

The Moral Basis for Economic Liberty

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Abstract: *Today, those who defend free markets and capitalism often do so solely on managerial or technical grounds, but economic liberty needs a moral defense as well. Defense of economic liberty without reference to morality will ultimately prove injurious to liberty itself. Rightly understood, capitalism is simply the name for the economic component of the natural order of liberty. It means expansive ownership of property, fair and equal rules for all, economic security through prosperity, strict adherence to the boundaries of ownership, opportunity for charity, wise resource use, creativity, growth, development, prosperity, abundance. Most of all, it means the economic application of the principle that every human person has dignity and should have that dignity respected.*

In his widely discussed treatise *The End of History and the Last Man*,¹ Francis Fukuyama predicts that democratic capitalism has won out over its competitors and that it will soon be universally recognized as the most desirable organizational principle of society, economy, and politics. What is left to us in the 21st century, he suggests, falls largely under the rubrics of management: improving the administration of public policy, debating spending priorities, fine-tuning regulations, and sustaining an appropriate mix of liberty and equality that satisfies the most urgent demands of both. The big battles over ideas are over, Fukuyama argues. Capitalism is here to stay, and all that remains to be decided is how to make it run most efficiently.

Few would dispute that events of the government ought to have say over such matters in the first place. We might dispute a proposal to force private business to add another function to its list of mandated benefits

on grounds of cost, but not on grounds of the right and wrong uses of private enterprise.

Consider the opinions of men and women whose work affords opportunity for philosophical reflection on morality, the two most prominent being academics and ecclesiastics. How many among them can offer—or would even be willing to try—a moral defense of private property and free markets? A safe answer is precious few. And how can the institutions of liberty survive and flourish so long as the moral opinion-makers are so overwhelmingly sympathetic to only one side of the debate?

It is my contention that the loss of a normative defense of liberty introduces a certain instability into the social order. The “efficiency defense” of economic liberty is not enough, and management of a libertarian society without reference to morality will ultimately prove injurious to liberty itself. To ensure that free markets are preserved as much as possible

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by our public policies, as Samuel Gregg has argued, we must provide “a robust explanation of their moral value.”²

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cumulation, and contract enforcement—is not backed by a generally held set of norms by which it can be defended, it cannot be sustained over the long term. Into the moral vacuum left by capitalism’s defenders rush notions hostile to economic liberty, notions drawn largely from the values and vocabularies of interventionism and socialism.

Further, if a principled defense of markets based on the sanctity of private property and the virtue of voluntarism is absent from public life, it is very likely that the moral center of the buying public has begun to slip as well. In any market, the kinds of goods and services producers provide reflect the values of the consuming public. What consumers are willing to purchase will determine what kinds of goods and services are most prominent in the market.

That is both the virtue and the vice of the consumer sovereignty inherent in market transactions where the consumer is king. Where the values of the buying public are disordered, the products available in the market will be disordered as well. On the other hand, where a free people’s actions and preferences are informed by spiritual concerns, market activity and wealth accumulation present no danger in themselves.

But as Wilhelm Roepke has argued, institutional

¹ Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

² Samuel Gregg, “Economic Liberalism and Its Discontents,” *The Public Discourse*, November 13, 2009, at <http://www.thepublicdiscourse.com/2009/11/1013>.

virtue and public virtue are codependent.³ Societies that have a deep and unyielding respect for the sanctity of private property have traditionally fostered institutions that we associate with a vibrant social and cultural life: for example, intact families, savings and deferred gratification, cooperative social norms, and high standards of morality. Similarly, cultural decadence, family collapse, and widespread secularization have corresponded with statism and socialism more times than an essay of this length could name.

The link is more than suggestive; it is direct. Economic liberty needs a moral defense. This defense must start by making important distinctions between natural rights and government privileges, between natural and positive rights, and between societies which operate through voluntary exchange and collectives which operate through coercion.

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Most important, we must begin to rediscover the inherent relation between economic liberty and moral virtue and to see that they are mutually reinforcing. For, historically, the first thinkers who made the argument for free markets were rooted in the moral and religious tradition of Scholasticism. By thinking about economic liberty in this way, we will be able to see clearly the two alternatives we face today: namely, entrepreneurship versus the welfare state.

CRUCIAL DISTINCTIONS

Many of the confusions of our age rest on a loss of certain crucial distinctions. Therefore, we must begin by drawing a few important distinctions which will help us understand the connection between morality and economic liberty more adequately.

³ Wilhelm Roepke, *The Humane Economy* (South Bend, Ind.: Gateway, 1960).

Rights Versus Privileges

The most apparent distinction that we fail to make in contemporary politics is the distinction between rights and privileges. John Hospers, my philosophy professor at the University of Southern California, used to say we have undergone a “rights inflation.” As in a monetary inflation, the value of the common unit of measurement has been drastically watered down. For all the talk about rights, we lack a clear understanding of what constitutes meaningful rights.

Rights are the claims which the individual has against others. An example is the right to life, which is another way of saying that any one person has a just claim not to be injured by another. Rights represent more than a legal claim. In order for rights to be inalienable, as Jefferson proclaimed them to be, they must exist prior to and independent of any legal or institutional rules, such as the Bill of Rights. Laws and institutions may obfuscate, violate, or protect an individual’s rights, but they can neither grant nor remove rights. Rights, in order to be claims which are inalienable and fundamental, must exist independent of the coercive apparatus of the state. In order for rights to be all that we have just said, they must derive from the nature of the case, which is to say that the human person must possess rights by virtue of his or her very nature.

Many of today’s so-called rights have nothing to do with this older idea. Most often, they are the consequence of the political process, as if legislators and civil servants are capable of conferring immutable claims on groups. In the place of natural rights, which are possessed by human beings by virtue of their nature, we have substituted government-created and -granted rights, which are provided at the whim of the political process.

Furthermore, these government-created rights are often at odds with the natural rights that were defended by the American Founders. We may speak, for example, of the right to cosmetic surgery on demand at a low price. If we assert this right, we are implicitly denying the long-accepted right to the secu-

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rity of private property one has in one’s just earnings, that they not be taken by others through force, for the payment of cosmetic services rendered at a low price must be fulfilled by taking the property holdings of members of the general public. It is a right that contradicts other rights and thus cannot be considered a “natural” right, one that flows from our nature as acting human persons.

Government Versus Society and Commune Versus Collective

Another basic distinction is that which exists between a community or a society and a government or political order. A society may exist with or without a particular political arrangement. The Philippine society continued to exist despite the deposition of the Marcos political regime. Even a regime as brutal as that of Soviet Russia left behind a Russian society that has a legitimate claim to continuity with the pre-Soviet one.

Similarly, a community is distinct in that its members hold certain values, mores, customs, and culture in common, but it is not marked by legal recognition or coercive capacity. Yet today, the term “community” is often used to put a humanitarian gloss on what used to be called a political pressure group.

We can make a further distinction between commune and collective. By a commune I simply mean a group of people voluntarily associating in an organization where goods are shared. People can enjoy a life in common, sharing values, homes, property, and philosophy in common, without the requirement that it be held together by force or the threat of force. Collectives are something different in this taxonomy because they require coercion to enact and sustain, typically through legal and governmental means.

The family is the best example of the commune. Property is more or less held in common, and its distribution is handled not by the price system, but by a natural authority. That is why the family cannot be used as an appropriate metaphor for political organization, which relies on the distinctive traits of the state and its monopoly on the legal use of aggressive force.

These distinctions are not simply semantic; they go to the heart of defining the natural order of liberty. Individual rights, civil society, and voluntary community are all part of this order. Government-bestowed privileges, political order, and the state—the institutions with which these are usually conflated—are distinct from this natural order of liberty. They are not, of course, entirely separate, but it is essential to understand the difference so that rights do not turn to privileges and become self-devouring.

Further, our concept of community has degenerated into warring political interest groups. What is done by political means, particularly regarding the distribution of wealth, is confused with what should be done by social means.

To understand the difference requires recognizing the difference between a voluntary, freely chosen action and an action enforced by coercive edict. There is no need to enter the debate on what precisely constitutes a freely chosen act; the commonsense under-

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standing will suffice: A free act occurs in the absence of an aggressive use of force, coercion of the kind that can be exercised by both private criminals and public officials in their various capacities. A social and economic order dominated by a voluntary exchange matrix, the essence of the business economy, is a free social order.

On the other end of the spectrum is the social order dominated by networks of regulators, revenueurs, monetary managers, and state social workers. The most extreme form of the latter culminated in the socialist experiment in the Soviet Union and Eastern Europe. These societies were not free in the sense I use the term.

Most systems of government today represent a combination of these polar opposites, and much of modern political dialogue consists in conflating the two different philosophies. But that does not diminish their usefulness as ideal types—free versus controlled—especially in providing indicators of the appropriate direction of change.

THE INTERRELATIONSHIP BETWEEN FREEDOM AND VIRTUE

In the same way that economic liberty lacks a widely accepted moral defense, we are too casual about individual liberty. It is fashionable, of course, in many circles to defend personal liberties, even when these have been misnamed. The content of the singer's song or a writer's text is often denounced and even censored, but the broadly defined right of free speech is rarely objected to in principle. But when it comes to the right of traders to trade what they wish, how they wish, and buyers to buy what they wish in a manner they think right and proper, many people see this as another matter altogether.

The objections mount if we speak of the right of businessmen to make as much money as they wish and to accumulate wealth to any extent they wish. Far from being a human right, it is considered to be a right of society to tax them and redistribute their earnings. The degree of vehemence directed at wealth is sometimes qualified by the nature and source of one's earnings. For instance, a wealthy physician is sometimes seen as less objectionable than a wealthy stock trader.

Nonetheless, the connection between economic and personal liberty should be clarified. It matters little to writers to be told they have the right to write what

they wish if they are not permitted to buy a typewriter or computer, or if they do not have the right to sell their works to anyone who will buy them. Likewise, the freedom to exchange information and to promote one's talents—which is in essence what advertising is and, for that matter, what trading itself is—displays the connection between the personal and the economic.

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The curtailment of economic liberty leads easily to a curtailment of personal liberty in much the same way that the enhancement of economic liberty may lead to the enhancement of personal liberty, as Milton Friedman argued.⁴ Indeed, a cogent argument can be put forth making the case that a significant reason for the rapid collapse of Communism in Eastern Europe had to do with the progress made in economic liberty via communications technology. Computers have made the exchange of information easier, and economic progress became dependent in part on the exchange of information. This made it considerably more difficult for totalitarian regimes to effectively control other means of information, such as political ideas and dissenting opinions.

Rightly understood, personal liberty is also tied to the freedom to act based on religious and moral conviction and for those convictions to take on a social dimension. No civilization in history has survived or flourished without a religious foundation. Nor have great classical liberal thinkers neglected the spiritual dimension of man. From the writings of the late Scholastics to 18th century British economists, they have always discovered a linkage between faith and freedom.

It is an unfortunate consequence of the growing secularism of our time that “religion” and “oppression” are two words somehow linked in the public mind. The authentic expression of religious values and high moral principles requires that political oppression be minimized. As F. A. Hayek said:

Freedom is the matrix required for the growth of moral values—indeed not merely one value among many but the source of all values.... It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit.⁵

The term “values” assumes many meanings within the modern political context. Although the word has normative overtones, its technical meaning is simply a ranking, suggesting a subjective preference revealed in thought or action with no inherent moral content. What Hayek is suggesting, however, is that good choices and rightly ordered values can have a transcendent meaning only if freely chosen. Liberty is the source of all values because values cannot have concrete meaning in the absence of the freedom to demonstrate them in action. One's values cannot be measured if one's actions are coerced, because there is no way of determining whether that person's choice is a reflection of what he values.

Personal values will always be diverse, in both economics and personal morality. They are variously acquired on the basis of philosophy, family, culture, religion, personal preference, and the like. What we need is a political and economic system that allows for the free exercise of those values in a manner not inconsistent with the equal right of others to pursue theirs.

Forcing one view of proper values through political means has the consequence of purging the moral

⁴ Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

⁵ F. A. Hayek, “The Moral Element in Free Enterprise,” in *The Spiritual and Moral Significance of Free Exercise* (New York: National Association of Manufacturers, 1961), pp. 26–27.

substance of goodness. Can a person be said to be noble or heroic if his or her action was not a freely chosen action that displayed either nobility or heroism? Hayek's phrase "earn moral merit" is particularly appropriate, because no heroic act is considered as such if compelled by a third party. In short, in the absence of liberty, virtue or good action is extraordinarily difficult.

It is, of course, possible and even praiseworthy for people to make moral choices under coercion as an act of resistance, as a martyr accepts death rather than moral compromise. It would, however, be absurd to hold the ethics of resistance as a guidepost to the right ordering of public life.

Only human beings with volition can be said to be moral, and in order to act in a moral way, one must have liberty.

The relevant question is whether virtue itself can be the product of force. In the authentic sense, it cannot. When freedom is absent from the context of ideals like morality, nobility, compassion, or heroism, the result is to strip the action of its meritorious component. A morality that is not chosen is no morality at all. Only human beings with volition can be said to be moral, and in order to act in a moral way, one must have liberty. Liberty is not so much a virtue by definition, but the essential social condition which makes virtue possible.

Considered another way, a close connection exists between the spiritual and physical. These two aspects of the human character are what make up the human reality: Human beings are flesh and spirit. We are not like angels, who have no bodies; we are not like beasts, who have no conscience. Animals are bound by instinct; humans are related to things by reason because we are self-reflecting. It is the rational relationship between the human person and nature that gives rise to the desire to assume dominion over the resources given to us by God in the world and to transform

them as God transformed nothingness into the physical world at the creation (*ex nihilo*). Liberty, therefore, is a product of our unique capacity to reason, which sets us apart from beasts but which also calls upon us to exercise our judgment responsibly.

What, then, is the appropriate and legitimate use of coercion in social intercourse? It is widely understood that individual physical aggression against person or property is wrong. Difficulties arise, however, when the same moral criterion is extended to society at large.

Despite conventional wisdom, an act that is wrong does not become right simply because it is performed at the political level by the state. Physical violence against person or property should not be used as an act of aggression in any context; physical violence may, however, be used in defense, particularly in defense of the rights of person and property, to enforce restitution for crimes committed, and to satisfy the demands of justice (classically defined as giving to each his due). Everything else in life is best left to the noncoercive sphere where additional and effective norms apply.

All of this flows from the principle that voluntary action is more suited to moral action than coercion. Lord Acton offered this succinct expression of this view of politics: "Liberty is not a means to a higher political end. It is itself the highest political end."⁶ Lord Acton did not argue that personal liberty is itself the highest end of man, which would be a kind of hedonism. The kind of liberty Acton is upholding is not unrestricted. We are not speaking about free love or free thought. His emphasis is on the political, the sphere in which the distinguishing feature is the legal use of aggressive force.

Insofar as we concern ourselves with the proper function of the state, Acton's dictum is correct. Rights are best protected by strictly limiting the state's pow-

⁶ Lord John Acton, "The History of Freedom in Antiquity," in J. Rufus Fears, ed., *Selected Writings of Lord Acton* (Indianapolis, Ind.: Liberty Fund, 2002), Vol. 1, p. 22.

er to use aggressive force. When the state is used for wealth redistribution, unjust wars, inflation, and confiscatory economic regulation, the state comes up against Acton's dictum about the political order: Its primary purpose is the advancement of liberty. Beyond that, the promotion of virtue is best left to the natural order of liberty, meaning church, family, community, and tradition.

Authority and Free Markets: The Middle Ground Between Lawlessness and Absolute Power

In the same sense that upholding freedom is not sanctioning moral license, neither is liberty inconsistent with rightly exercised authority. "Authority," writes Robert Nisbet, "is rooted in the statutes, functions, and allegiances which are the components of any association. Authority, like power, is a form of constraint, but, unlike power, is based ultimately upon consent of those under it; that is, it is unconditional."⁷ It is often thought that the opposite of power is antinomianism, as if anarchy reigns where the state does not interfere. This supposes that where there is no coercive power over human beings, they will not conform their actions to law or principle. Nisbet is suggesting that a middle ground exists between lawlessness and power: namely, the structures of authority offered under liberty.

Contrary to conventional wisdom, authority is found in the free market, which both produces prosperity and serves as a moral tutor for entrepreneurs. The facts of scarcity, human frailty, and original sin are existential realities from which only the Kingdom of God can ultimately deliver the human race. Freedom can make no such claim, but what freedom *can* do (indeed, what history attests the freedom of exchange has done with remarkable proficiency) is to maximize human resources to their fullest, to the greatest benefit of humankind.

As most entrepreneurs realize, the free market functions as a moral tutor by fostering rule-keeping, honesty, respect for others, and bravery. Markets and the entrepreneurs who enable the market to function do this because they require, in the first place, a certain moral context in which to exist and function smoothly. Firms cannot long exist without a reputation for honesty, quality workmanship, and, in most cases, civility and politeness. Given the fact that a free market depends on voluntary exchange to operate, if some of the virtues are lacking, consumers are the best judge of when to end the relationship.

In fact, the practical intelligence of the market is its most obvious virtue. It can be seen both by the consumer looking for a good deal and by the business person who must be other-regarding by tending to the needs and desires of the consumer. In this respect, the system in which the entrepreneur must operate requires and promotes altruistic behavior, as George Gilder has argued.⁸

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In the promotion of traditions, manners, ethics, and virtue, voluntary institutions are more trustworthy than the state, and more effective as well. These matters are too important to be entrusted to bureaucrats and politicians. The opposition here is not to social authority but to coercive power, especially when it becomes centralized. What Nisbet calls intermediary institutions, social arrangements of authority that provide a buffer between the individual and the state, are critically important.

In the development and flourishing of these institutions, private property—in the means of pro-

⁷ Robert Nisbet, *The Quest for Community: A Study in the Ethics and Order of Freedom* (San Francisco: ICS Press, 1990), p. xxvi.

⁸ George Gilder, *Spirit of Enterprise* (New York: Simon and Schuster, 1984).

duction, distribution, and exchange—is a necessary foundation, but private property and wealth do not exist in a state of nature. They require a government to establish and enforce basic rules. They come about when people decide that the creation of a civilized community requires some agreement about what is mine and what is thine. It is not enough to wander from place to place and take from others as the moment calls for; there must be rules of who

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owns what and what the terms of agreement and exchange will be. The defense of the right of property ownership should be seen as the defense not of detached material objects in themselves, but of the dignity, liberty, and very nature of the human person. The right to own and control justly acquired property is an extension and exercise of authentic human rights.

RELIGION AND LIBERTY

We must recognize the importance of religion to the preservation and defense of economic liberty. Religion has been central in human history in providing a higher moral reference point to which human beings conform their behavior. Furthermore, religion's role in laying the groundwork for economic liberty is not often appreciated.

The religious tradition to which I refer defended the importance and dignity of the individual, as well as the family as a voluntary means of providing for the needs of the community. More specifically, the idea of liberty and free-market economics was developed within the medieval religious tradition, through the late Scholastics who were heavily indebted to Thomas Aquinas's teaching on the natural law. In sum, religion gave us the ideas of morality, natural law, individual dignity, and free-market economics that serve as the basis for eco-

nomics liberty. Rather than attacking those foundations, religion is a necessary support for economic liberty.

No society could be held together very long without some kind of higher reference point, lest individuals find themselves vulnerable to the excesses of the stronger against the weaker. We find in the Jews the rudimentary notion that a high morality is a prerequisite for ordered liberty to flourish. When we look back two thousand years to the center of the civilized world, we observe how those seeds sprouted in the Christian idea.

From the Christian perspective, the most important events in human history are the incarnation, death, and resurrection of Jesus Christ. These events represent a deepening appreciation in human consciousness of the sacredness of the individual. They happen, after all, to an individual and for other individuals. In the last analysis, the purpose of Christ's appearance in human history is to redeem concrete human beings, not abstractions.

The Christian message employs the model of the family, not the state, as the ideal human community. It emphasizes love rather than power as the distinguishing mark of the true believer and the binding force of the community. As Alexander Ruestow observes, "in its doctrine of immortality and of the infinite worth of each human being as a child of God" and "in placing

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every individual human soul in direct relation to God," Christianity furnished "a strong counterweight to its other components of restraint and conscience." It was this that gave rise to antidomination tendencies and forms the "roots of individualism and liberalism."⁹

⁹ Alexander Ruestow, *Freedom and Domination* (Princeton, N.J.: Princeton University Press, 1980), p. 250.

***Medieval Economic Thought:
A Prelude to Free-Market Economics***

Saint Thomas Aquinas brought the mightiest mind of the Middle Ages to bear on the question of human rights and liberty. By synthesizing Aristotle with Christianity, Saint Thomas developed the theory of natural law, which he described in the following manner:

Now, among, all others, the rational creature is subject to Divine providence in the most excellent way, in so far as it partakes of a share of providence, by being provident both for itself and for others. Wherefore it has a share of the Eternal Reason, whereby it has a natural inclination to its proper act and end; and this participation of the eternal law in the rational creature is called natural law.¹⁰

Regarding the impact of natural law on human law, Thomas says: Consequently, every human law has just so much of the nature of law, as it is derived from the law of nature.¹¹

The resiliency of natural law throughout the centuries is seen in the name of the endeavor. Natural law is resilient because it accounts for and makes sense of reality. The coherence of natural law is twofold: It coheres with experience and with reason. It establishes a reference point, as did the Law and the Prophets for the Jews, outside of institutional dictate. And most important for the development of liberty, and especially economic liberty, it establishes the sanctity of the individual as a rational being who can interpret the relationship between the individual and the community in terms of free association and contract.

Emerging from this concept of human beings as free persons, autonomous yet in relation to one another, the disciples of Saint Thomas went on to apply their moral theory and deductive methodology to the realm of economics. In a systematic sense, these

scholars, the late Scholastics, founded the discipline of economics long before the time of Adam Smith.¹² In his massive treatise on the history of economic thought, Joseph Schumpeter writes that “it is within their system of moral theology and the law that economics gained definite if not separate existence, and it is they who come nearer than does any other group to having been the ‘founders’ of scientific economics.”¹³

A comparison of the thinking of many of these medieval Scholastics on economic liberty with modern free-market proponents reveals an astonishing harmony.¹⁴ The similarities begin at the justification of property and exchange, continue through the analysis of value and economic growth, and extend all the way to money, banking, and the theory of interest rates. Even the analysis of taxation and regulation bears a striking similarity, given the many centuries that separate modern free-market thought from these disciples of Saint Thomas.

Natural law establishes the sanctity of the individual as a rational being who can interpret the relationship between the individual and the community in terms of free association and contract.

Unlike more positivist schools of economic thought, these approaches emphasize the centrality of the acting person; the subjective will, and all that this implies, is the driving force behind economic life. The intellectual tradition beginning in Scholasticism ran through the Late Scholastics and was recovered in late-19th century Vienna and the Austrian School of economics. This tradition was reintegrated into modern Catholic social teaching by Pope John Paul II.

¹² See Alejandro Chafuen, *Christians for Freedom: Late Scholastic Economics* (San Francisco: Ignatius Press, 1986).

¹³ Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 97.

¹⁴ Chafuen, *Christians for Freedom*.

¹⁰ *Summa*, I-II, q. 90, art. 2.

¹¹ *Summa*, I-II, q. 95, art. 2.

In particular, the “personalism” in Late Scholastic economic thought was central to the Austrian School. The personalism of the Late Scholastics argued that the way to understand economics was by reflecting on the preferences, purposes, outlook, and intentions of economic actors themselves rather than the things that the economy produced.

Beginning with Saint Thomas, Scholastic economic thought became progressively liberal and refined, culminating in the 16th century School of Salamanca in Spain. First, the Franciscan San Bernardino of Siena raised the status of businessmen to a higher moral plateau, rejecting the idea that business was intrinsically immoral. Later, Thomas De Vio, Cardinal Cajetan articulated new theories of monetary theory that would be central to a free market. Francisco de Vitoria, the founder of Salamancan economics, contributed the idea that the “just price” was the common market price, furthering the argument that the value of a thing was influenced by the preferences of economic actors. Finally, Domingo de Soto affirmed that a man can “donate or transfer the things he legally owns in any way he wants” as a matter of “natural right.”

In all, the School of Salamanca phenomenon represents a major episode in the history of economic thought, which deserves closer study today. The link between the Late Scholastics and the late-19th century Austrian School is the theory of economic value. The value of any good or service, by implication, resides not in the objective qualities of the good itself, but rather in how people personally regard the good. That is, economic value derives from individual impressions and intentions and is ultimately subjective. This necessarily precludes the idea that outside parties, including governments, can better impose prices and plans than those intended by individual economic actors themselves.

The Church's Contemporary View of Economics

These arguments, to repeat, have been renewed by the modern Catholic view of economics. For example,

Centesimus Annus, written by Pope John Paul II, recaptures the Scholastic economic tradition for modern Christians.

Exactly what the Pope’s economic influences were in preparing the encyclical are impossible to determine. Prior to the promulgation of the document, the Vatican met with a series of mainstream Western economists, among them Kenneth Arrow, Hirofumi Uzawa, Anthony Atkinson, Jeffrey Sachs, Hendrick Houthakker, Amartya Sen, Robert Lucas, and Edmund Malinvaud. But their influence is far less evident than the schools representing a more explicitly free-market brand of economic thought: for example, the monetarist, supply-side, public choice, and Austrian schools of modern economics.

In general, these latter schools argue that the free-market economy is a process of discovery that carefully balances the scarcity of the world’s resources with unlimited demands of consumers and that the free-market mechanism is superior to any alternative in performing this task. They regard the pursuit of private interest, in the context of freedom of contract and private property, as serving both individual good and the good of society as a whole; as a corollary, they do not overlook the private interests of individuals in the state sector and regard them as largely destructive social forces. The allocation of resources, they argue, should be taken care of by the price system because it is more reliable than government macroeconomic management.

Centesimus Annus echoes these themes in many passages. The occasion of the encyclical was the 100th anniversary of *Rerum Novarum*, but the collapse of socialist central planning in Eastern Europe—what Pope John Paul II calls the “events of 1989”—is also placed at the center of the document.

A profound understanding of the importance of the division of labor is present in the encyclical. The Pope points out that “goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working towards a common goal.” To coordinate the divi-

sion of labor requires “initiative and entrepreneurial ability.”¹⁵ He correctly says that, while not everything man needs is provided through economics, “the free market is the most efficient instrument for utilizing resources and effectively responding to needs.”¹⁶

The word “profit” is not used derisively in the Pope’s text:

The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied.¹⁷

He has recognized the distinctively human part of the calculation process and the glory of markets in that they can both satisfy individual interest as well as that of the entire community. The profit is a measure of that satisfaction.

On the development of the Third World, he especially calls for a “breakdown” of “barriers of monopolies which leave so many countries on the margins of development,” thus correctly realizing the primary problem of less-developed countries. He asks:

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 which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?

The Pope says yes, if by capitalism we mean “an economic system which recognizes the fundamental

¹⁵ *Encyclical Letter Centesimus Annus of the Supreme Pontiff John Paul II on the Hundredth Anniversary of Rerum Novarum*, 1991, para. 32.

¹⁶ *Ibid.*, para. 34.

¹⁷ *Ibid.*, para. 35.

and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector.”¹⁸

The religious concept of God’s creation of the human family in his own image, and hence with an intrinsic dignity, has made a significant contribution to the modern understanding of the limitations of power in social and political relationships and the need for human beings to enjoy legitimate autonomy. Political and economic liberty is misunderstood, however, if it is seen as resulting in a completely secularized and libertine society or if it entails the notion that citizens animated by religious ideals may not be permitted to have an impact on their communities. Political liberty does not demand theological or moral relativism. It merely guarantees that moral and religious ends are not achieved by political means: that is, that they are not coerced by the state.

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The process of extracting the church from the direct responsibility of ordering the political arrangements of each country to a religious end has been a long and arduous one, and it is not completely finished. John Courtney Murray, the American Jesuit whose work on religious liberty and American pluralism contributed greatly to the historic shift in the Catholic Church’s understanding of religious freedom as a human right, said, “in all honesty it must be admitted that the church is late in acknowledging the validity of the principle.”¹⁹

Yet through Murray’s work, the theme of toleration is picked up in *Dignitatis Humanae*, the Vatican II

¹⁸ *Ibid.*, para. 42.

¹⁹ John Courtney Murray, “Contemporary Orientation of Catholic Thought on Church and State in the Light of History,” *Theological Studies*, Vol. X (June 1949), p. 181.

document on religious liberty, which outlines a legitimate sphere of political liberty without compromising the truth-claims of the Christian faith. The document draws the following distinction:

[T]his sacred Synod likewise professes its belief that it is upon the human conscience that these obligations [to seek truth] fall and exert their binding force. The truth cannot impose itself except by virtue of its own truth, as it makes its entrance into the mind at once quietly and with power.²⁰

The current Pope—Pope Benedict XVI—further this movement within the Church. In his much-anticipated third encyclical, *Caritas in Veritate* (Love in Truth), Pope Benedict XVI does not focus on specific systems of economics. He is not attempting to shore up anyone’s political agenda. He is rather concerned with morality and the theological foundation of culture. The context is, of course, a global economic crisis: a crisis that has taken place in a moral vacuum, where the love of truth has been abandoned in favor of a crude materialism. Yet his encyclical contains no talk of seeking a third way between markets and socialism. Words like “greed” and “capitalism” make no appearance here. People seeking a blueprint for the political restructuring of the world economy won’t find it here.

He constantly returns to two practical applications of the principle of truth in charity. First, this principle takes us beyond earthly demands of justice, defined by rights and duties, and introduces essential moral priorities of generosity, mercy, and communion—priorities which provide salvific and theological value. Second, truth in charity is always focused on the common good, defined as an extension of the good of individuals who live in society and have broad social responsibilities. Several commentators have wor-

ried about his frequent calls for wealth redistribution. Benedict does see a role for the state here, but much of the needed redistribution is the result of every voluntary and mutually beneficial exchange.

This encyclical is a theological version of his predecessor’s more philosophical effort to anchor the free economy’s ethical foundation. Much of it stands squarely within a long tradition of writings of a certain “classical liberal” tradition, one centered on the moral foundation of economics, from Saint Thomas Aquinas and his disciples, Frederic Bastiat in the 19th century, Wilhelm Roepke, and even the secular F. A. Hayek in the 20th century. It also clearly resonates with some European Christian democratic thought.

Religion and Centrally Planned Socialism

Perhaps the greatest example of an organized political system of intolerance that both religious and secular societies have had to endure was that of centrally planned socialism, but this should not surprise us. It is consistent for a regime which believes it can plan the entire economy, which means to dictate the economic decisions of every citizen, to find little room

Many factors went into the astounding and rapid demise of Communism, but it would be an oversight to neglect the role of religion in finally undermining the illegitimate authority the state had claimed for itself.

in society for religious freedom. By attempting to own and control private property and to suppress religious and political expression and the freedom of association, the totalitarian rulers of Central and Eastern Europe in the late 20th century hoped to produce a society sanitized of any reference to God, or at least a God which transcended the pronouncements of the political ruler.

Certainly, many factors went into the astounding and rapid demise of Communism, but it would be an oversight to neglect the role of religion—Catholic,

²⁰ Documents of the Second Vatican Council, *Declaration on Religious Freedom (Dignitatis Humanae)*, para. 1.

Protestant, and Jewish—in finally undermining the illegitimate authority the state had claimed for itself. It would also be an oversight to neglect the role of religion in providing a secure moral foundation for freedom so that liberty may be used properly and defended in moral terms. The contributions of religion to the development of the free society and the further implications for our future understanding of political liberty have only begun to be explored.

ENTREPRENEURSHIP VERSUS THE WELFARE STATE

Having defined the terms of the debate in the first part of this essay, defended the idea that freedom is an essential condition for the exercise of virtue in the second part, and traced the religious foundations of liberty in the third part, a discussion of two contemporary ideas should help to clarify the principles of liberty. Those ideas are entrepreneurship, which rests on voluntarism and creativity, and the welfare state, which rests on state interventionism. The current moral terminology used to discuss and evaluate the two institutions is gravely deficient and in need of radical corrections.

The experience of totalitarian societies has taught us the need to be wary of the power of the state and to be more tolerant of what is often called “diversity.” The word “diversity” also implies a recognition that there are differences between people. While we may all labor under the same rules, the kind of work we do and what we produce will differ according to our different temperaments and talents. In economic thought, the resulting matrix of individual differences is called the division of labor.

It is an unfortunate holdover of old socialist notions that the religious community is not yet entirely comfortable with the concept of the division of labor. Religious leaders are not prepared to grant that all economic actors can also be moral beings. The capitalist is not given the same moral status as the laborer, for example. The person who lives off investment income is not considered as morally upright as the wage earn-

er. And the replacement worker is not considered as virtuous as the striker.

Yet all of this is confusion. If a person is using his or her talents in a peaceful manner, if an assumed position in the division of labor does not conflict with moral teaching, there is no reason to condemn any occupation. In the free market, all persons occupy a position in the economy according to particular individuals’ strengths, and all can use their respective positions for good or ill.

With few exceptions, the religious establishment views entrepreneurs (people whose profession requires risking scarce capital in markets to create future goods and services) as one of the least favored groups in society. One sees evidence of the prejudice against the entrepreneur everywhere. Books, television programs,

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films, cartoon strips, and sermons all convey the same message: What he does is rapacious, greedy, and socially destructive. Business may be a necessary evil, says reigning opinion, but the entrepreneur should never be given a moral sanction. That is conventional wisdom as proclaimed by the opinion-molding classes.

This fundamentally reflects a bias against capitalism and has spiritual consequences. As a priest, I often find entrepreneurs who are disenfranchised and alienated from their churches. All they hear from their churches is that the path to personal redemption is to give up all their money. But religious leaders display very little understanding of the vocation called entrepreneurship, of what it requires in the way of personal sacrifice, and of what it contributes to society. In virtually all the seminaries with which I am acquainted, there is no course on economics, which, unfortunately, has not kept religious leaders from pronouncing on economic matters.

In addition, the lack of understanding most often comes from people who operate from a distributivist economic model. On Sunday morning, a collection basket is passed. On Monday, the bills are paid and acts of charity are attended to. If the money is short, they appeal for more. There is nothing wrong with this model, but it tends to foster a view of the economic world as a pie that needs to be divided. Those who take a large piece are forcing small pieces on others.

The entrepreneur operates on an entirely different model. He or she talks of making money, not collecting it; of producing, expanding, not redistributing, wealth. He or she must consider the needs, wants, and desires of consumers, because the only way to get money peacefully and without charity is to offer something of value in exchange.

A more proper economic analysis teaches that entrepreneurs are impresarios, visionaries who organize numerous factors, take risks, and bring resources into connection with each other to create something greater than the sum of the parts. They drive the economy forward by anticipating the wishes of the public and even creating new ways of organizing resources.²¹ They are the men and women who create jobs, reduce human suffering, discover and apply new cures, bring food to those without, and help dreams become realities.

This creative aspect of the entrepreneur is akin to God's creative activity as it appears in the book of Genesis, as Michael Novak has argued. In order to carry out this creative enterprise, entrepreneurs must have access to the material factors of production; they must be permitted to acquire and trade property. They must act in an atmosphere of freedom. They should not have to suffer slights from religious leaders who do not approve of the talents and gifts that God has given them.

Does this elevate the entrepreneurial technique above the spiritual dimension of man? Not at all. As

Etienne Gilson put it, "technique is that without which the most fervent piety is powerless to make use of nature for God's sake."²²

Entrepreneurship is an institution that grows organically from the natural order of liberty.

What is ultimately extraordinary about the institution of entrepreneurship is that it requires no third-party intervention to make it come into being and thrive. It requires no government program or government manuals. It does not require even special low-interest loans, special tax treatment, or public subsidies. It does not even require a specialized education or prestigious degree. Entrepreneurship is an institution that grows organically from the natural order of liberty. Those with talent, even the calling, toward economic creativity are compelled by nature to enter it and lead society in the creation of wealth.

What does this call mean to those in the vocation of enterprise? It means that they must strive to be more fully what they are; to display more fully the virtue of inventiveness; to act more boldly with the virtue of creativity; to continue to be other-regarding as they anticipate market demands, as they develop in themselves and school others in the virtue of thrift. They should not merely share their wealth with those in need, but also act as tutors to others by example and mentorship. They must teach others to become independent and to produce wealth themselves.

Truly, the gifts that entrepreneurs offer society at large are beyond anything they themselves and others can completely comprehend. The entrepreneur is the source of more social and spiritual good than is recognized. In contrast, the welfare state is too often thought of in morally favorable terms, but its social consequences, however well-intended, can be largely damaging.

²¹ See Joseph Schumpeter, *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1949).

²² Etienne Gilson, "L'intelligence au service du Christ-Roi," in *Christianisme et Philosophie* (Paris, 1936), pp. 155–156.

For decades, the “provider state” has been thought to be an effective compromise between the oppression of full-blown socialism and the alleged uncertainties and rigors of free markets. This provider state offers a variety of extra-market provisions of goods and services. Today, many people of many different political stripes agree that the present welfare system does not work. The consensus for radical reform is growing. Yet public representatives of religious bodies and institutions have proved largely unable to adjust to the modern realities of the social welfare state. Sincere and well-thought-out plans to change the incentives of a program or cut government welfare spending—even when it would thereby leave more money for private charity—are often denounced as lacking compassion and even being ill-intended.

The moral high ground on this question is occupied entirely by defenders of welfare redistribution—on the fairly crude premise that Christian charity and coercive wealth transfers are morally identical. Of course Christians have a moral obligation to minister to the poor, for what we do to the least of Christ’s brethren we do to Christ Himself. Church leaders, however, have too often conflated Christian duty to help the poor with a supposed moral duty to support the trillion-dollar enterprise we call the welfare state.

Far from ameliorating poverty, many of these programs have the perverse effect of further subsidizing the initial conditions of eligibility, whether single motherhood, poverty, homelessness, or joblessness. Thus, they create and further the conditions they profess to cure. They foster a debilitating sense of dependence.

Religious traditions have always stressed the centrality of the family, yet there is no more effective an opponent of marriage and the family than a government bureaucracy that provides financial incentives against getting married and establishing a family. In many cases, the welfare state has decreased the sense of marital obligation and eroded the values that sustain families. When the state provides for the old and

the young, it takes away moral responsibilities from people in the prime of their lives to administer charity to family. Without such responsibilities, people can too easily fall into consumerism, precisely the condition anti-capitalists profess to oppose.

When religious people think about poverty, it is too often in materialist terms. Yet the problem of poverty is not so much one of poor people getting material assistance. It is a problem of establishing human bonding. Marvin Olasky, in his challenging book *The Tragedy of American Compassion*, reminds us that compassion means to suffer with another.²³ Bureaucratize compassion, and it becomes simply giving to another, and that tends to create depersonalized dependence. What we need instead is a greater sense of bonding

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with those who are in need. In this way, we provide role models and incentives for those who want to find their way out of economic deprivation.

Some say that economic redistributionism is a matter of social justice, but if all social relations are based merely on a state-enforced vision of justice, the virtues of love and compassion lose their meaning. Charity is supposed to represent obedience to the dictates of conscience; its character changes when it disintegrates into simple obedience to government agencies.

There are other dangers that priests, rabbis, and ministers face in promoting the government as the resource of first resort. They reduce the incentive of people in the pews to become personally involved in needed projects. People in the pews might think: “Why do I need to get involved in helping people who are suffering, feeding the poor, or caring for my neighbor?”

²³ Marvin Olasky, *The Tragedy of American Compassion* (Washington, D.C.: Regnery Gateway, 1992).

There is nothing wrong with churches involving themselves in political activities, and, indeed, sometimes religious people must enter political battles out of moral obligation. But the church's mission should not be relegated to the role of lobbyist; that deprives the church of the spiritual nourishment that comes with actually performing acts of mercy. Political activity also implies a moral obligation to be informed about economics and the consequences of certain kinds of statist policies.

We must wisely consider the most appropriate ways in which our obligations to the poor are carried out. From the earliest Christian reflection on aid to those in need, this obligation was never an unconditional one. While Saint Paul encouraged the early Christian community to remember those in need, he was also prudent and realistic. "If a man does not work," he said, "neither let him eat."²⁴ Christianity insists on love as a fundamental virtue, but it never advanced the notion that we must subsidize those who can be, but refuse to be, responsible for their own lives.

The modern welfare state is simply incapable of making the kinds of distinctions that Saint Paul insists are necessary in administering charity. The centralized state, by its nature, administers programs on the assumption that people are identical and can be shaped according to an inflexible central plan. Private charity may not be able to do all the work that is necessary, but where and when it is allowed to work, it does a better job than the public sector. It is also based on the principle of voluntary action as opposed to state coercion, which gives it a morally superior status.

In *Centesimus Annus*, Pope John Paul II expressed reservations about the welfare state, especially the modern one which tries to provide cradle-to-grave public support. "Malfunctions and defects in the Social Assistance State are the result of an inadequate understanding of the tasks proper to the State," he writes. The alternative principle he advances is the notion of subsidiarity: "a community of a higher order should

not interfere in the internal life of a community of a lower order, depriving the latter of its functions."²⁵

Americans are mostly unfamiliar with the term, much less the substance of the principle of, subsidiarity. Europeans know it well, but in the context of the debate surrounding the power of the European Union. In that debate, the subsidiarity principle is supposed to serve as public reassurance that the new European government in Brussels will not interfere in the affairs of other states when it is not necessary. (It has taken on special meaning with regard to central banking and monetary policy.)

The downside of viewing the term in this context is the implication that subsidiarity is about relations between different levels of government. This is far

No one group of planners can see the deepest needs of the human soul, which are so frequently at the root of economic problems.

from the case. It is instead about relations between all spheres of life. The first units in society are individuals. They own property, and they form families. These families form communities, and communities group together in localities. The circles of authority expand to the state, the region, and the nation. Each circle has its own form of government.

The subsidiarity principle tells us that lower orders ought to perform social functions when they can. Only when failure is evident and it has been thoroughly established that shifting to higher orders would result in an actual improvement should functions undergo a transfer. The modern central state has assumed responsibilities not only when it cannot undertake them in a better fashion than lower orders, but also when the failures of lower orders are not even evident.

The principle is thus much more widely applicable than the debate over subsidiarity in Europe suggests.

²⁴ 2 Thessalonians, 3:10.

²⁵ *Centesimus Annus*, para. 48.

The issue is not which government we should trust to take care of us; it points to a mandate for decentralizing economic and political functions from the center to the local and individual levels. Here are the principles:

- Property owners should be the producers of first resort.
- Families are the primary government.
- Local politics is apt to be more consistent with community concerns than are distant bureaucracies.

This is the way subsidiarity works itself out in a social and normative sense.

What does the principle of subsidiarity imply that we should do about the poor? “It would appear,” the Pope argues in *Centestimus Annus*, “that needs are best understood and satisfied by people who are closest to them and who act as neighbors to those in need.”²⁶ This matches our daily experience. If a family member is in trouble, the family has the first responsibility to help. The family member also wants to help and knows best how to help. The same is true of the relevant community and locality. People throw themselves most fully into projects closest to home, where they can monitor the way resources are used and even view the results.

We have learned that government employees do not have the incentive or knowledge to deal with problems of poverty all over vast masses of land and population. It is absurd for the central government to have presumed to undertake such a job. It is as implausible as socialism itself, under which government mandated five-year production plans and fixed every price. And the experiences and lessons that surround the history of socialism are very similar to the ones the welfare state is teaching us today. No one group of planners, no matter how wise and sensitive to human needs they may be, can see the deepest needs of the human soul, which are so frequently at the root of economic problems.

²⁶ *Ibid.*

Central planning boards, whether at the Politburo or the various ministries of modern Western governments, rarely improve society and most often interfere with the public’s ability to uncover relevant knowledge about local circumstances to address them efficiently. If they were partially deprived of the power and funds to administer poverty programs, resources and capital would be freed to solve local problems locally.

The time has come for religious leaders to abandon the orthodoxy of more and more government programs. Instead of erecting more bureaucracies, they should take back from the state their rightful positions as the primary ministers of the welfare of the poor.

THE ETHICS OF CAPITALISM

Far from having achieved victory, the economic order of liberty is in a precarious position. Its utility has been demonstrated time and again, and very few responsible intellectuals or clergymen are willing publicly to support concrete and radical alternatives to the market economy. If democratic capitalism has won the day, so be it. The big battles over ideology may be over, though recent policy proposals that centralize and increase government control suggest that

Every step away from the free market is a step away from voluntarism and that every step toward interventionism is a step away from liberty.

the question is not entirely settled in our politics. This much we can know: The big battles over morality in public life have just begun.

It is, moreover, entirely evident that in this debate on the morality of economic systems, the advocates of the market economy do not yet have the upper hand. Too often, economists refuse to speak in normative terms, and they often act as if they should not. Those who are charged with pronouncing on morality in public life do not have strong sympathies with the

ethic of capitalism—if they are sympathetic to it at all. Most people are content to settle with a system that seems to reconcile the “ethics” of socialism with the productivity of capitalism.

Yet political economy and ethics should be and must be reconciled. If we continue to promote an “ethics” of socialism, it will eventually endanger institutions that support the productive capacity of capitalism. It is not a trivial fact that every step away from the free market is a step away from voluntarism and that every step toward interventionism is a step away from liberty. It speaks to the essence of what it means to act virtuously.

A moral argument for economic liberty should not shrink from its own logical implications, however politically unfashionable. An imperative against theft and in favor of the security of private property must also suggest caution about taxes above the minimal level necessary for the rule of law. Freedom of contract must include the freedom not to contract. Freedom of association must include the freedom not to associate. Toleration of individual differences must include tolerances for the inequality in wealth that will be the

unavoidable result. And a morality that favors virtue in the context of liberty must allow room for personal moral failure and an understanding of the difference between vice and crime.

It is sometimes said that no one dreams of capitalism. This too must change. Rightly understood, capitalism is simply the name for the economic component of the natural order of liberty. It means expansive ownership of property, fair and equal rules for all, economic security through prosperity, strict adherence to the boundaries of ownership, opportunity for charity, wise resource use, creativity, growth, development, prosperity, abundance. Most of all, it means the economic application of the principle that every human person has dignity and should have that dignity respected. It is a dream worthy of our spiritual imaginations.

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