Thomas expresses himself thus: the desire of wealth is unlawful if we seek it as an ultimate end, if we seek it with too great solicitude, or if we fear that, by following conscience, we shall lack necessities."[82] With regard to the morality of increasing one's fortune, Fanfani describes the work of "St. Bernardino of Siena, who prefers a man to enrich himself in order to profit his neighbour by new enterprizes [sic], rather than to sit idle for

---

80 Ibid., 81.

81 Ibid., 106; 113.

82 Amintore Fanfani, *Catholicism, Protestantism and Capitalism*, New York: Sheed & Ward, 1938, p. 128. It should be noted that Fanfani's work is not without defects. In attempting to describe the nature of capitalism, Fanfani makes reference to the works of Werner Sombart. Sombart, however, is referred to as "that Nazi philosopher" by Mises and Rothbard, for his claim that "war is the natural state of mankind, in contract to the base trading of the merchants." Fanfani, however, does not base his account upon Sombart, instead making use of Sombart, as well as other theorists such as Max Weber, to describe the operations of capitalism. As the quotations above indicate, Fanfani did not accept Sombart's view of capitalism.

fear of growing too rich.'[83] Wilhelm Röpke (another Roman Catholic), writing a year before Fanfani's work was published, remarks of the Medievals that

> recent investigation demonstrates the need for a thorough revision of received opinion. We know now that even in the Middle Ages there was an intense degree of economic activity and that it is legitimate to speak of a "world economy of the Middle Ages," an economy which was not by any means confined to the exchange of luxury-type goods. We have evidence also that the individuals engaged in this economic activity – and this should not surprise – exhibited a pronounced propensity for business enterprise. What is particularly significant is that this highly developed economic system of the Middle Ages crumbled at the beginning of the modern era, to be succeeded by a less differential type of economy in the period which saw the rise of mercantilism and of national territorial states. Like the world economy of antiquity, the world economy of the Middle Ages fell in ruins, together with the political system which supported it. It is a story with special reference to our own age.[84]

Röpke was concerned in 1937 about the galloping statism in Europe, and in Germany in particular. It is also useful to note Röpke's distinctively Austrian remark that Medieval capitalism was destroyed by the economic intervention of nation-states in the form of mercantilism.

Exploring the particulars of Medieval economic thought, Fanfani notes, that, for Aquinas,

---

83 Ibid., 130. "St. Bernardino, *Prediche volgari dette sulla piazza del Campo l'anno MCCCCXXVII*, ed. Bianci, Siena, 1880, vol. III, p. 204, and *Opera omnia*, vol. I, Sermon XLVI, art. III, Chap. IV. St Bernardino's theories have been treated ... also by M. Sticco, in his excellent little book, *Il pensiero sociale di San Bernardino*, Milan: S.E., "Vita e Pensiero," 1925. Ibid., 130 n.2.

84 Wilhelm Röpke, *Economics of the Free Society*, Grove City, Penn.: Libertarian Press, Inc., 1994, p. 17. Translated from the 9th German Edition, Erlenbach-Zurich: Eugen-Rentsch Verlag, 1961. Originally published as *August 30, 2000ie Lehre von Wirtschaft*, Vienna: Julius Springer, 1937. Röpke refers to F. Rörig, *Mittelalterliche Weltwirtschaft, Blüte und Ende einer Weltwirtschaftsperiode* (Jena, 1993); Walter Eucken *Die Grundlagen der Nationalökonomie* (6th ed., 1950, tr. into English as *Foundations of Economics*, London, 1960); Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution*. New Haven: Yale University Press, 1957. It must be noted that Röpke is attacking Werner Sombart in the quoted passage. In *Catholicisn, Protestantism and Capitalism*, Fanfini relies on Sombart's history of capitalism. Sombart's bizarre view of capitalism (for example, that the natural state of man is warfare, as opposed to the "base trading of the merchants," for which Mises and Rothbard refer to him as "that Nazi philosopher"), however, has no bearing on Fanfani's recounting of the writings of Aquinas and Bernardino.

> Surplus wealth must be used to provide also for the needs of [one's] neighbour.[85]
>
> The fact that surplus must be devoted to the needs of the poor seems to rule out any principle of provision for the future and seams to condemn all saving. On this point Catholic doctrine has established a distinction. To work simply in order to save is unlawful. But for a man to work to provide for anticipated future needs, to expand his business so as to better his own position and profit his neighbor and his country, is most lawful, and this according to both old and modern formulations of Catholic thought, according to the Angelic Doctor and according to the reigning Pope.[86]

To use wealth to aid the poor does not mean giving money away to charity to the exclusion of putting money to productive use. As St. Thomas and the papal encyclicals on economics and social reform recognize, to use wealth to aid the poor includes using that wealth to create more wealth for all. Without first having created a business empire, Tom Monaghan could not have sold his interest in Domino's Pizza, nor could he have donated $50 million to establish Ave Maria law school.[87] At times, the neoconservatives appear precisely in fear of growing too rich.

What the neoconservatives ignore is the fact that the only solution to poverty is to create more wealth. In this regard, Mises writes that

> Critics level two charges against capitalism: First, they say that the possession of a motor car, a television set and a refrigerator does not make a man happy. Second, they add, that there are still people who own none of these gadgets. Both propositions are correct, but they do not cast blame upon the capitalistic system of social cooperation.

---

85 Fanfani, 136, citing Fanfani, *Le origini*, Chaps. I and IV; *Rerum Novarum; Quadragesimo Anno*.

86 Fanfani, 136, citing St. Thomas Aquinas, *Summa Theologica*, II-II, q. 78, art. 4; Pius XI, *Quadragesimo Anno*. "On the medieval theologians, cf. A. Fanfani, *Le origini della spirito capitalistic in Italia*. Milan: S.E. "Vita e Pensiero," 1933, pp. 22-3, 116-7, 125-6.

87 Peggy Walsh-Sarnecki, "Monaghan Spending Millions to Create Catholic Law School," *Detroit Free Press*, April 8, 1999. Available at http://www.ferris.edu/isar/bios/monaghan/monaghan.htm.

> People do not toil and trouble in order to attain perfect happiness, but in order to remove as much as possible some felt uneasiness and thus to become happier than they were before. A man who buys a television set thereby gives evidence to the effect that he thinks that the possession of this contrivance will increase his well-being and make him more content than he was without it. If it were otherwise, he would not have bought it. The task of the doctor is not to make the patient happy, but to remove his pain and put him in better shape for the main concern of every living being, the fight against all factors pernicious to his life and ease.
>
> In may be true that there are among Buddhist mendicants, living on alms in dirt and penury, some who feel perfectly happy and do not envy and nabob. However, it is a fact that for the immense majority of people such a life would appear unbearable. To them the impulse toward ceaselessly aiming at the improvement of the external conditions of existence is inwrought. Who would presume to set an Asiatic beggar as an example to the average American? One of the most remarkable achievements of capitalism is the drop in infant mortality. Who wants to deny that this phenomenon has at least removed one of the causes of many people's unhappiness?
>
> No less absurd is the second reproach thrown upon capitalism – namely, that technological and therapeutical innovations does not benefit all people. Changes in human conditions are brought about by the pioneering of the most clever and most energetic men. They take the lead and the rest of mankind follows them little by little. The innovation is first a luxury of only a few people, until by degrees it comes into the reach of the many. It is not a sensible objection to the use of shoes or of forks that they spread only slowly and that even today millions do without them. The dainty ladies and gentlemen who first began to use soap were the harbingers of the big-scale production of soap for the common man. If those who have today the means to buy a television set were to abstain from the purchase because some people cannot afford it, they would not further, but hinder, the popularization of this contrivance.[88]

Here, Mises makes several points of great importance to the debate between neoconservatism and the Austrians. First, Mises refers to the notion of "demonstrated preference" in his example of the man who

---

88 Ludwig von Mises, *The Anti-Capitalistic Mentality*, 73. Mises also makes reference to "the inherent tendency of capitalism toward shortening the interval between the appearance of a new improvement and the moment its use becomes general."

buys a television. This idea is almost completely lacking in the neoconservative attempt to describe economic realities.

Second, Mises' point that people "do not toil and trouble in order to attain perfect happiness, but in order to remove as much as possible some felt uneasiness and thus to become happier than they were before" serves to illustrate the difference between work and the quest for salvation which is blurred by the neoconservatives. It is of course correct that whether Bill Gates goes to heaven will be determined by what he does on this earth, whether in Redmond, Washington or in Washington, D.C. But it is not true that Bill Gates was, or should have been, motivated in his creation of Windows by the desire to reach heaven. This is of course not to say that it would be moral or Christian of Gates to seek the ruin of souls by creating an inherently pornographic operating system (whatever such a thing might be). Instead, Windows serves to make life easier here on earth, both for the saintly and the sinful. It is difficult even to conceive how any sort of invention or technological advance might be developed solely for the purpose of aiding man in his journey to salvation. Instead, a sound understanding of economics realizes that man works and creates in order to better his life on earth, and that it necessarily remains a separate question of whether the moral nature of his life on earth will bring him to the Beatific Vision.

In this regard, Novak claims that prosperity is its own greatest danger. This is because poor people do not know how to be prosperous, according to Novak, and are therefore corrupted by the wealth produced in capitalist economies.[89] Such an objection, however, is utterly wrongheaded. If it is true that

---

89 Ludwig von Mises, *The Anti-Capitalistic mentality*, 73. Mises also makes reference to "the inherent tendency of capitalism toward shortening the interval between the appearance of a new improvement and the moment its use becomes general."

poor people are unable to properly behave whenever they become wealthy, then poverty is a moral dilemma to which there can be no solution. It must also be true in such a case that the moral corruption of the formerly blessed poor is not unique to capitalism, but is rather a necessary feature of any economic system which gives more wealth to the poor, such as socialism, or the social welfare programs advocated by Novak in the name of democratic capitalism. The dilemma, however, is a false one. The material aspects of human life have improved dramatically over time – from the unwashed, filthy conditions of cave dwellers to the antiseptic hospitals of the modern West. There is no evidence which can be offered for the claim that mankind has in the process become in any way more "morally corrupt" than at any time in the past. A comparison of the personal morals of the Clintons with the personal morals of the Roman emperors – Tiberius and Gaius (Caligula) in particular – should disabuse anyone of such a notion that prosperity must necessarily result in moral corruption.

The good idea which is implied by Novak and explicitly stated by Neuhaus (but inadequately articulated), is that "The Christian who is engaged in economics understands that he is responsible to the Ultimate Economist, who is none less than God."[90] Yet it remains difficult to apply this claim to economics with any special force. The doctor who ministers to patients must understand that he is responsible to the Ultimate Healer, and the priest who leads his parish must understand that he is responsible to the Ultimate Priest (if we wish to coin further names for God). Yet Neuhaus has made a moral and theological claim about human action which is of no practical value. It does not guide Christians in buying automobiles or

---

90 Neuhaus, 20.

sneakers. Unfortunately, then, despite its good intentions, Fr. Neuhaus' articulation of neoconservative economics collapses upon itself.

IV. Conclusion

It was the great achievement of Sts. Albertus Magnus and Thomas Aquinas that the Catholic faith was synthesized with the philosophy of Aristotle. A similar task remains for the synthesis of Catholic faith and economics. Furthermore, this synthesis should discard forever as grammatically unwise the label "Catholic economics." Fr. Joseph Owens, investigating whether there is such a thing as "Christian philosophy," suggests that "Christian philosophy" is philosophy that focuses upon questions of unique interest to Christians.[91] It would be intelligible, then, to speak of "Catholic economics" as economics that focuses on questions of unique interest to Catholics. An example is the work of Garrick Small investigating the relation between Australian fertility rates (which are heavily impacted by abortion and contraception) upon Australian real estate values, or an investigation of the impact of American foreign aid (which typically favors "population control," i.e. abortion and contraception) upon religious groups in recipient nations.[92] But the term "Catholic economics" should itself be discarded as imprudent. Much of what goes by the

---

91 Fr. Joseph Owens, C.Ss.R., "The Distinguishing Feature in Catholic Philosophy," in *Towards a Christian Philosophy*. Studies in Philosophy and the History of Philosophy, Vol. 2. General Ed., Jude P. Dougherty. Washington, DC: The Catholic University of American Press, 1990. Ch. 4. Originally published in *The Papin Gedenkschrift: Dimensions in the Human Religious Quest – Essays in Memory of Joseph Papin*. Ed. Joseph Armenti, Univ. Microfilms Int., Michigan (Vols. I-IV); 1986-1989.

92 Garrick Small, "Long Term Impacts of Fertility Restraint on Australian Investment Performance," presented at the 8th Annual Conference of the International Population and Family Association, Steubenville, Ohio, October 1997. Available at http://www.ozemail.com.au/#garricksmall/97PopEconomics.htm; "The Real Economics Problem of the Aging Population," *Australians for Population Justice Monitor* 3 (5) (1997).

name of Catholic "social teaching" today is tainted to the core by Marxism, socialism, and statism. It will be an easier task to undo this anti-intellectual and incorrect abuse of thought if defenders of the free market cast the debate in their own terms.

Novak, it should be noted, appears to remain committed to the project of his 1982 books, namely a "new synthesis" of "philosophy, law, anthrolopology, psychology, religion, and even art," and goes so far as to credit the Austrian School with first making "the humanistic turn in economics."[93] Yet Novak does not recognize the incompatibility of much of his own work with Austrian theory. In his article "Economics as Humanism," he writes that "there seems to be emerging in economics something like a universal science, a science of humans qua humans, in all our variety but also in certain invariant relations to human experience...It is the vocation of economics to help us be better women and men[.]"[94] A "universal science of humans qua humans" is not the object of the Austrian School of economics, it is the goal of philosophy or theology.

It is not clear what sort of synthesis Novak has in mind. Whether Novak wishes to put economics next to philosophy and theology as pillars of Western civilization, or whether he seeks a "universal science" which is a mish-mash of all human knowledge, remains unclear. In *The Spirit of Democratic Capitalism*, Novak articulates the need for a "theology of economics," and himself proceeds to sketch the outlines of such a synthesis.[95] Yet the limits of his own understanding of economics confine him to generally endorsing free markets and condemning the unthinking recitation of Scripture.[96] Fortunately, Novak himself appears

---

93 Novak, *First Things*, 76, October 1997, 18.
94 Ibid., 19.
95 Novak, *The Spirit of Democratic Capitalsim*, Chs. 14-20.
96 Ibid., 239-240; 335.

open to sound argumentation, and encourages the Catholic church to be receptive to a new understanding of economics: "The Catholic church has heretofore learned from the intellect of Greece and Rome, Germany and France. Why not also from America?"[97] One should instead ask "Why not also from Austria?"

In closing, what Novak and Neuhaus describe as a "Catholic" or "morality-based approach" to economics is not economics at all, but rather an ill-fated attempt to apply ethics to econoimcs, if not to mix the two disciplines outright. Christianity is not an economic theory. The real task of Christians and Catholics is to understand the natures of capitalism and socialism, and the crucial differences between these two economic systems. Neoconversatism commits the error of Karl Marx: it fails to explain how the "alternative" to laissez-faire capitalism is supposed to function. Pope John Paul II writes in *Centesimus Annus* that "Human ingenuity seems to be directed more toward limiting, suppressing, or destroying the sources of life – including recourse to abortion – that toward defending and opening up the possibilities of life."[98] Mises and the Austrians echo John Paul's observation. In the West today, where governments intervene in the market, and interfere in the free actions of human persons, human creativity and energy is wasted – at best – upon regulating, overseeing, micromanaging, and patronizing, instead of being left to grow and mature in the light of Christ, and at worst upon totalitarianism abroad and at home.

Christianity is the basis from which liberalism developed, and it is Christianity which places the highest value on each individual person. Liberal and free societies, in turn, are those societies where religion

---

97 Ibid., 249.

98 Pope John Paul II, *Centesimus Annus*. 1991. Paragraph 39. Reprinted in Neuhaus, 215, 298.

is seen to best flourish. Capitalism, with its basis in private property, is the only possible basis of a free society, and the only possible way for man to better his material condition in the world.