

**CATHOLIC SOCIAL TEACHING AND THE MARKET
ECONOMY REVISITED:
A REPLY TO THOMAS STORCK¹**

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It is a violation of legitimate academic freedom to attempt to link Catholicism to a particular school of economic thought and shut down all further debate. Whether the realm of human choice, which economics describes, is subject to an array of cause-and-effect relationships is obviously a matter for human reason to determine. From there, reason can then investigate these relationships. Although economic policy has a moral dimension, economics as a positive science consists merely of an edifice of cause-and-effect relationships, and to that extent is as autonomous as the purely descriptive sides of all other sciences.

Within the Catholic Church, supporters and opponents of the market economy often talk past each other. The difficulty they encounter derives from a confusion over the very nature of economics. The *phenomena* that economics touches upon, which include money, banking, exchange, prices, wages, monopoly theory, and many other topics, are themselves replete with moral significance. But the *positive, scientific statements* about these phenomena that constitute the discipline of economics are necessarily value neutral. Describing the workings of fractional-reserve banking is a positive task, not a normative one. Discussing whether such a system is *desirable* is a normative task and qualitatively separate from explaining the *mechanics* of that system. One cannot make an intelligent comment about the former unless he understands the latter, and it is the latter with which economics, properly understood, concerns itself.

Likewise, economic policy may possess a moral dimension, but not a single proposition of economic *theory* involves a moral claim. For example, Frank Knight conceived of capital as a homogeneous unit whose individual processes occurred synchronously, and therefore could be understood without introducing time into capital theory. F.A. Hayek, as well as the Austrian School of economics to which Hayek belonged, conceives of capital as a series of time-consuming stages of higher and lower order, with the highest-order stages the ones most remote from consumers (mining and raw materials, for instance) and the lowest-order stage immediately preceding the sale of the finished product.

Nothing in the Deposit of Faith even comes close to deciding this and countless other important economic questions one way or the other. Not even the most uncomprehending or exaggerated rendering of papal infallibility would have the pope adjudicating such disputes as these.

It is, of course, not “dissent” merely to observe that the cause-and-effect relationships that constitute the theoretical edifice of economics are not a matter of faith and morals. They simply do not fall within the range of subjects on which a Catholic prelate is endowed with special insight or authority. Catholic laity cannot head up petition drives against them. They are facts of life. Facts cannot be protested, defied, or lectured to; they can only be learned and acted upon. There is no use in shaking our fists at the fact that price controls lead to shortages. All we can do is understand the phenomenon, and be sure to bear it and other economic truths in mind if we want to make statements about the economy that are rational and useful.

Thomas Storck’s paper addresses this point in passing, but without the depth the question demands. Failing to make these important distinctions, he feels compelled to defend the soundness of Catholic prelates’ economic advice as if the Catholic faith itself depended on it. In his defense, Storck could cite his passing reference to Pius XI’s assertion that the technical details of economics lie beyond the Church’s competence. But this will not do, for he has failed to grasp the implications of this important concession. These technical details—mastery of which he himself admits are *beyond the Church’s competence*—establish the constraints that limit what the very state interventions into the economy that the bishops call for can accomplish. Now, if a bishops’ conference proposes an intervention whose promised results cannot occur because it takes no heed of these restraints, we have precisely the problem I identified in my book *The Church and the Market: A Catholic Defense of the Free Economy* (2005) and that Storck either ignores or thinks cannot arise: a faulty grasp of economic theory—which, to repeat, Storck admits lies beyond the Church’s competence—leads in turn to ill-considered economic proposals that will have the opposite of their intended effect. It is obviously within the realm of possibility that such a thing could occur, and in my own work I have suggested that it, in fact, *has* occurred: the advice of the American bishops on the economy has been distinctly unhelpful. Whether the problem I am sketching is only a hypothetical possibility or whether it has actually occurred, though, it is at least a possibility, and needs to be addressed by serious scholars.

By failing to address this question, Storck leaves us with a tangle of logical fallacies and gratuitous assumptions. (Storck's paper, which cites an obscure paper of mine instead of *The Church and the Market*, simply describes my position as "extreme" and leaves it at that.) He and others have accused Catholics of disloyalty for wondering about the effectiveness of the economic policies churchmen propose, or the unstated assumptions, themselves, in my opinion, at odds with economic theory, that lie behind some of what prelates have said about the economy. But it is nonsensical to concede on the one hand that the mechanics of economics lie beyond the Church's competence, but on the other hand to claim that the recommendations prelates make for the express purpose of increasing human welfare will necessarily accomplish their stated goals, and are necessarily good and wise. These statements cannot both be true. If someone can make infallibly good economic policy without having to know the first thing about the discipline itself, then economics should be abandoned as a field of study forthwith.

Moreover, those who posture as defenders of Catholic social teaching by and large do not concede that the proposals they implicitly or explicitly advance could have anything but favorable consequences for all. No trade-offs (between higher wages and unemployment, for example) are acknowledged. Naturally, no room for objections can exist when the very possibility of objection is foreclosed by the way the argument is framed: if we want higher wages, we simply demand them. Anyone who does not join in this demand must not want higher wages. This begs the question, of course, since whether prosperity and high wages can be produced by man's *ipse dixit* is precisely the matter at issue.

The only answer that appears possible is this: the Church insists that thus-and-so must be done because justice demands it, even though it will make people, particularly those it was designed to help, materially worse off. However, no ecclesiastical document I have ever seen has taken this position. As I have said, these documents carry the assumption that their suggestions will accomplish their stated ends and increase the well-being of the least among us. That assumption, in turn, implies that the only thing standing between today and a more prosperous future is sufficient political will rather than constraints imposed by the very nature of things. That merely assumes the very thing that needs to be proven. And it begs the question yet again to declare that authority has spoken and the matter is closed; the very matter at issue is whether these subjects are of a qualitative nature to be susceptible of ecclesiastical resolution in the first place. If the law of

returns, for instance, is an objective fact of nature (which it is), then the pope himself cannot declare it to be false, or expect success from policy prescriptions that ignore it, any more than he can fashion a square circle. It is no insult to papal authority to exclude the possibility of square circles.

According to Storck, Catholic social teaching “must necessarily make use of some type of economic analysis.” Presumably, though, Catholic social teaching could simply instruct the faithful in general moral principles that should guide them in the marketplace: simple honesty and generosity, for instance, and an insistence on mutual consent (i.e., the other partner in your transaction is also a human being with rights, not a resource to be exploited for your selfish benefit). But if Storck is going to claim that Catholic social teaching must make use of “some type of economic analysis,” how can he be sure that the correct type will be chosen? The Holy Ghost no more instructs us in the correct “type of economic analysis” than He does in the correct “type of medical analysis.” And if the scarcely mourned German Historical School is declared the winner, as Storck seems to wish, are adherents of all other schools thenceforth outside Catholic communion? Would economists be disciplined for continuing to debate capital theory, time preference and interest theory, or the origin of business cycles, instead of duly acknowledging all of these to be closed questions? This is technical economics, Storck might reply, and thus belongs to the legitimate province of economists and academic freedom. But when economists of competing schools of thought arrive at theoretical conclusions that do not imply the policy prescriptions Storck believes the Catholic faith itself demands, what would happen then? No answer is provided, since the question is never raised.

Storck argues that in studying how economies really work we are dealing with empirical questions that are left out of account by schools of economic thought of which he disapproves. But how can *empirical judgments*, which are far removed from faith and morals, be the legitimate province of the popes? If papal infallibility means that a pope’s empirical judgments can never be faulty, then we should refer all unresolved empirical matters to the popes without delay. Papal infallibility is not a species of magic, and attempts to make the popes into experts in separate fields are exercises in superstition. There must be some point beyond which we can all agree that papal authority no longer extends, but if these empirical questions do not lie across that boundary, it is unclear where such a line could ever be drawn.

Storck never describes his own brand of economics in much detail, but we do learn that it “does not approximate as much as some

might like to the natural sciences.” Whoever “some” might be, though, they do not include the Austrian School of economics—whose own F.A. Hayek won the Nobel Prize in 1974 and which goes unacknowledged throughout the article, even though it does not merit condemnation under most of Storck’s general complaints about economics. It is not surprising that the Austrians, as methodological dualists, would have produced a substantial corpus of work arguing against modeling economics after the hard sciences or carelessly adopting metaphors drawn from physics, biology, or mechanics. What is surprising is that if Storck is familiar with this literature, he chooses not to let us know.

That is a shame, for an honest reckoning with this material would have yielded a more interesting and less formulaic paper. Instead of listing each defective school of thought in turn, throwing up his hands at all the fools he must suffer who do not understand human nature, Storck might have discovered a more complicated picture: that he can find something of value even—if his other writing is any indication—in the school of economic thought he most dislikes.

Storck regrets that economists assume “maximization of [monetary] income” as the key to understanding human behavior, but here again, the Austrian tradition does no such thing. Praxeology, the science of human action to which Austrians advert, seeks to understand the logical implications of action as such, regardless of what motivates it. It does not confine itself only to the study of “economic” or “income-maximizing” action. Austrians speak of individuals’ “value scales,” which consist of cardinal rankings of the great variety of ends they may wish to pursue. There is no reason to assume that every one of these ends is strictly monetary. The only sense in which the Austrian economist takes the human person to be any kind of “maximizer” is in the tautological sense of maximizing his *psychic income*, which includes *all* the variables whose symbiotic relation constitutes the person’s sense of his own well-being. As Ludwig von Mises explained, economics “deals with the real actions of real men. Its theorems refer neither to ideal nor to perfect men, neither to the phantom of a fabulous economic man (*homo oeconomicus*) nor to the statistical notion of an average man (*homme moyen*).”²

Storck goes well over the top when he claims that the “premise behind the ubiquitous demand curve of mainstream economics” is “to make the maximization of income the fundamental principle not only of the economy but of society and of life itself.” Claiming that a tool of economic analysis was ever intended to describe the “fundamental principle” of “society” is dubious enough, but of *life itself*? No school of economics ever taught such nonsense.

As an example of a phenomenon that he thinks must pose an insoluble problem for mainstream economics, fixated as it supposedly is on monetary income as the sole motivating force of mankind, Storck describes the case of merchants who enjoy ample leisure and do not work to maximize their monetary income. In so doing, he alleges, they defy the constraints of neoclassical economics. Never did I suspect that one day I would find myself defending neoclassical economics, but Storck has mischaracterized it so completely that I have little choice. The neoclassical framework is perfectly prepared to deal with such a case as Storck describes: the merchants merely have a strong preference for leisure, which is a consumer good. Neoclassical modeling *has* incorporated such factors, with the help of bounded rationality.

Storck also attempts to use this example to disprove economist Paul Samuelson's observations about scarcity. Samuelson writes, "If infinite quantities of every good could be produced or if human desires were fully satisfied, what would be the consequences?... In such an Eden of affluence, there would be no economic goods, that is, goods that are scarce or limited in supply. All goods would be free, like sand in the desert or seawater at the beach.... But...[e]ven after two centuries of rapid economic growth, production in the United States is simply not high enough to meet everyone's desires. If you add up all the wants, you quickly find that there are simply not enough goods and services to satisfy even a small fraction of everyone's consumption desires." Since the merchants in his example appear to have their consumption desires satisfied, Storck thinks he has disproven Samuelson's contention.

Samuelson's point about scarcity is an empirical one, as opposed to the Austrian, praxeological concept (discussed below) that describes scarcity as the necessary implication of purposeful human action. All the same, Samuelson's remark is surely correct. From an empirical standpoint, it is safe to say that most people would indeed like more consumption goods than they presently enjoy. Anecdotal evidence from isolated pockets of contrary behavior does not constitute an argument, particularly when Samuelson is claiming to set forth not an apodictically true praxeological law, but an empirical generalization about the general run of Americans. (We should probably assume that a man of Samuelson's intelligence is aware of—for example—the Church's mendicant orders.) There cannot be many parents who would not prefer a world in which three months' worth of labor was sufficient to fund their children's college education. Many households would benefit from personal services like housekeeping, babysitting, in-home nurse care, and the like, but cannot afford them because scarce labor is being competed away in other lines of work. Still others would enjoy

having substantial personal libraries for their spiritual and intellectual edification, but cannot do so because of the relative scarcity (as reflected in their prices) of books. Some consumer goods that are currently out of reach of many people would make household work easier and less time-consuming, thereby increasing the time families can spend together and that home-schooling mothers can devote to their important work. And this is not even to mention the great array of consumer goods that would simply add innocent pleasures to people's lives.

To Storck's claims that "power" and like factors are involved in determining prices, a neoclassical economist would merely reply that supply-and-demand analysis is an analytical conduit through which all factors affecting price have their impact. Supply and demand schedules are not a separate set of factors, to be counterbalanced or added in with power, institutions, or whatever. They include all circumstances of human life. Consider the case of people attached to a particular town that has one major industry, which goes sour. If the town's inhabitants really do feel a special attraction to this location, that attachment will affect the wage rates they are willing to work for. An economist simply works this fact into his supply-and-demand analysis: the more attached they are, the lower the wages they will be willing to accept.

Storck is correct to observe that what he calls a power relationship in differential bargaining positions can affect the price of something, but he is not saying anything economists do not already know. Carl Menger, the founder of the Austrian School, covered this in his discussion of price formation in *Principles of Economics* (1871). In the case of bilateral monopoly, for instance, the price is necessarily determined by bargaining, and where the price ultimately comes to rest depends on a variety of factors, including the actors' respective bargaining skills, the strength of their bargaining positions, and so on.³ Suppose actor A owns a horse and desires some grain, and actor B owns grain and desires a horse. If A would be willing to give up his horse for 30 bushels of grain (but no fewer), and B would be willing to give up no more than 40 bushels of grain for a horse, then a mutually advantageous transaction is possible between the two. As long as B offers at least 30 bushels of grain and A does not demand more than 40, any price within that range will make both parties better off. The price they actually decide upon will depend on how the bargaining process actually unfolds.

In a case involving multiple sellers and only one buyer, a similar process of price determination takes place, although this time the sellers compete among themselves to bring down the minimum asking price for whatever the product (including labor itself) they have to sell. As we add buyers to this scenario, the likelihood increases that one will

raise the minimum buying price, thereby competing away the goods the sellers have to sell, unless other buyers are willing to meet this new, higher price. The more buyers and sellers are added to the market, the narrower becomes the range along which prices are indeterminate and reached by bargaining.⁴

Non-economists have often made the more general claim that business, because it is said to be in a stronger bargaining position than labor, can negotiate unjustly low wages, and that wages can be determined anywhere along a lengthy zone of indeterminacy. Labor economist Charles Baird describes this common view as “a hoary myth.” For one thing, ever since the introduction of the automobile, the average worker has had countless employment choices, and the more choices laborers have, the less “power” potential employers exercise over them, since the narrower is the zone of indeterminacy. Second, if business really could bring about abnormally low wages, then labor-intensive businesses, where this wicked exploitation should yield additional profit, should be more profitable than more capital-intensive businesses—but no evidence exists to support this contention. And if wage determination really were this arbitrary, there would be no reason for skilled workers to earn a premium over unskilled workers. Firms could pay them both the same pittance.⁵

Another example Storck offers with the aim of refuting neoclassical (or, for that matter, Austrian) economics, involves fishermen in Nova Scotia. Storck tells us that in Nova Scotia fishermen were getting two cents for their product, while in Boston they could get 15. The middlemen and local dealers were exploiting the fishermen, says Storck, and such “power relations” are not accounted for in the standard economic account of the market. The truth is exactly the opposite. This is precisely how the market works: such differences in prices are arbitrated away. This isn’t so much a case of cutting out the middleman as it is an example of people’s natural inclination to arbitrage.

For all his criticism of neoclassical economics, Storck unwittingly employs, in this example and throughout his paper, its “perfect competition” model—which, in addition to positing homogenous products and large numbers of buyers and sellers, portrays all actors as price-takers (that is, no one of them can influence a good’s price) and as possessing perfect information. He then stands in judgment of the market for not having conformed precisely to the model, when in fact the newer arrangement he describes the fishermen as having reached was itself an example of the market process and its tendency toward equilibrium.

Strictly speaking, Storck does not ignore the Austrian School of economics altogether—he mentions it, along with neoclassical economics, in a footnote, dismissing both on the grounds that they “fail to understand how the world really works.” For that reason, it is worth examining the fundamental claims of the Austrian School, in order to detect any unsupported or implausible statements. More advanced statements of Austrian theory can be found elsewhere; here we are concerned only with the theoretical foundations.⁶

The Austrian begins with the fact of human action, that human beings employ scarce means in order to achieve the ends they have in mind. Should someone attempt to deny the existence of human action he would involve himself in a performative contradiction, for he would be employing the scarce means of his time and body in order to achieve an end, namely to persuade people that human action does not exist.

Human action, in turn, involves choice. Storck describes the notion of scarcity as a theoretical artifact of neoclassical economics, but scarcity is an inescapable feature of the human condition. Since man’s time, his resources, and his body itself exist in finite quantities, any expenditure of these things in the pursuit of some end necessarily comes at the expense of a foregone alternative. He cannot simultaneously perform or enjoy the fruits of all the ends he wishes to pursue. Time, for example, is an irreversible continuum; an hour, once devoted to a particular task, is never again available in the service of another task. Grain fed to livestock is no longer available for human consumption. And an actor’s performance of one action in a particular place necessarily precludes a simultaneous action in some other place. Every action, therefore, involves cost, for in pursuing option *a* the actor forecloses the pursuit of *b*, at least at that time and with those resources. Thus the economic concept of cost is implied by the very existence of human action.

The Austrian is now ready to derive the law of marginal utility. That law says that each additional amount of a homogeneous good yields a lesser amount of utility. This law follows from the existence of value scales: the more units of a good a person possesses, the lower and lower ranked are the ends he can satisfy with them. His first unit of water, for example, he may devote to drinking, in order to keep himself alive. He may devote his second unit to bathing. A third unit might be used to water his lawn. The value of the marginal unit, therefore, is the value of the end he could no longer satisfy if that unit were taken away. If he loses the third unit he will certainly not go without drinking; he will instead refrain from watering his lawn—in other words, he will refrain from pursuing the least valued of the ends he was previously able to satisfy.

This is not a psychological law, related to an interior sense of satiety. It is the unavoidable implication of human action. It transcends time, place, and culture. To attempt to derive this law from empirical observation would be fruitless and nonsensical.

Austrian analysis adds to the axiom of action a few subsidiary postulates. One is that leisure is a consumer good—people do not wish to engage in productive labor up to the point of exhaustion, eat and sleep just enough to sustain life, and then resume working. Another is that the world is composed of heterogeneous goods, and that human beings themselves differ in their abilities and qualities. Human reason, therefore, allows people to perceive the benefits they would enjoy by specializing in those areas in which their skills or the natural resources to which they have access give them a comparative advantage.

Now recall Storck's contention that the Austrian School "fail[s] to understand how the world really works." Whatever else one may wish to say about the Austrian School, it is not clear which step in this analysis is unreasonable, does not logically follow from previous steps or the initial premise, or seems out of harmony with insights into human nature we might glean from other sources. In fact, the central contentions of praxeology are as Thomistic as can be. St. Thomas observes that "in acting every agent intends an end" and that "every agent acts for a good." St. Thomas likewise agrees with Austrians that action involves a choice between alternatives, and that indifference between alternatives does not give rise to action.⁷

It is a category mistake to attempt to "test" the conclusions reached by praxeology, as Storck's preoccupation with "induction" appears to want. These conclusions can come to us only by means of sound *theory*, which in turn we apply to our understanding of the present and the past. In the study of human action we cannot simulate laboratory conditions in which we can isolate a single factor and observe the consequences. "Historical experience," Mises wrote, "is always the experience of complex phenomena, of the joint effects brought about by the operation of a multiplicity of elements."⁸ No list of statistics, no matter how exhaustive, can establish a necessary relationship between various phenomena, and separate causation from mere correlation. "History," Mises added, "cannot be imagined without theory. The naïve belief that, unprejudiced by any theory, one can derive history directly from the sources is quite untenable.... No explanations reveal themselves directly from the facts.... The 'pure fact'—let us set aside the epistemological question whether there is such a thing—is open to different interpretations. These interpretations require elucidation by theoretical insight."⁹

Storck uses the term “economic science” favorably, speaking in footnote three of “the necessity for a non-deductive economic science of the kind offered by some of the ‘heterodox’ schools of economic thought.” This claim calls into question just how deeply he has understood the institutionalists and the German Historical School, the traditions of thought he recommends. Members of these traditions, by and large, did not conceive of themselves as developing an economic science, since they did not believe universally valid causal laws existed in the economic order. The Older German Historical School did believe in economic theory to some extent, it is true, but for that very reason it would be these German thinkers for whom Storck would have the *least* sympathy, since theory divorced from empirical research and observation is precisely what he claims to dislike about economics. In fact, it is difficult to think of a single contribution to economics for which the German Historical School is credited today that is *not* theoretical. Wilhelm G.F. Roscher, with Karl Knies and Bruno Hildebrand one of the top scholars of the Older School, even spoke well of Carl Menger, the founder of the Austrian School, and the theoretical advances of his 1871 book *Principles of Economics*.¹⁰ Every contribution the School made was a theoretical one that has since been absorbed into mainstream economics. For consistency’s sake, Storck should give up trying to argue that there is or could be a “human” or economic science. He should instead say, as the rest of his paper indirectly argues, that there is no such thing as science in these areas.¹¹

Part of Storck’s difficulty involves his confusion about the nature of economic law. The kinds of economic laws to which Austrians refer when using the term typically involve contrary-to-fact analysis. An economy based on the division of labor will be more physically productive than a purely autarkic economy. An increase in the supply of money will increase prices to heights beyond what they would otherwise have reached. An increase in the price of a good will yield a lower quantity demanded of that good than if the price had not changed. None of these statements is vitiated by accidents of culture or other circumstances.

Storck tries to offer the minimum wage as a counter-example against the idea of economic law. Although an increase in the legally mandated minimum wage may lead to a decrease in employment on a particular occasion, he argues, we have no reason to assume it will have such an effect in all cases. What Storck fails to understand is the counterfactual nature of the law in question. No sensible economist says that *every* increase in the legally mandated minimum wage (above the market-clearing wage) will lead to an observable decrease in

employment. For one thing, any effect is likely to be small simply because, as an empirical fact, very few Americans work for the minimum wage, and thus only a small percentage of the workforce would be affected by the increase. More to the point, countless other factors at work can diminish or even counteract the effect of this increase in the cost of doing business. The point is that there is less employment *than there would have been* in the absence of the minimum-wage law. Increasing the cost of doing business does not lead to more business being done.

A key thesis of Storck's paper, as we have seen, is that power relationships that exist in the real world lead to different economic outcomes from those that economic theory might lead us to expect. Another example he cites on behalf of this argument involves high CEO salaries. Here Storck relies on the old Berle-Means thesis from 1932, which referred to a supposed problem—separation of ownership and control (what we now call a principal-agent problem)—in corporate governance. The argument is that while the owners, or stockholders, want the firm to be as profitable as possible, management is more interested in posh benefits, perks, and other such rewards that benefit them but hurt the firm. No one stockholder, who on average owns only a handful of shares, will have an incentive to stay abreast of, or to do anything about, the activities of management. It is in this environment that large CEO salaries become possible.

A difficulty for Storck's argument is that much work has been done on the subject of corporate control since 1932, when Adolph Berle and Gardiner Means articulated Storck's point in *The Modern Corporation and Private Property*. Storck makes no reference to the important work of Henry Manne, whose 1965 article "Mergers and the Market for Corporate Control" began a sustained reconsideration of the Berle-Means thesis. According to Manne, the discretionary power of managers is limited by the market for corporate control, which "gives to [small] shareholders both power and protection commensurate with their interest in corporate affairs."¹² If managers pursue goals other than the health of the firm, the share price falls. Outsiders, in turn, then have an incentive to take over the firm and replace existing management. Although I cannot speak for Storck himself, the very people who complain the most about the principal-agent problem also tend to be critical of and favor restrictions on corporate takeovers, even though the takeover is precisely the instrument that can purge corrupt management and solve the problem.

The University of Chicago's Eugene Fama points out some of the other factors that invalidate the Berle/Means thesis. For one thing,

additional institutions, including the managerial labor market itself, limit managerial discretion. A manager benefits from the performance of his team in terms of the higher salary he can command elsewhere in the future in light of that performance. That gives him a direct stake in his team's success. For the same reason, managers themselves provide an internal monitoring of each other. Top managers, naturally, monitor the performance of lower-level management, but the process works in reverse as well. "In short," Fama writes, "each manager has a stake in the performance of the managers above and below him and, as a consequence, undertakes some amount of monitoring in both directions."¹³

Storck argues that large salaries for the CEOs of firms that do poorly is sure evidence that these salaries are arbitrary. But suppose a firm employs an advertising agency to devise a campaign for its product, and the two companies agree on a fixed sum the agency will be paid for its labors. Now suppose the ensuing ad campaign fails to contribute much if anything to sales of the product. Is the firm entitled to its money back? Of course not. If advertising agencies were required to enter into contingency-based contracts, they would never take on risky projects in which the likelihood of a high return was low.

Likewise for CEOs, who often need to engage in bold innovation in order to reverse a firm's sagging fortunes or even just to maintain its current market share. If they were told that success would yield them \$20 million but failure would yield zero, they would avoid such risky lines of work in the first place and the firm would be unable to attract adequate leadership. Individuals who possess the skills of a CEO can enjoy handsome compensation in lines of employment other than CEO, and would simply pursue these instead if the law were to require contingency-based CEO salaries.¹⁴ "It's easy to say that people are paid too much," says Eugene Fama, "but when you're on the other side of the fence trying to hire high-level corporate managers, it turns out not to be so easy."¹⁵

The large CEO salaries of recent years have indeed been caused in part by non-market forces, but not the ones Storck identifies. The Federal Reserve System's easy-money policy in the years following the September 11 attacks artificially subsidized the financial services industry and thereby helped make abnormally high salaries possible. The boom in financial services that has since turned into a major bust could not have occurred under a free-market commodity money. But this digression would require a much longer paper.

Apropos of his discussion of "power," Storck endorses the idea that avaricious business firms have the power to make laborers work for

ever-lower wages over time, and that this has in fact occurred. The idea that the position of the workers has deteriorated, or that the Industrial Revolution itself was some kind of disaster for workers, is as false as false can be. Storck speaks as if the so-called standard-of-living debate of the past 60 years had never occurred. Not even Marxist scholars any longer contend that the position of the working man has simply deteriorated since the Industrial Revolution. To the contrary, a steady improvement in the workers' standard of living, whether measured in terms of caloric intake, living space per capita, life expectancy, or a multitude of other criteria, has been consistently observed.¹⁶

Thanks to capital investment, which a free market makes possible in abundance, the American economy is far more physically productive than it was in the past. As a result, people need to work far fewer hours in order to earn the purchasing power necessary to acquire a whole range of consumer necessities. In 1950, for example, Americans had to work six minutes to earn the money that would buy them a loaf of bread; by 1999 that was down to just three and a half minutes. To be able to buy a dozen oranges took 21 minutes of labor in 1950 but only nine minutes in 1999. Paying for 100 kilowatts of electricity required two hours of labor in 1950, but only 14 minutes in 1999. Someone in 1900 would have had to work nine hours, as compared with four hours in 1950 and three hours in 1999, to earn the money to buy a pair of jeans. For a three-pound chicken, it was 160 minutes in 1900, 71 in 1950, and 24 in 1999.¹⁷ This is an extraordinary achievement, which flies in the face of much persistent mythology about the market.

Finally, Storck arrives at the Chicago School, to which he suggests that on methodological grounds Catholics might have *prima facie* reason to be sympathetic.¹⁸ Storck suggests that the methodological approach taken by Milton Friedman in his seminal 1953 article, which Storck identifies with the Chicago School in general, is superficially plausible because of its emphasis on empirical study, but ultimately fails because it, too, makes theoretical assumptions that ignore certain features of the real world. Now Friedman's method (not "methodology," which is the study of method) certainly is problematic, but not for quite this reason. There is nothing wrong with abstracting from the real world in order to shed additional light upon the deliberately isolated phenomena. The real question involves (1) the kind of abstraction, precise or non-precise, that is undertaken, and (2) the purpose that the abstraction is intended to serve. Precise abstraction specifies certain characteristics as absent, while non-precise abstraction does not specify the existence of certain characteristics one

way or the other. It is the difference between positing the concept horse as a creature *lacking* color and positing the concept horse as a creature of *unspecified* color. It is, in effect, the difference between Plato and Aristotle.¹⁹

Friedman is incorrect to claim that a useful economic theory, because it unavoidably leaves certain features of reality out of account, “must be descriptively false in its assumptions.” By non-precisely specifying the existence of these excluded features, as opposed to precisely specifying their nonexistence, such theories need not be “descriptively false” at all. Thus when Austrians contend that minimum-wage laws lead to more unemployment than would have existed without them, they are engaged in a non-precise abstraction that applies to all cases involving minimum-wage laws, not a precise abstraction that would apply only to cases in which the minimum wage was a single, isolated factor affecting labor markets.²⁰

But it is precise abstraction that Friedman has in mind. In the model of perfect competition, for example, certain crucial aspects of economic activity are declared *not to exist*. (Compounding error upon error, this model, which is supposed to be merely a heuristic device, has often become an objective standard against which existing economies are held up for criticism!) If all actors possess perfect information, as the perfect-competition model takes them to, then entrepreneurial error cannot exist. That, in turn, is not merely an abstraction from reality; it is a *falsification* of reality. The claim that such a model is supposed to make predictions about the real economy is certainly dubious. It is on those grounds that Austrians have correctly objected to Friedman’s method.

This is not to say that precise abstraction can never be useful. The evenly rotating economy (ERE) of the Austrians precisely abstracts from fluctuations in population, consumer taste, and change and uncertainty in general in order to demonstrate the difference between originary interest, which would still exist in such an economy, and profit, which would not. That is a useful construct, and since no empirical contingency could invalidate it, it is unclear on what grounds Storck could object to it. And unlike the perfect competition model the aim of the evenly rotating economy construct is *not to make predictions about the real world*. “The point of considering the ERE’s profitless world,” writes Roderick Long, is “not to prepare us to analyze situations in which profit is negligible, but precisely to enable us to analyze situations in which profit is *not* negligible, so that we may distinguish conceptually between the role of interest and the role of profit when both factors are operative and their effects intermingled.”²¹ Storck’s decision

to ignore the Austrian School once again deprives him of an opportunity to add some nuance to his broad strokes of condemnation.

Thomas Storck's paper is unconvincing, to say the least. Its principal arguments rest on an incomplete or misleading portrayal of neoclassical economics, and the paper itself neglects the Austrian School of economics, to which many of its claims do not apply. No doubt the paper may give the novice the impression of having successfully identified flaws in mainstream economics, but it is no exaggeration to say that not a single neoclassical economist would recognize himself in Storck's portrayal. There are plenty of good criticisms to be made of neoclassical economics, to be sure, but Storck either lacks the requisite knowledge or is too intent on caricature to find them. It retards rather than advances human knowledge to critique a position that no one would recognize as his own, but that, for whatever reason, is what Thomas Storck has chosen to do.

Notes

1. The author wishes to thank Peter Klein, Jeff Herbener, Mateusz Machaj, Jörg Guido Hülsmann, and Joseph T. Salerno for helpful discussions of some of the themes in this paper. Any errors are my own.
2. Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven: Yale University Press, 1949), 646.
3. We here define monopoly in the conventional sense of a single seller of a good.
4. This should not be taken to imply that an increase in the supply of buyers or sellers is an objective good. It can make perfect sense for only a handful of firms or even a single firm to supply a product. Artificial attempts to increase the number of suppliers carry a cost (that ubiquitous concept), drawing factors away from more urgently desired employments elsewhere. Only the aggregate of voluntary choices that constitute the market can establish in a non-arbitrary way how many firms and of what size should exist in any given industry.
5. Morgan O. Reynolds, "The Myth of Labor's Inequality of Bargaining Power," *Journal of Labor Research* 12 (Spring 1991): 169, 184; see also Charles W. Baird, "American Union Law: Sources of Conflict," *Journal of Labor Research* 11 (Summer 1990): 278-79.
6. The classic treatises are, of course, Mises, *Human Action*, and Murray N. Rothbard, *Man, Economy and State: A Treatise on Economic Principles*, 2 vols. (Princeton, N.J.: D. Van Nostrand, 1962).
7. Thomas E. Woods, Jr., *The Church and the Market: A Catholic Defense of the Free Economy* (Lanham, Md.: Lexington, 2005), 16; Gabriel J. Zanotti, "Misesian Praxeology and Christian Philosophy," *Journal of Markets and Morality* 1 (March 1998): 60-68.
8. Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution* (Auburn, Ala.: Ludwig von Mises Institute, 1985 [1957]), 31.
9. Ludwig von Mises, *Money, Method, and the Market Process*, ed. Richard M. Ebeling (Norwell, Mass.: Kluwer Academic Publishers, 1990), 10; see also Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed. (London: Macmillan, 1945 [1932]).
10. Erich W. Streissler, "The Influence of German Economists on the Work of Menger and Marshall," in *Carl Menger and His Legacy in Economics*, ed. Bruce J. Caldwell (Durham, N.C.: Duke University Press, 1990), 38-39.
11. On the relative fruitfulness of the various stages of the Historical School, see Lionel Robbins, *A History of Economic Thought: The LSE*

Lectures, ed. Steven G. Medema and Warren J. Samuels (Princeton: Princeton University Press, 1998), 250-51.

12. Henry G. Manne, "Mergers and the Market for Corporate Control," *Journal of Political Economy* 73 (April 1965): 112.

13. Eugene F. Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy* 88 (April 1980): 293.

14. I owe this point to Robert P. Murphy.

15. "Interview with Eugene Fama," *The Region* [Federal Reserve Bank of Minneapolis], December 2007, http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=1134.

16. See the discussion in Woods, *The Church and the Market*, 169-74.

17. Michael Cox and Richard Alm, *Myths of Rich and Poor* (New York: Basic Books, 1999), 43.

18. If anything, there may be a prima facie case *against* Chicago School economics from a Catholic point of view, at least with regard to the normative positions many of its practitioners appear to take for granted. See Woods, *The Church and the Market*, 25-27.

19. For this discussion and what follows, see Roderick T. Long, "Realism and Abstraction in Economics: Aristotle and Mises versus Friedman," *Quarterly Journal of Austrian Economics* 9 (Fall 2006): 3-23.

20. Austrian economists, writes Guido Hülsmann, "explain the realized manifestation of human action (behavior and thoughts) as a corollary of the non-realized part.... By contrast, neoclassical economists seek to explain observable phenomena...in terms of other observable phenomena." Quoted in *ibid.*, 12.