

Centro Studi Tocqueville-Acton
Yearbook 2011

**SUBSIDIARITY AND
INSTITUTIONAL
POLYARCHY**

**Studies of Social Market Economy in
contemporary democracies**

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"An open, free and virtuous society, where the person is not merely instrumental, but in fact becomes the ultimate end of human action. In this way, each individual contributes -by one's own means and according to one's inclinations, abilities and skills- to the ongoing process of shaping economics, politics and institutions"

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"Our purpose is to become a well known reference point for market socioeconomics and business -as well as institutional- ethics; a place of academic excellence where we promote a deeper reflection upon and elaboration of moral, juridical and social norms regulating the cohabitation of individuals, their functioning, and their actualization"

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YEARBOOK 2011
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Presentation

For the second consecutive year, the *Centro Studi Tocqueville-Acton* offers a rich collection of studies of Social Market Economy in contemporary democracies. Continuing in the wake of last year's discussions focused on the «rules of freedom», the Yearbook 2011 is based on two specific pillars: subsidiarity and institutional polyarchy.

The essays in the following pages do not focus either on the analysis of the two cited pillars or on the possible paths (in terms of research or policy formulation) that can be developed from them; instead, they highlight the numerous connections binding them together.

The main purpose of this study is to identify the connections and relationships among the pillars in order to underline their salient features and to outline a theoretical framework. To achieve this ambitious goal, we decided to publish all the texts in English, both to give the readers the precious contributions we received from many international scholars in their original version and to allow wider circulation of our work in academies and think tanks.

In any case, the structure of the Yearbook 2011 is similar to the previous one, consisting of five areas – Epistemology and Economics, Political Economy, Business Law, Political and Economic Doctrines, Catholic Social Thought – and a final section with a review of a book of particular interest.

The first section contains a paper by Ricardo Crespo, the second contains six contributions respectively by Simona Beretta, Luca Sandonà, Stefano Solari, Johann Spitzer, Massimiliano Vatiere and Robert Van Horn. The pages dedicated to business law are written by Maria De Benedetto. The fourth section gathers the essays of Flavio Felice, Nils Goldschmidt and Michael Wohlgemuth. The last section is dedicated to an important aspect of the Catholic Social Thought and developed by Giacomo Costa. The Yearbook ends with a book review written for the second year in a row by Jude P. Dougherty.

As it may be easily inferred, the Yearbook 2011 includes food for thought: different approaches and intense provocative considerations, all aimed at detecting connections between subsidiarity and institutional polyarchy, as mentioned in the first lines of this short presentation.

Actually, the idea of focusing on these two pillars comes from a consideration by Pope Benedict XVI: warning against a dangerous universal power of a tyrannical nature, he reminds us that globalization «certainly requires authority, insofar as it poses the problem of a global common good that needs to be pursued. This authority, however, must be organized in a subsidiary and stratified way, if it is not to infringe upon freedom and if it is to yield effective results in practice» (*Caritas in Veritate*, 57).

Presentazione

Per il secondo anno consecutivo, il *Centro Studi Tocqueville-Acton* offre un'ampia raccolta di studi sull'economia sociale di mercato nelle democrazie contemporanee. Proseguendo sulla scia delle riflessioni relative alle «regole della libertà» presentate nella scorsa edizione, l'Annale che qui presentiamo si regge su due pilastri specifici: la sussidiarietà e la poliarchia istituzionale.

Tuttavia, i saggi che seguono non si soffermano sull'analisi dei due singoli pilastri o su eventuali percorsi (di ricerca e di formulazione di politiche) che da questi è possibile sviluppare, ma ne mettono in luce i numerosi punti di contatto.

Lo scopo principale del nostro lavoro è quello di individuare simili rapporti, evidenziarne i caratteri salienti e quindi tentare di delineare un quadro teorico organico ed esaustivo. Per raggiungere un obiettivo così ambizioso, abbiamo deciso di pubblicare i testi interamente in lingua inglese sia per intercettare nella loro originalità i preziosi contributi che ci hanno inviato diversi studiosi internazionali sia per consentire una maggiore diffusione del nostro lavoro in tutte le accademie e i think tank.

La struttura dell'Annale 2011 è simile a quella dello scorso anno, composta da cinque aree disciplinari – Epistemologia ed economia, Economia Politica, Diritto dell'economia, Dottrine economiche e politiche, Dottrina sociale della Chiesa – e da un'ultima sezione dedicata alla recensione di un libro di particolare interesse.

La prima sezione ospita un intervento di Ricardo Crespo, la seconda contiene ben sei contributi realizzati rispettivamente da Simona Beretta, Luca Sandonà, Stefano Solari, Johann Spitzer, Massimiliano Vatterio e Robert Van Horn. Le pagine dedicate al diritto dell'economia, invece, sono redatte da Maria De Benedetto. La quarta sezione raccoglie i saggi di Flavio Felice, Nils Goldschmidt e Michael Wohlgemuth. L'ultima sezione è dedicata a un importante aspetto della Dottrina sociale della Chiesa approfondito da Giacomo Costa. L'Annale si conclude con una recensione scritta anche quest'anno da Jude P. Dougherty.

Com'è facilmente intuibile, si troveranno diversi orientamenti, molti spunti di riflessione, approcci provocatori, ma tutti tesi a rilevare le connessioni fra sussidiarietà e poliarchia istituzionale.

L'idea di soffermarsi su questi due pilastri nasce dalle riflessioni di Papa Benedetto XVI quando, mettendoci in guardia da un pericoloso potere universale di tipo monocratico, ci ricorda che la globalizzazione «ha certo bisogno di autorità, in quanto pone il problema di un bene globale da perseguire; tale autorità, però, dovrà essere organizzata in modo sussidiario e poliarchico, sia per non ledere la libertà sia per risultare concretamente efficace» (*Caritas in Veritate*, 57).

1. EPISTEMOLOGY AND ECONOMICS

Ricardo F. Crespo

Broadening Economic Rationality

1. INTRODUCTION

Current standard economics is a daughter of the “Received View” of science. By this expression the literature of the philosophy of science usually refers to the positivist concept of scientific explanation as “saving the phenomena”. This concept consisted in delivering unified descriptions of natural regularities among things compatible with the observable, without trying to delve into unobservable underlying entities as causes. In the field of the social sciences, including economics, this view also reduces the rationality of human action to one specific kind of it, namely, instrumental rationality. As John Davis (2003: 27) explains,

[t]he [economic] theory of choice is about being instrumentally rational. Instrumental rationality is defined as the choice of actions that best satisfy an individual’s ends or objectives *however* those ends or objectives may happen to be characterized. Instrumental rationality is a rationality of efficient means, and *per se* is completely agnostic regarding the nature of the ends means serve.

The common idea is that ends are not known and determined by reason. The paper of reason has to do with the allocation of means for the sake of those ends. This received view reduces all human rationality to instrumental rationality. It is a conception broadly adopted by modern social sciences. Raymond Boudon (2004: 57) describes very well the situation:

In general terms, the equation that assimilates rationality and instrumental rationality is so influent that social sciences’ most literature on rationality almost exclusively deals with instrumental rationality. In other words, social sciences tend to admit that the notion of rationality essentially applies to the adequacy of means and ends, actions and objectives, or actions and preferences. At most, they recognize that rationality can also take the form of an exigency of coherence or transitivity of objectives or preferences. But they avoid applying this category to the contents of preferences or objectives.

In economics this has an old history. The Eighteen Century economist Nassau W. Senior was the first to maintain the distinction between positive or neutral economic analysis and policy recommendations in his *Outline of Political Economy* (1836). He delivered his presidential address to the Section F (“Economic Science and Statistics”) of the *British Association for the Advancement of Science* in 1860. Hutchison explains that “Section F had to assert its scientific respectability, and its worthiness to be included alongside the established subjects of natural science” (1962: 9). According to Hutchison, Senior “gives a brief restatement of his ultra-

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narrow view of 'Economic Science' and the economist's functions, according to which the subject is confined within the limits of a strictly 'positive' science with a narrowly economic subject-matter" (13). That is, epistemological pressures lead economics to concentrate only in a form of rationality, which can conduce to exact results by a formal analysis. This is instrumental rationality.

However, as the French philosopher of science Gilles-Gaston Granger (1992) explains, in the domain of economics we must take into account three aspects of economic rationality if we want to achieve a correct and complete analysis. According to him, these aspects are the epistemic (or theoretical), the technical (or instrumental) and the axiological (or practical). Epistemic rationality refers to the logic involved in the description or knowledge of facts; technical rationality refers to the rationale of the adequation between means and ends; and axiological rationality refers to the reasonability and coherence of the ends. In recent times, we have observed a growing conscience about the relevance of the axiological rationality for economics, which had been almost completely forgotten during the last Century.

In Section 2 of this paper, I will present a particular version of the notion of axiological or practical rationality. In Section 3 I will introduce the corresponding kind of science, i.e., practical science. Then, in Section 4, I will explain why the proposed former notions apply to economic actions and economic science. Section 5 will sketchy analyze the notion of the market under this perspective. The role of the economist will arise as a result of the previous analysis and will be described in Section 6. Section 7 is a brief conclusion.

2. PRACTICAL REASON

Human reason has different uses and, accordingly, human rationality has different applications. One of these uses is pointed out by Philippa Foot (2003: 53) when she asserts that "human beings are rational creatures, in being able to act on reasons." In effect, human beings decide what to do by using their reason. This use of reason, ordered to action, is called practical reason. Instead, the use of reason only for the sake of knowledge is called theoretical reason. Practical reason deals with the field of that that is feasible or possible for human beings to perform. Theoretical reason may deal theoretically both with the previously mentioned field along with the field of things that we cannot change. Theoretical reason originates beliefs about matter of facts while practical reason originates actions. By theoretical reason we know an order (or rationale) of reality, including actions, while by practical reason we know for the sake of impressing an order to actions. Practical reason entails a normative intention about actions. In this way, human reason adopts a normative function. This normative character is the specific structure of human action. As R. Jay Wallace (2008: 1) explains, "practical reason is the general human capacity for resolving, through reflection, the question of what one is to do." Furthermore, practical reason thinks not only about what one ought to do, but also for what reasons and how one could achieve it: it is *about* action and *for* action, it is thought *in* action and *from* the action itself.

For Aristotle, a founder of the notion of practical reason, every action aims at a "good" that is the end or reason of this action (*Nicomachean Ethics* I 1). This is why for him reasons for actions are provided by goods or values. According to this

position, we can establish an intrinsic link between moral goodness and practical reason (see Foot 2003: 64). Practical truth is the good of man. This good might be universal or contextual depending on the matter. Aristotle's ethical program was to determine the specific content of human good. For him, there are some goods that are common to every man because they derive from the function of the human being and other goods that are relative to societies, persons and situations. In addition, he distinguished two levels: the theoretical knowledge about these ends, and the practical knowledge, decision and action in real life by reasoning "practically".

According to him, both theoretical knowledge and practical reasoning deals with a constellation of ends of human or social life and also with means inasmuch as they fit or conform to this constellation. Additionally, the contributions of means to each individual's end is a matter of another kind of rationality, i.e., technical or *poietical* rationality. The question of the allocation of means in order to achieve a specific end (that may be the formal end of utility or value) is different from the question of the decision on ends and of the conformity of those means to the complete set of ends of society or man. The first question is a matter of technical (the later called instrumental) reason, while the second is a matter of practical reason. This is why for the Aristotelian theory of practical reason the statement "the end justifies the means" is unacceptable: practical reason does not concentrate in only one end, but considers a "horizon of totality" (Evandro Agazzi 1992: 33). Technical rationality has more to do with the "how-question" of achieving an end and practical rationality with the "why-question" of means and ends. Finally, within the frame of the first question –the technical– we may consider how to best allocate those means in order to achieve the specific end: this is a matter of instrumental maximizing rationality, broadly used by standard economics.

This exposition, focused on the Aristotelian notion of practical reason, leaves aside two relevant positions on practical reasoning, the Kantian and the Humean. According to Kant practical reason is separated or autonomous from theoretical reason. As Cullity and Gaut (1997: 20) assert, this involves relying on fundamental claims concerning practical reason that are unjustified. For Kant, there is not a theoretical science dealing with the practical field, but some convictions about practical principles. "These postulates", he asserts, "are not theoretical dogmas but, suppositions practically necessary" ([1788] 1952: 348). Instead, for Aristotle a rational theoretical inquiry about the practical field is possible.

Furthermore, according to David Hume, practical reason is an instrumental reason which depends and obeys motivational tendencies. Thus, while Aristotle's view concerning the relationship between values and practical reason recognises valuable actions in themselves, Kant's view is constructivist, in the sense that the action is valuable because it has been chosen, whereas Hume reduces practical reason to instrumental reason.

For Hume, a rational deliberation about ends is not possible and the deliberation on means is not embedded by the rational consideration of ends. His statement is very well known: "Reason is, and ought only to be the slave of passions, and can never pretend to any other office than to serve and obey them" (Hume [1739-1740] 1968: 415 -II, iii, 3). What move volition and action are passions, not reason (415). Passion chooses the ends and reason provides both the data on which

passion is founded and the means to achieve that ends. In Hume's version of rationality, "reason is to be seen as an instrument to achieve ends that are not themselves given by reason. We may say that an act is irrational if it is not the best means of achieving the ends that the actor himself had a view when choosing the act" (Robert Sugden 1991: 753). For Adam Smith, Hume's friend, the content of good and evil is known by sentiments: reason cannot know it (*The Theory of Moral Sentiments*, VII, III, II, 7 and 8, [1789] 1984: 320). The common idea of both authors is that ends are not known and determined by reason. The paper of reason is the allocation of means for the sake of those ends. The consequence for social science of this conception of practical reason is that it becomes subsumed in a technical science.

3. PRACTICAL SCIENCE

However, a strong movement of rehabilitation of the Aristotelian notion of practical reason and science has arisen in the second half of the last Century, mainly in Germany. A collective work edited by Manfred Riedel (1972-4), entitled *Rehabilitierung der praktischen Philosophie*, could be mentioned as a hallmark for this wave of thought. Members of this movement conceive the practical paradigm as a reaction against the modern prevailing requirement of value-neutrality in the realm of the social sciences. For value-freedom supporters, scientific reason was only applicable to means. The ends were a matter of private decision, which surpassed the limits of science. This movement of rehabilitation of practical science considers that there is an entanglement of values and facts and that thus value-free science is an impossible enterprise. Even a descriptive list requires principles of selection (see Finnis 1982: 4). Leo Strauss warns about a peril of denying this entanglement (1959: 21):

It is impossible to study social phenomena, i.e., all important social phenomena, without making value judgments. (...) Generally speaking, it is impossible to understand thought or action or work without evaluating it. If we are unable to evaluate adequately, as we very frequently are, we have not yet succeeded in understanding adequately. The value judgments which are forbidden to enter through the front door of political science, sociology or economics, enter these disciplines through the back door.

If these values, which inevitably embed social thinking, are not rationally founded and established, we could be confronted with ideology. Frankfurt School also, by its critical diagnosis of modernity –a critique of instrumental reason– looks for practical reason. Max Horkheimer ([1967] 2007: 21), for example, maintains that when the original idea of reason was conceived, it was aimed for much more than the mere task of regulating the relation between means and ends: it was intended for the understanding of the ends themselves.

What is then the role of the value-free requirement of science? We will have to interpret it in another way. Value-neutrality should not be 'officially' leaving values aside, but 'impartially' reasoning about them. How could we neutrally describe social facts? This neutrality is only achievable through the scientific definition of the standards of practical reasonableness (see Finnis 1982: 12). That is, the way to manage the value-free requirement is not to put away values – something impossible– but to reason about them, and thus rationally determine

the set that should be pursued. We may reason, for example, the arguments for a list of universal human rights. This is the task of practical science. We can see then that a conception of practical reason entails a parallel conception of practical science.

The main traits of it as conceived by Aristotle will complete this panorama. First, practical science acknowledges the inexact character of its conclusions, due to the contingency of human action, which stems from human freedom and from the singularity and complexity of human affairs. Secondly, practical science must be closely connected to a singular case. An adaptation to it, considering its cultural and historical environment, is necessary. A wise mix of adequately chosen scientific types and historic, cultural and empirical elements is the key to a correct interpretation of human action. Third, I mentioned the normative character of practical reason conducing to the normative character of practical science and its engagement with values. A fourth trait of practical science is its pragmatic aim. An abusive theoretical aim has invaded the realm of social sciences. A social science may have a theoretical aim, but it is always virtually oriented to action due to the essentially practical character of its subject. Last, we ought to mention the plural methodological devices of practical sciences. In his *Nicomachean Ethics* and in *Politics*, Aristotle admirably combines axiomatic deduction, inductive inference, dialectic arguments, rhetoric suggestions, imagination, examples, and topics. In a prudential science, all these methodological instruments contribute to its purpose.

There are two problems of practical science often signalled: an entanglement of personal or social values in it and its lack of universality. Concerning the first problem, I have dealt with it proposing that value-neutrality means practically reason and determines the values that are embedded in the research question. Let us go to the second problem.

As I mentioned, practical knowledge is inexact. As Aristotle maintains, “the same exactness (*akribeia*) must not be expected in all departments of philosophy alike (...) but only such as belongs to the subject-matter of each, and in a such degree as is appropriate to the particular line of inquiry” (*NE*, I 3 1094b 13-14 and I 7 1098a 28-29). However, as Richard Kraut asserts, Aristotle “is asking us to have different expectations of different fields: not *higher* standards for some fields and *lower* for others, but *different* standards” (2006, p. 87). Gauthier and Jolif make an interesting point (1970: II, 14) when they explain that Aristotle distinguishes three classes of facts: first, necessary facts which always occur in the same way, second, general facts which occur most times in the same way, and finally, accidental facts which scarcely occur in the same way (*Physics* II 5 196b 10 ff. and *Metaphysics* VI 2 1026b 27ff.). Exact sciences deal with the first category; physics and politics deal with the second; and the third cannot be subject-matter of any science. “General facts” are *hos epi to polu* (those that happen in many situations –but not by necessity and not always, *anankes kai aei*–). This is an expression not only used in the quoted passages of the *Metaphysics* and *Physics*, but also in the *Nicomachean Ethics* (I 2 1094b 21); in the latter with reference to the practical realm. Inexactness of practical science is based on this fact of dealing with “general facts”. Given that for example, by definition, statistics deals with general facts it is clear that it cannot be, in that sense, an exact science. This does not mean a weakness but a rigorous adjustment to the nature of the subject-matter. For example, an adult literacy of 85% means that 85 of 100 adults know how to read and write, and 15 do not. That is, 85% applies to the whole, not to particular individuals. The real figures are 100% for literate

people and 0% for illiterate: no person is 85% literate. In fact, the correct policy is not to improve 15% of the literacy of all the people, but to look for the 15% illiterate and to teach them. This figure (85%) is, however, true about the whole, and it is highly useful, because if we do not know that the literacy is 85% we will not look for the 15% who are illiterate. The statistician puts into brackets the contingency of the particular case but at the same time, he considers it. Nevertheless, this does not imply a lower level of truth, but practical truth, which is the suitable for this subject-matter.

However, can we not reason at least a short list of practical universal principles applicable to all particular situations? As mentioned, Aristotle deduces some “anthropological constants” from his observation of human beings and societies:

- i. Reason: “Man alone of the animals is furnished with the faculty of language” (*Politics* I, 2, 1253a 9-10). The word used by Aristotle to express language is *logos*. *Logos* also means reason, which is the source of language. Reason has a triple use: theoretical, technical and practical.
- ii. Sociability: “there is therefore an immanent impulse in all the men towards an association of this order” (*Politics* I, 2, 1253a 29-30). For Aristotle, social interaction is crucial for the development of rationality and men have this natural impulse towards association.
- iii. Language: man is the only animal furnished with this capacity. Language does not develop independently from society (*Politics* I, 2).
- iv. Communication, enabled by rationality, sociability and language.
- v. Moral sense: Aristotle asserts that “It is the peculiarity of man (...) that he alone possesses a perception of good and evil, of the just and the unjust, and of other similar qualities” (*Politics* I, 2, 1253a 14-18).
- vi. Capacity to look for common aims, as a clarification of the deep meaning of sociability. For him, these aims are shared by a family or a polis: these are not mere aggregations (*Politics* I, 2, 1253a 18-20).
- vii. Freedom. A different aim of the will or weakness of the will (*akrasia*) might lead to different ways of behavior, which might be called irrational, or asocial or immoral.

Additionally, Aristotle in his *Politics* distinguishes different kind of societies with distinct characteristics and ends. He studies the nature and ends of each kind and, then, he postulates the adequate organization and means of them. The research is performed by theoretical reason and the normative proposal is a task of practical reason.

There are two more sources that allow generalization in practical sciences: first, a natural basis, like these “anthropological constants”, and like natural phenomena (as the recurrence of seasons); second (and compatible with the former), the recurrence of habits. This is because in the realm of human action “in most respects the future will be like the past has been” (*Rhetoric* II 20 1394a 7-8). Hence, generalizations in practical science are actual dispositions or habits (see Wolfgang Wieland 1996). As Alasdair MacIntyre (1984: 102-103) explains, predictability in the social sciences is possible, although imperfect. This is often achievable thanks to knowledge of a) statistical regularities; b) of the way people carry out their need to schedule and coordinate their social actions; and c) also thanks to the awareness of the causal regularities of nature and of social life. This is why close contact with facts is necessary in practical science. The more stable the habits and tendencies the more predictable the outcomes. In any case, general tendencies may change: they

are not firmly established universals. Aristotle develops a theory about the stability of habits (*Nicomachean Ethics*, VII, 9, 1151b 25-7 and VII, 10, 1152 a, 26-7). When habits are sufficiently stable as to constitute social institutions, practical science is firmly based. Therefore, institutions are very important for they consolidate tendencies and habits and facilitate accurate science. By all these means, practical events are not only accidental but “general facts” that *hos epi to polu*, happen in many cases. This provides the basis for practical generalizations and practical science.

In conclusion, first, practical science is less exact than theoretical science because its subject-matter, although often repeated, has greater variability. This does not mean that it achieves a “lesser truth” but a different truth. Second, practical science, however, is exact in that it knows the former. That is, its exactness does not mean absence of rigor. Quite the contrary: rigor in the practical field entails the acknowledgement of this inexactness. Third, practical reason may be exact in its conclusions thanks in part to its good exercise. Fourth, we can reach at a short list of universal principles based on “anthropological constants” of human beings. These are often expressed by the universal human rights. Fifth, we can also do some generalizations based on other natural causes and on personal habits and social regularities. These latter are strengthened by social institutions.

4. PRACTICAL REASON IN ECONOMICS

Philosophers supporters of the existence of the practical reason’s field would never put in doubt the practical character of economic activity and, therefore, that economics is a practical science. Amartya Sen remarks the long tradition of this conception of economics, called by him “ethics-related”, from Aristotle to our days –although it is not the most usual (Sen 1987: 2-4). In this Section, I will briefly consider some authors belonging to this tradition: Aristotle, Smith, Keynes and Sen. I will also mention a philosopher, Hilary Putnam and an economist that might cause surprise in this context: Lionel Robbins.

Aristotle refers to the economic life in dealing with *oikonomike*, a Greek adjective that means “economic”. He considers that *oikonomike* is the use of the things necessary for Good life, i.e., the life of virtues. For him, it is more than household management, as many economic historians believe: it deals with the house and also with the *polis* (cf. *Politics*, I 8, 1256b 12-4; I 10, 1258a 19-21; I 11, 1259a 33-6). *Oikonomike*, for him, is subordinated to Politics because the things it uses are necessary for the very existence of the *polis* (cf. *Politics* III, 9, 1280b 31-2).

For Aristotle, *oikonomike* can only be aimed at the good; it is essentially moral. He distinguishes it from another related concept, chrematistics, which is a technique subordinated to *oikonomike* dealing with the acquisition of those things used by it. This technique, on the contrary, is not essentially oriented towards the good. Therefore, while for Aristotle a harmful *oikonomike* is not thinkable two kinds of chrematistics can be considered: a subordinated, limited and natural one, and a wicked, unnatural, unlimited one. Taking into account the whole context of the treatment of *oikonomike* into the *Politics*, Aristotelian scholars have usually interpreted that it is a practical science (see, for example Reeve 2006, p. 206, Natali 1980, p. 117, Berti 1992, p. 89, Newman 1951, p. 133 and Miller 1995, pp. 6-11). In

sum, for Aristotle *oikonomike* is a kind of human action regulated by practical reason and studied by a practical science.

According to Adam Smith political economy is “[a] branch of the science of the statesman” ([1776] 1952: 182 –Book 4, Introduction). Recent literature on Smith’s philosophy stresses the moral character of his conception of economics. Jeffrey Young, for example, in his book on Smith’s thought, *Economics as a Moral Science* (1997), states that for Smith the market is a social arena for actions in which knowledge of the sympathetic feelings of the impartial spectator is an operative factor in understanding market activity, price and distribution (1997: 56). The role of the impartial spectator in depersonalized societies and markets is that of “a bond of union and friendship” (61). “Wealth and virtue are complementary in Smith” (157) in the frame of a ‘benevolent model’ (69, 76) and a ‘virtuous sequence’ (184).

It is very well known that Lionel Robbins in his *Essay on the Nature and Significance of Economic Science* defines economics as an activity of allocating means in order to achieve given ends. He supported value neutrality excluding ends of scientific knowledge: “Economics is not concerned at all with any ends as such. It is concerned with ends in so far as they affect the disposition of means. It takes the ends as given in scales of relative valuation” ([1935] 1984: 30). Throughout the years, however, he finally maintained the need of a normative knowledge of economic reality. In his *Autobiography* Robbins tells that he had studied economic theory but that he quickly had realized that “all this was in a very high plane of abstraction (...) There was another level, however, on which economic analysis was conjoint with assumptions about the ultimate desirable ends of society which, (...) had no less a hold in my attention” (1971: 150). His historical studies of classical English economists gave him justification to pursue his new point of view. We can track through Robbins’ works the evolution of this concept during the years.¹ I will only refer to his 1980 Richard T. Ely Lecture at the American Economic Society Annual Conference, “Economics and Political Economy” (1981). Robbins explains that since classical political economy included value judgments, this term –political economy– was left aside and the term *economics* began to be used. He suggests reviving the term “political economy” in order to emphasize a knowledge that overtly deals with political suppositions and value judgments. Many economic matters correspond to this new and old knowledge. “In the application of Economic Science to problems of policy,” Robbins affirms, “I urge that we must acknowledge the introduction of assumptions of value essentially incapable of scientific proof” (1981: 9). The rejection of the scientific character of an investigation is still present in Robbins, but he admits the necessity of considering them.

It is interesting to see that it was precisely against Robbins view of economics that Keynes reacts and sustains that it is a moral science. This contention was included in two letters to Roy Harrod from 4 and 6 July 1938:

In the second place as against Robbins, economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value. (1973: 297) I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and

¹ See my paper 1998.

homogeneous (1973: 300).

I want to remark that Keynes' characterization of economics fits with the mentioned traits of practical science. It deals with values, reasons and uncertainties. This leads him to sustain that economics needs to consider the conditions of the specific situations that it is dealing with. He also considers the methodological pluralism of practical sciences, including "theory and fact, intuitive imagination and practical judgment" (1973: 335)

Finally, Hilary Putnam has powerfully sustained the collapse of the fact/value dichotomy (2002). He tries to "explain the significance of the issue particularly for economics" (2002: vii). He argues that ends matters in economics and that they can be discussed rationally. Ends cannot be separated from economics because description and evaluation are interwoven and interdependent (2002: 3). Putnam's example of the recognition of his position in economics is Amartya Sen's capability approach. Sen (2002: 51) complains about the arbitrarily narrow current formulations of rationality. He asserts that "rationality is interpreted here, broadly, as a discipline of subjecting one's choices –of actions as well as of objectives, values and priorities –to reasoned scrutiny" (2002: 4). For him, "rationality includes the use of reasoning to understand and assess goals and values" (2002: 46).

Suppose then that we have accepted that economics is a practical or moral science. What is the implication for economic analysis? In the next Section I will offer an example, the conception of the market under this perspective.

5. THE MARKET FROM A PRACTICAL SCIENCE POINT OF VIEW

From a practical science point of view, which is not only a descriptive but also a normative view, the exchange interaction cannot work well outside political society. The good functioning of exchange does not develop in a vacuum but in political society. As Stephen Gudeman asserts, "markets never exist 'outside' a cultural and social context" (2001, p. 94). This position resembles current positions about the necessity of moral ties to ensure a correct performance of market. Israel Kirzner said in a personal letter on this topic:

You suggest that '*moral coordination* is an implicit condition for economic coordination.' Now I have, in other papers, expressed my agreement with the central idea with which you conclude your letter: 'Economy does not run without a common *ethos*.' Like you, I do not believe that a market economy (and the economic coordination it is able to achieve) is feasible, as a practical matter, without a shared moral framework. So that I agree that a condition for the *practical achievement* of economic coordination is (what you call, if I understand correctly) *moral coordination* (Letter of July 23, 1998, on file with the author; emphasis in the original).

In the same sense, Bruce Caldwell writes: "It seems clear that the existence of a 'certain moral climate' is indeed a necessary condition for an economy to be able to function adequately" (1993); and Irene van Staveren asserts: "Smith, Mill and Taylor, Marx, Reid and Perkins Gilman knew very well that free exchange does not function without justice, nor without care" (1999, p. 73). Cf. also Luigino Bruni and Robert Sugden (2000).

Ontologically, the market is an accidental reality, a net or order of relations – of buyers and sellers, people who exchange: the order or unity comes from the coincidence of wills willing to buy or sell in order to satisfy their needs, and this coincidence is achieved thanks to prices. This net of relations belongs to the broader net of society. For Aristotle, both society and exchange are natural in the sense that they are institutions demanded by human nature to achieve its natural fulfilment. Men are both *zoôn politikòn* (e.g. *Politics* I, 2, 1253a 3-4) and *zoôn oikonomikòn* (*Eudemian Ethics* VII, 10, 1242a 22-3).

However, for Aristotle natural in the realm of humans does not mean ‘spontaneous’ or ‘automatic’. *Polis* and exchange are tasks that are to be performed with effort, not facts. This does not mean that there cannot arise some institutions that facilitate this performance and work quite automatically, as the market. As John Finnis maintains, “Things will be better for everyone if there is a division of labour between families, specialization, technology, joint or co-operative enterprises in production and marketing, a market and a medium of exchange, in short, an economy that is more than domestic” (1982: 145). Precisely, the task of *Politics* and *Economics* is to find out and to shape these institutions which foster the suitable habits dealing with economic coordination. In any case, as stated before, provided that one goal of these institutions is to shape habits, the very institutions alone are like empty structures to be filled. This goal highlights the relevance of paying special attention to their efficacy in promoting good habits (virtues). This is one important political lesson from the Aristotelian conception of *oikonomiké* and *politiké*.

6. THE ECONOMISTS’ ROLE

What does all this actually imply for the behaviour of economists? Actual human actions are not mere allocations of scarce means given some ends to achieve. Ends are not only given but are also generated in the very process of action. James Buchanan maintains that “we must also acknowledge that men can choose courses of action that emerge only in the choice process itself” (1987: 78). Means and ends mutually interact and determine. Elizabeth Anderson has considered Dewey’s thought on this point. She notes,

(...) the character and value of means and ends was reciprocally determined. We do not first already have an end in view, with the only question how to achieve it. We lack a complete conception of our end until we have a complete grasp of the course of action that will take us there (2005: 8).

Hence, the mere consideration of the ends as given, reflects a truncated action which is not human. “Acting on such radically truncated judgments would be crazy”, Anderson affirms (*ibid.*). Ends and means interplay often conducing to a re-definition of ends. Given these characteristics of human action, what is the role of the economist?

First, we can consider a reflection about some absolute ends (universal human rights) that are unexceptionable. Here we find a first role of the economist: he must only try to allocate means in order to achieve them. But then the turn arrives for reflection on a second set of ends which are exceptionable, beginning with

designing a rough sketch, and following with an adjustment to the real possibilities of achieving them with the given means. Here the economist must intervene and point out the limits of plans. The contribution of the economist is needed for this process of matching means and ends. (I am supposing the possibility of an interdisciplinary discussion about the ends.)

However, although I held that instrumental rationality must obey practical rationality, I do not devalue its possible contributions. As noted by Anderson, maximization has a local role within practical reasoning (1997: 45). There are fantastic examples of how much Economics contributes to diverse fields such as health and education, transportation and industries, regulations, privatizations, and integration, only to mention a few, provided that the practical constraints were also defined: for example, that basic education, or a number of medical interventions will be prioritised. Economics may also work with a set of ends which singular specifications could be appraised by cost-benefit analysis (Finnis 1997: 218-9).

However, the interplay between practical and instrumental rationality often becomes more than necessary. This stems from a variety of aspects of these ends which do not have strict economic value. All actions are performed by men and can affect men. The impact is not only appraisable in terms of cost-benefit analysis and, thus, practical rationality must enter into a game which continually engenders constraints. A possible example is deciding on whether to assign budget to the so-called First Generation Reforms or to Second Generation ones which cannot be assessed only through monetary returns. For instance, the reforms in justice and education are difficult to be assessed in economic terms and may thus be unfairly delayed. This is a political decision that, once taken, becomes a given for the economist who will then locally apply cost-benefit analysis.

Again, as asserted, there are occasions in which the relevant criteria to decide on ends are only strictly economic: this is the appropriate field of economics working alone. But as soon as the matter loses this specificity, economic calculation becomes more complicated due to the difficulties of expressing non economic values in economic terms. Summing up, the role of the economist will be, first, to be engaged and actively participate in interdisciplinary discussions concerning problems needing an interaction of means and ends. Second, the economist, as usual, will contribute with local cost-benefit analysis that must be included in any practical decision.

To conclude this section let us hear from James Buchanan (1987: 78) who considers the possibility of developing an economic theory embracing all these tasks:

The residual aspects of human action that are not reducible to ratlike responses to stimuli, even in much more complex human variants, define the domain for a wholly different, and uniquely human, science –one that cannot, by its nature, be made analogous to the positive-predictive sciences of orthodox paradigm. There is surely room for both sciences to exist in the more inclusive rubric that we call economic theory.

That is, there is place in economics for both kinds of rationality.

CONCLUSION

During the last 80 years standard economics has focused mainly on an instrumental rationality analysis of economic events. This kind of analysis has some advantages: it tends to be exact and leave away the controversial problem of determining values. This, however, has been a self-deceiving strategy because the exactness has been mainly formal, devoid of relevant content, and values could not be taken away, but remained hidden in the assumptions.

In this paper I first explained what is practical reason and science. In following sections I related the saga of economics as a practical science and put an example of the way it conceives economic realities, i.e., the market. Then, I proposed the role of economists in such a conception of economics. This section stresses the necessity of adopting for economics a broader notion of rationality than the used today. This does not mean that instrumental rationality has not a role in economics. The paper tries to arrive at a complementary vision of the role of the different kinds of uses of reason in economics suggesting the right place of each one.

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2. POLITICAL ECONOMY

Simona Beretta

Regulations and Trust: Making Finance Work for People

The consequences of the 2007-2008 financial crisis are still looming. Emergency action was taken, producing the results that were expected: in most regards, financial markets are indeed back to “business as usual”. Global financial markets have regained the appearance of “normal” operation – that is, they are in the sort of perennial turmoil, constantly creating winners and losers, that make it possible for daily newspaper to comment upon financial developments.

One important development, which is particularly sensible in the financially advanced countries which were directly hit by the crisis, consists the fact that in most of those countries the boundaries between the “public” and “private” spheres in finance have once again been re-drawn. Not for the first time! Just to consider the XX century, the worlds of finance witnessed two wide swings: from the mostly “private” financial markets of the Belle Époque to the highly “state” controlled financial markets of the post-1929; from the diffused monetary and financial instability generated by inflationary public finance in the Sixties and the Seventies to a diminished role of state controls on financial markets, to deregulation and globalization in the Eighties and Nineties up to the 2007-08 crisis... back to the current situation of public finance-related financial instability¹.

A crisis, after all, exactly consists in having suddenly to deal with a pre-existing problem, that for some reason was not acknowledged: the problem of some debtors are not be able to honour their debt. That is: a crisis obliges all agents to face reality, and to decide who will bear the cost of insolvency. This is what emergency financial intervention does: avoiding the cost to be fully borne by those agents (financial intermediaries) that – no matter how “guilty” in the built up of the conditions leading to the crisis – are necessary for keeping active the business. That is, making it possible for financial markets to exist remains priority number one for policymakers. Hence, emergency actions in the financial system will redistribute the costs of the crisis in ways that are not always easy to assess, both in terms of which type of subjects (borrowers, lenders, taxpayers) will bear most of the costs, and in terms of the temporal perspective (the present *versus* the future generation).

The above perspective, while important, only focuses on the most visible direct aspects of managing financial markets’ crises. In-depth exploration of the nature and the structure of financial market would show a much broader scenario. A crisis should re-open the questions on the “true” nature and the “true” functioning of financial markets: it would be a very reasonable reaction. But the urgent pressure to go back to “business as usual” tends to obfuscate these profound questions

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¹ Assessing the quality of national public debts is currently among the most relevant task for credit-rating agencies. It is all too evident that the “technical” and the “political” dimensions of this necessary exercise are so intertwined to make potential instability in one domain quickly transfer into the other.

and to displace them with more practical, politically sensible issues: who pays, and how much, for letting financial agents go back doing what they were doing the days before the crisis.

There is a lesson about winners and losers of previous crises that can usefully be recalled. When crises occur, the weakest subjects are the ones who very likely bear most of the direct and indirect costs of financial distress; in particular, there are people who heavily suffer from the economic consequences of the crisis despite the fact that they cannot reasonably be held responsible for the crisis in the first place. The icon of this “innocent” bearing the cost of financial upturns and downfalls can very well be the low-income families that must face the upswings of food prices connected to the trading of food financial derivatives. This example rightly awakens the concern for justice, which seems only incidental in common debate, as compared with the concern for the financial system's stability.

What I would like to show is that this concern with justice is all in one with the full-fledged concern for financial markets to be effective in delivering the special good they are meant to, namely finance. That is, for finance to be true to its nature, offering the possibility for people to invest, to innovate, to develop. This is making finance work for people.

There is a huge cost in not asking the unpleasant, profound questions about how finance should be ruled and organized for being true to its nature. The cost is not grasping the causes of finance's structural instability. There is only one way in which finance can reward, on a sustainable basis, those who save: namely, by allowing savings to finance real initiatives for development. Purely financial transaction can also make money out of money, and even out of borrowing; but this kind of “financial” finance is actually dependant upon sound “real” finance. In other words, by not asking the question about the meaning of finance, we risk leaving unexplored some important structural causes and consequences of the crisis itself, and letting the system tread the path toward the next crisis – which will be different, in its details, with respect to the current; but it will be structurally similar to the innumerable financial crisis our world has been experiencing along past few centuries, while financial and institutional innovations in financial markets and public finance were taking place.

The cost of not broadening the set of relevant questions about global finance to the same meaning of finance is particularly huge today. The recent crisis was the first global crisis to originate in a mature, vast and supposedly resilient financial market (the USA market), spreading to most countries, but for a variety of reasons, through different channels and with very differentiated impacts. The opening of the G7/8 to irreversibly become G20 is a sign, and not the least, that we are living in a different world. In a very concrete sense, the world is becoming more “plural”. The centrality of western countries remains, since inertia is a very powerful force; but the most relevant changes are driven by emerging countries, who are the drivers of structural change. In this scenario, conceiving financial stability as “going back to business as usual, as quickly as we can” may be more of a daydreaming than an expression of sound realism.

This paper faces, one after the other, the following questions: What is the “real” nature of finance? Can we dispose of the financial dimension of the economy? Trust: what is it, and can we produce it? Rules: can they substitute for trust? Which are the conditions for finance to effectively work for people - hence, for being sustainable? How to prevent crises and excessive instability ? How to make financial resources available for deserving projects?

1. WHAT IS THE “REAL” NATURE OF FINANCE? CAN WE DISPOSE OF THE FINANCIAL DIMENSION OF THE ECONOMY?

Finance is as “real” as time and uncertainty are. We constantly experience the need to reduce economic uncertainty; we save in order to be able to consume in the future, or simply to keep purchasing power for “the rainy days”; we experience the need to dispose of some extra purchasing power today, to invest in view of some future expected result. Hence, we cannot dispose of “real” finance, be it formal or informal; that is, we cannot dispose of effective possibility to trade current purchasing power for future purchasing power – in jargon, inter-temporal trade.

All relevant human actions occur in time and under uncertainty, hence all actions possess and intrinsically inter-temporal dimension. This said, it should be clear that we need to quickly overcome the dichotomy, which is more deceiving than helpful, between the “real” economy (which is supposedly “good”) and the “financial” economy (which is dangerous to say the least, and which should be curbed and controlled). All human actions reflect human nature, and its structural ambivalence; more prosaically, all economic actions (even the simplest transactions) imply a complex mix of cooperation and conflict with others.

Hence, the essential function of financial markets is to allow inter-temporal trade to occur among savers and investors in a sustainable way, within an agreement that allows both parties to pursue their individual goals: remuneration, risk diversification, reasonable exit possibilities for savers; for investors, availability (in terms of both quantity and price) and predictability over time of financing flows so that performing project can be realized. We cannot dispose of financial pacts, as long as we deem good ideas to be an important driver of human development: we would like investment ideas by people who do not possess the required amount of material resources to be transformed into realizations.

The word “pact” has been used, with good reason. Financial contracts may be very formal, even perceived to be impersonal. But there is more to finance than simply buying and selling an object; the competitive market stereotype, where most transactions are anonymous, cannot meaningfully represent financial markets. Financial contracts remain implicit pacts, which are expected to hold over time and under uncertainty. From an analytical point of view, they are “incomplete” contracts. In fact, none of the parties has all the relevant information: both lack certainties about what the future holds, and must operate on the basis of their expectations both about future developments in general, and about what will specifically happen to their counterparts. Furthermore, the process of reaching a financial pact is conditioned by serious information asymmetries: each party has some private information that does not want to reveal, or it is not able to credibly reveal. The reciprocal awareness of information asymmetries can make even truthful statements practically unbelievable: each party may be suspected to lie, or to only partially and strategically reveal private information.

Since partner-specific and systemic uncertainties are here to stay, along with information asymmetries, one should ask: which conditions can allow parties to reasonably commit to a financial contract? What can be the basis for mutual trust? A similar question may be asked with reference to the aggregate of financial transactions: since financial markets are characterized by phenomena of moral hazard and adverse selection, what can be relied upon to form the reasonable basis

for market confidence? The answers are similar in both the “micro” and the “macro” setting: for financial decisions to be reasonable, we need trust.

Finance, in fact, consists in a fiduciary relationship, either founded on personalized and potentially durable bonds or on reliable societal networks: the fiduciary relationship is especially important when finance is meant to support productive those real investments (in physical, infrastructural, human capital) which are expected to provide returns over the longer run. Fiduciary relations can hardly be replaced by impersonal mechanisms or anonymous institutions. Significantly, the expression "giving credit" has two meanings: "I lend you money"; and "I believe you", or "you are credible". That is, "I trust you"

2. TRUST: WHAT IS IT, AND CAN WE PRODUCE IT?

We can obtain (usually poor) substitutes for trust relationships, but these rarely work and they periodically contribute to crisis situations. Trust can be built through repeated personal interactions, which involve some form of bilateral proximity. As an alternative, financial relations among agents who do not personally know each others can be entered on the basis of partners' reputation; in this case, the issue of trust remains crucial, since you need good reasons to trust who claims to be able to assess the qualities of your would-be partner.

Trusting somebody else's judgement is either a deliberate decision to trust that person, or may turn out to be very risky - in a different way than in trusting one's own opinion, but risky all the same. This is especially the case when a large number of small agents that ignore each others tend to rely, for their decisions, upon the judgement of one or few specialized agencies. This confers a lot of power to those specialised agencies, and may contribute to small agents behaving as a herd, without even knowing it. Herd behaviour easily leads into a “trap”!

This patently occurred during the Seventies, with the boom of international bank loans to the "emerging" low-income countries of the times. Large financial institutions promoted syndicated loans, assuming the responsibility to gather all relevant information about the borrowing country and actually writing the terms of the loan; other smaller financial institutions decided upon their participation as lenders in the syndicated loans, on the basis of their trusting the promoting institution. With the benefits of hindsight, the information collected was definitely poor (no information was at that time available on how many different international loans a given country had already entered); promoting institutions were lead to severely underestimate borrowers' insolvency risks. A generalised insolvency crisis occurred in facts in 1982, with Mexico defaulting on its debt and other countries immediately following , because they were either insolvent or illiquid – but being illiquid in a moment in which lenders dry up all financing channels amounts to default nonetheless. In more recent times, credit-rating agencies assumed the role of gathering information and providing a synthetic assessment of the risk profile of potential debtors; once again, the global financial crisis evidenced the destabilizing role of rating agencies, which faced both subjective and objective incentives to provide underestimated risk assessments.

Both stories illustrate the dangers which are inherent to the "mechanism" of reputation: the mere fact of being considered a reliable source of information and assessment modifies the structure of incentives of the agency providing risk assessment. In times of financial euphoria, the quality of would-be borrowers tends to be systematically overestimated, precisely in order to favour the

expansion of financial markets; this behaviour facilitates credit expansion, that by definition amounts to excessive borrowing ... in short, once the real quality of debt proves to be poor, the financial system precipitates into a new crisis.

An illusory alternative to personalized trust, either direct or through an intermediary rating agency, consists in only entering financial contracts from which the lenders can exit at very short notice, or even instantly. "Short termism" becomes a generalised attitude of mind, contributing to a diffused (but very frail) sense of safety. In facts, when danger looms ahead, all lenders will want to exit – but trying to exit all at once exactly amounts to a financial crisis.

The shortening of traders' time horizon often goes with other forms of avoiding the "subjective" dimension of trust, by providing credit on the basis of "objective" factors – or seemingly objective factors. Some practices are well established, like mortgage loans where real estate represents the guarantee for the lender; other practices - like securitization - are more recent. Both have proven quite dangerous in the recent financial crisis, because their potentially useful role of prudent support to personalized relations was largely overshadowed by their widespread use as a trust-substituting mechanism. Securitization makes credit relationship impersonal and "objective"; anonymous, interchangeable individuals may take position in the debit-credit relationship. Securitization allows "local" credit to be globally negotiated in financial markets; intermediation multiplies the fragility of the system, increasing the "distance" – not just the physical distance, but also the relational distance –between the final lender and the original borrower: the fiduciary link is actually void, with an obvious loss of information within the system.

Mechanistic substitutes for trust relationships in financial markets proved likely to lead to inefficient results (financial market failures) because of the poor quality of "micro" information about the original borrowers and because of the poor quality of the "macro" transparency of the market. But financial market failures occur whenever "widespread irresponsibility" prevails among lenders, each of whom feels "mechanically" safer because of the possibility to avoid personalised pacts and their the risk, by taking only short or very short run positions. They do not "respond", they do not "answer", to any specific partner; they are not "responding" to any specific financial need society may have. By choosing not to deploy personalized, specific trust, "short-termists" end up being forced to be confident about market development... which does not seem to be such a smart idea, after all! We can list a long series of financial crises that were built exactly upon "widespread irresponsibility".

Replacing personalized financial pacts with anonymous short run contracts, and still feeling safe for the time being, shows the existence of a problem that is rational and cultural in nature, prior than being a technical or even an ethical problem. De-personalizing trust leads to "endogenously" unsustainable situations, hence it is an unreasonable behaviour, no matter how individually "rational" – in a technical sense – are the procedures used in order to decide upon buying and selling short run contracts. Closing eyes to crucial aspects of reality (systemic uncertainty, information asymmetries, moral hazard, adverse selection) in order to simplify procedures for financial decision may yield short run benefits, for some time; but it is bound to end in distress.

In the 2007-08 crisis, we find numerous examples of using "mechanistic" substitutes for trust, with the devastating consequences we all witnessed. Savers delegated institutional investors to manage their portfolio, basically trusting their judgment

and mostly paying attention to the yield profile of the managed funds. Managers' bonuses, linked to their short run (quarterly, at most) financial performance, shortened the time horizon of financial management: they had the incentive to produce short run financial profits, not to identify investment opportunities which could give the best medium-long run yield. Mark-to-market accounting practices implied that instantaneous market value of asset were incorporated into the value of portfolio, inflating the value of portfolios in times of euphoria, in a self-validating sequence: as long as market prices go up, it is easy to find buyers that keep the price rising. Only the changes in instantaneous market prices mattered to short run decisions of institutional investors, no matter how reasonable those prices were. Any substantial assessments of the "real" value of asset was pushed into the background, both in the minds of portfolio managers and in the mind of the would-be borrowers. Productive firms had to provide quarterly reports that showed profits, in order for their stock prices to keep an upward trend – even the "real" economy had to adopt short term criteria in managing production, investment, hiring and firing of workers. Credit-rating agencies also faced incentives favouring high ratings for (provisionally) successful intermediaries – thus contributing to the spreading of a false sense of confidence. "Originate to distribute" practices dramatically increased the geographical and the relational distance between agents, making it extremely difficult to gather information for sound risk management practices. Massive use of financial leverage multiplied both the expected yields, and the associated risk.

The cultural prevalence of short run considerations distorted the incentives of all market participants – away from reality, towards reciprocal illusion. It may seem paradoxical that large financial institutions "ignored" how risky their situation was, up to the explosion of the crisis – when it was obviously. There are forms of ignorance we cannot avoid, and they enter into our being aware of risk, uncertainty, and possible errors on our side. Besides this "healthy" ignorance, there is the unreasonable decision to "ignore" our "ignorance": as it happens in uncritically using reputation mechanisms as substitutes for personalised trust; in passively relying on credit-rating agencies' assessments; in superficially accepting financial market prices as unbiased assessment of assets' value, without pondering to what extent market prices reflect reality. But reality cannot be denied for long: sooner or later, it shows up for what it is.

3. RULES: CAN THEY SUBSTITUTE FOR MARKET CONFIDENCE AND TRUST?

When reality shows its face, in times of crisis, it is very common to hear opinion saying that finance went out of control, putting to danger the "real" economy (as if finance were unreal, somehow); and that financial markets need more regulation, to keep financial excesses under control and prevent instability. No doubt the orderly working of financial relations needs rules; the point is whether and how formal regulation coming from an external authority can be effective in preventing instability.

In light of the repeated episodes of financial and currency crisis experienced over the globalization decades, one can draw some "lessons" about preventing crises that can be summarised under three main headings: first, promoting "transparency" in financial markets; second, strengthen national macroeconomic policies and avoid over-borrowing; third, introducing or reinforce micro-prudential regulation over financial institutions. The recent crisis added the need for macro-prudential initiatives to the third point; that is, regulation and

surveillance should apply also to the overall financial system, not only to individual actors.

A quick comment on the first two points. We definitely need transparency; but no matter how transparent contracts and markets can be made, the future remain opaque. Non transparency can substitute for actual prudence. Second, sound macroeconomic policies are obviously needed, since heavily indebted countries facing a financial crisis find themselves in the very difficult position to quickly restore the sustainability of their financial position. Despite that fact that excessive borrowing is by definition matched by excessive lending, there is an structural asymmetry that makes it more urgent and costly to adjust for borrowers. As a matter of facts, the problem of adjustment has been and remains at the core of any discussion about how to shape a stable monetary and financial system. Adjustment failures inevitably led to either localized or systemic crises, since no individual agent and no country can be able to borrow forever. Despite its centrality, the problem of adjustment is very difficult to tackle, and it has never been solved for good. The 2007-2008 crisis is no exception: "global imbalances", in particular, the large US current account deficit mirrored in the massive surpluses of emerging Asian countries, played a significant role. Unsurprisingly, though, different governments seem to give different weights to the relative role of those imbalances, as compared to the role of inadequate financial market regulation; and the G20 got significantly stuck on the issue of "macro-prudential" regulation, that is on which macroeconomic indicators should be controlled in order to monitor the building up of macro-financial instability.

The current existence of widely different opinions about the relative role of macro-imbalances and of lack of financial micro-regulations in causing the crisis deserves exploring. It may in part be due to each actor trying to charge the cost of preventing future crises on other actors (US points to undervaluation of the Chinese currency; EU to lack of regulation in the US financial markets; emerging countries point to the fact that the crisis however originated in western countries). But in a significant part it is a very healthy sign of ignorance on how sovereign states can cooperate in preventing global crises, as in the XIX century countries could not find a way to cooperate in preventing epidemics, since at that time they did not know whether local "miasmas" or cross-border "contagion" were to be blamed for diseases to erupt and epidemics to devastate societies. Never underestimate ignorance, especially in trying to work out a set of codified rules! You could end up objectively worsening the situation, despite the best of your intentions.

With special reference to financial regulation and financial crises, "surprising" aspects of crises are a palusible indicator of the thickness of our ignorance. The "surprising" crisis of South-East Asian countries in 1997 severely involved countries which had a sound macroeconomic structure: no inflation, not excessive government debt, current account surpluses, high investment. Too high a level of investment, it turn out to be! The International Monetary Fund (IMF) initially intervened in the South-East Asian countries by making their loans conditional on the adoption of stricter monetary and fiscal policies, and in fact it utterly failed to address the causes of the crisis, as Professor Stiglitz persuasively argued². Theoretical and practical reflection led to policies aimed at the "micro-strengthening" of financial systems, reinforcing financial regulation and supervision.

² STIGLITZ, J., *Globalization and its discontents*, W.W. Norton, New York, 2002

Reinforced prudential regulations and diffusion of best practices among financial market agents were thought to be especially necessary in emerging countries. However, after the Barings crisis in 1995 and the LTCM crisis in 1998, it became clear that the problem of prudential regulation was not confined to emerging countries. In the main financial centres, poor regulation and inadequate accounting practices made the enormous bulk of derivative operations a potential danger not only for individual financial institutions, but for the system as such. Hence, after 1988, a working group inside the IMF and the newly created Financial Stability Forum (FSF) started monitoring the "creative" operations of Highly Leveraged Institutions. It is interesting to read, today, the February 5th 2008 Report issued by the FSF Working Group on "Market and Institutional Resilience"³ which was directed to the governments of G7 countries. It was very effective in highlighting the underlying weaknesses of the global financial system and the list of policy areas which needed political consideration in view of preventing major crises – still, no action followed and the crisis violently occurred in September of the same year.

Today, there is widespread agreement on the need for better financial regulations. What is "better", though? My suggestion is to keep in mind our ignorance, and consider – in the light of past experience – that it is unreasonable to automatically expect top-down regulations to play a decisive role in preventing crises. Regulations are a necessary, yet insufficient device to preserve financial stability and market confidence.

First, there are practical reasons: one is the somewhat disquieting fact that some of the institutions which, according to most accounts, lay at the core of the explanation about how the 2007-08 crisis developed were in fact strongly regulated institutions (publicly supported mortgage loans agencies), while largely unregulated financial institutions, such as hedge funds, appeared to exhibit a more prudent behaviour in the pre-crisis period and a better performance over the crisis years.

Second, there is a logical reason that can be thought to steadily apply to the functioning of financial markets: the best rules we can devise today can only refer to past experience; nobody can guarantee that today's new rules will be up to needs of tomorrow's problems. Even worse, the rules designed to prevent the future occurrence of yesterday's kind of crises may have produce a destabilizing effect of their own. Any system of rules, once introduced, tends to modify the behaviour of agents involved, so that these rules cease to produce their expected effects: they become largely ineffective. Besides becoming "endogenously" ineffective⁴, financial regulation of a particular kind may also become

³ FSF Working Group on Market and Institutional Resilience, Interim Report to the G7 Finance Ministers and Central Bank Governors, 5 February 2008. More recent documents are also available on the same web site: http://www.financialstabilityboard.org/publications/r_0802.htm. The document listed six areas where preventive action would have been needed: first, reinforcing the surveillance and control framework (in particular, the capital adequacy of financial institutions, liquidity buffers, risk management practices, accounting procedures for off-balance sheet financial activities); second, a more rigorous identification of the originate-to-distribute (OTD) model for derivatives, to increase agents' transparency; third, reconsidering the use and role of credit ratings provided by specialized agencies; fourth, strengthening market's transparency; fifth, strengthening surveillance and prudential regulation; sixth, strengthening the authorities' ability to respond in case of crisis.

⁴ The classical reference is Goodhart C.A.E., *Money information and uncertainty*, Basingstoke London, Macmillan 1989.

counterproductive, encouraging agents to take new forms of risky behaviour, increasing the vulnerability of well defined segments of the financial system⁵.

No institutional/regulation model seems to be "crisis-proof", against innovation and structural change; on the other hand, systems where prescriptive regulations prevail (where acceptable behaviour is *ex ante* defined, and what is not explicitly allowed is by definition forbidden) innovation becomes impossible, including desirable innovations. As a matter of facts, "repressed" financial systems⁶ do not appear to perform any better than less regulated systems, in terms of financial resilience.

One last remark: rigid rules meant to prevent financial institutions from taking excessive risk can produce vicious outcomes in terms of financial stability, especially when debtors need access to credit "at all costs". The more asymmetric the relationship, the more likely it is that the financially "strong" partner will impose the "weak" borrowing partner a contractual form that imposes most risk on the borrower. The weak partner has no option besides accepting, even though the risks assumed may be way beyond what is prudent from the micro and the macro point of view. The current crisis tend to illustrate the case all too well: asymmetric participation in the financial markets by marginal borrowers dramatically increased systemic financial fragility, the more so the more leverage was used in the system. In facts, the "localised" crisis of a seemingly ultra-marginal market (the USA sub-prime loans market) evolved into a systemic crisis. Excessive inequality tends to breed financial instability⁷: once again, efficiency and equity are not at odds with each other.

To sum up: "perfect" financial regulation looks like utopia. Financial markets require each generation to re-draw the lines of a temporarily appropriate framework for prudently regulating inter-temporal transactions, which requires dealing with the relational nature of the good involved (credit) and the structural situation of asymmetric, incomplete information and "strong" uncertainty; noticeably, such a framework requires considering both efficiency and fairness issues, well beyond a strictly technocratic perspective.

The real possibility of preventing crises throughout mere regulation is therefore very limited. Rules and controls over financial markets are certainly necessary, but they are "structurally" insufficient. Nothing can actually replace human prudence, both the prudence of market agents and the prudence public authorities. I take this as a very practical example of what it means that, without some form of

⁵ As an example, take the introduction in 1988 of "first generation" capital adequacy ratios ("Basel I"). Different capital adequacy ratios were defined for bank exposures in different classes of credit risk, related to the nature of the borrower; the riskier the loan, the higher the coefficient of required capital to back it. Sovereign debt was classified as carrying the lowest risk; hence turned out to be the least costly in terms of satisfaction of formal capital adequacy requirements. As a consequence, regulated banks had an incentive to over-accumulate sovereign debt, especially issued by "emerging" OECD countries. This situation produced actual financial instability in these countries, which had become more vulnerable to sudden reversals of sovereign bonds holdings by foreign banks. The "second generation" of capital adequacy requirement was more articulated and flexible (Basle II), relying also on best practices in self-regulation, but we know that this reform did not prevent to global crisis to occur; obviously, Basle III is on the road.

⁶ R.MCKINNON, *The Rules of the Game: international Money and Exchange rates*, MIT Press, 1996, pp.355ss.

⁷ M. KUMHOF, R. RANCIÈRE, *Inequality, leverage and crises*, IMF Working Paper, WP/10/268, IMF Washington, November 2010.

gratuitousness, there can be no market (*Caritas in veritate*, 36) and there can be no justice (*Caritas in veritate*, 38).

4. WHICH ARE THE CONDITIONS FOR FINANCE TO EFFECTIVELY WORK FOR PEOPLE - HENCE, FOR BEING SUSTAINABLE?

Going back to basics, for finance to effectively work for people we need to explore non mechanistic ways of meaningfully re-connecting savers and investors. Two related problems are at the core of making global finance work: addressing endogenous financial instability; and facing the structural inadequacy of our financial system to effectively support real development, by allocating savings where they can best be invested in the producing goods and services which are essential for development. These two issues are often treated as distinct, and are often actually dealt with by distinct national and international authorities⁸. But they are in fact inseparable issues: the only sustainable way for finance to financially reward savers is to use their savings for real development.

If lenders aim at financing "good" projects (by assessing the quality of the project in a non-mechanistic way; by taking the risk of forming reasonable expectations about the project's prospects; and by being ready to "respond" of one's assessment *vis-à-vis* other potential partners), something may still go wrong. Localized projects may not yield what they were expected to, and this event will create localized financial distress: either the borrower or the lender or both will incur in some costs. But localized undesirable outcomes have no lasting systemic effects; their risk can be prudently managed by simply diversifying into a variety of projects whose outcomes are uncorrelated, or negatively correlated (when a given future state of the world prevails, it makes one project more rewarding and others contextual projects less rewarding). Making localized errors in anticipating the future does not create systemic crises: when ignorance is acknowledged, being prudent in financial decisions comes quite naturally. But if lenders' savings take other routes, following the "herd", insolvencies and crises will inevitably occur.

At the roots of the questions which repeatedly arise today: How do we put an end to this financial crisis? And how can we prevent future ones? We find a deeper question, which more rarely addressed: how can we realize effective and equitable financial that can work for people?

To begin answering, we need to consider a note of realism. Building institutions and devising rules and regulation is a constant, open, "imperfect" process, to which each generation must contribute. Institutions, in fact, are more than empty shells which keep their shape virtually forever; they are socially and historically determined by the actual decisions of those who are working within them. Building "institutions of justice" within the financial sphere is a never-ending effort, involving each generation anew.

I am quit impressed by the fact that this realistic perspective can be identified, as a *fil rouge*, in the three Encyclicals written by Benedict XVI. "Building a just social and civil order, wherein each person receives what is his or her due, is an essential task which every generation must take up anew" (*Deus Caritas Est*, 28). "The right state of human affairs, the moral well-being of the world can never be guaranteed simply through structures alone, however good they are. Such structures are not only important, but necessary; yet [...] Even the best structures function only when the community is animated by convictions capable of motivating people to assent

⁸ At the global level, G20 deals with financial instability; UN agencies with finance for development – unsurprisingly, neither seem to be very effective.

freely to the social order" (*Spe Salvi*, 24). "In the course of history, it was often maintained that the creation of institutions was sufficient to guarantee the fulfilment of humanity's right to development. [...] In reality, institutions by themselves are not enough, because integral human development is primarily a vocation, and therefore it involves a free assumption of responsibility in solidarity on the part of everyone" (*Caritas in veritate*, 11). "Only a humanism open to the Absolute can guide us in the promotion and building of forms of social and civic life -structures, institutions, culture and ethos- and [...] in the ceaseless pursuit of a just ordering of human affairs" (*Caritas in veritate*, 78).

Human effort at constructing social rules and institutions of justice, engaging the full breadth of human reason (well beyond mechanistic simplifications and reductionisms) can produce surprising results. When Benedict XVI addressed the French cultural *élite* at the *Collège des Bernardins* (Paris, 12 September 2008) – a few days before the Lehman Monday –he celebrated the amazing creative power which flourishes, even when it was not programmed, on the daily work of those who tenaciously keep searching what is essential for human life: beauty, truth, justice, love (*quaerere Deum*, to say it with a formula). The Pope recalled the amazing technological, cultural, economic, social, and political accomplishments of medieval monks: they were achieved during hard times (the political situation, the economy and society of the Middle Ages were not particularly better than today's) and by absolutely "normal" people (I see no reasons to believe that men of those times were more talented than today). In these accomplishments, individual geniuses played their part within the common endeavour of a people that lived -even physically- around monasteries, the places where "searching for God" was the meaning of daily life. Without the *ora et labora* of a "creative minority", as monks were, Europe's technological, cultural and economic development would remain totally unexplained. "Amid the confusion of the times, in which nothing seemed permanent, they wanted to do the essential - to make an effort to find what was perennially valid and lasting, life itself [...]; they were seeking the definitive behind the provisional. [...] Human work and shaping of history is understood as sharing in the work of the Creator, and must be evaluated in those terms. Where such evaluation is lacking, where man arrogates to himself the status of god-like creator, his shaping of the world can quickly turn into destruction of the world" (Benedict XVI, 12 September 2008).

A few days later, the sudden collapse of the so-called "creative" finance offered a concrete example of how the diffused habit of not respecting the measure of reality and reducing the scope of human reason led a grand human construction – a global financial market, active 24 hours a day, connecting individuals around the globe – to its downfall. Many other cases where "man arrogates to himself the status of god-like creator" can be recalled, leading to self-destruction: the environment, the quality of products, the quality of social relationships, human life itself.

CONCLUSIONS: MAKING FINANCE WORK FOR PEOPLE REQUIRES VIRTUE

Each generation has a responsibility to develop financial institutions that truly work for people, and the easiest way to do it is for such institutions to be developed according to the very practical principle of subsidiarity. Regulations are necessary, but not sufficient. Complexity and uncertainty make top-down approaches to financial governance less effective (and possibly less equitable as well) than the perspectives "from below" which valorises creativity, responsibility,

solidarity. Good development projects can only spring from loving reality, and from respecting its fullness; finance works for people by treading along the same lines. No regulation make finance work for people, without virtues. We need constantly recognizing that finance is ultimately a "credit" relationship, a personalised and potentially durable pact meant to endure time and uncertainty; and recognizing that trust must be deserved and nurtured within virtuous social bonds.

Even though conventional wisdom conspires to convince all of us that finance is a very complex system of "anonymous mechanisms" to be technically managed, and to reduce the horizon of all our financial decisions to the short term, we need to resist. "Culturally" resist: the first step in making finance work for people is cultural, in its nature. Savers must care for the best use of their savings; financial intermediaries should look for excellence in investment projects; financial authorities should broaden their horizon to re-connect the wrongly separated issues of financial stability and development finance. "Scientifically" resist: we remain as ignorant about financial distress as medical doctors were about epidemics in the XIX century; it is time to broaden financial research. "Educationally" resist: studying finance surely implies acquiring sophisticated techniques, and much more than that. There are profound words which cannot be separated from financial decisions: trust, hope, prudence, courage – and they belong to being financially educated.

Cultural, scientific and educational resistance seems to me more appropriate than simply renewing call to "ethics". Again, let me praise the realism of Catholic Social Doctrine. "Banks are proposing "ethical" accounts and investment funds. "Ethical financing" is being developed, especially through micro-credit and, more generally, micro-finance. These processes are praiseworthy and deserve much support [...]. It would be advisable, however, to develop a sound criterion of discernment, since the adjective "ethical" can be abused [...]. Efforts are needed - and it is essential to say this - not only to create "ethical" sectors or segments of the economy or the world of finance, but to ensure that the whole economy -the whole of finance- is ethical, not merely by virtue of an external label, but by its respect for requirements intrinsic to its very nature" (*Caritas in Veritate*, 45). "Finance, ... after its misuse, ...now needs to go back to being an instrument directed towards improved wealth creation and development. ... The entire financial system has to be aimed at sustaining true development" (*Caritas in Veritate*, 65).

Communitarian Personalism and Social Economics.

The Contribution of Cardinal Pietro Pavan and Francesco Vito to the Development of Catholic Social Doctrine in Sixties.

INTRODUCTION

In this paper we examine the social-economic perspective proposed in sixties by Cardinal Pietro Pavan¹ and Francesco Vito². They agreed with the philosophical perspective of communitarian personalism –which was mainly elaborated by Emmanuel Mounier³ and Jacques Maritain⁴ in the review “Esprit”⁵– and tried to apply it to social and economic matters. Cardinal Pavan and Vito influenced very much the evolution of Catholic social doctrine during the pontificate of Pope John XXIII⁶ and Paul VI⁷. Cardinal Pavan was the ghost writer of Pope John XXIII’s social encyclicals. Although Cardinal Pavan’s role in Catholic social thought was often unjustly undervalued, we will demonstrate that he was one of the leading figures of the Church regarding the sociological and economic argumentations in favour of political democracy and social economics. On these topics Vito also wrote relevant papers and books from an angle strictly economic. He collaborated with Cardinal Pavan within the assembly of Social Weeks of Italian Catholics which were re-constituted after the stop imposed by Fascism⁸. Moreover, Vito contributed to shape Pope Paul VI’s view of the economy when the former was the Rector of the Catholic University of Sacred Heart in Milan and the latter was the Archbishop of Milan.

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¹ Pietro Pavan (1903–1994)

² Francesco Vito (1902–1968)

³ Emmanuel Mounier (1905–1950)

⁴ Jacques Maritain (1882–1973)

⁵ Esprit was founded in October 1932. This journal has an intellectual character but was accessible to the non-academic public. Emmanuel Mounier, the founder and director of the review, basically gave a Catholic imprinting to the issues but he also carried articles of Protestant, Israelite and Buddhist scholars. Victor Serge (1890–1947) and Boris Souvarine (1895–1984) also collaborated with their liberal revolutionary theories. For this reason, “Esprit” was recognized as an open space of cultural confrontation. However, Esprit mainly promoted the personalist philosophy, which appeared as the only hope in the face of the 1929 economic crisis which destroyed a lot of wealth and reduced the numbers of jobs. Nevertheless, in the personalist movement we can distinguish at least two schools of thought: the existential personalism of Nikolaj Aleksandrovič Berdjaev (1874–1948), Paul-Ludwig Landsberg (1901–1944), Maurice Nedoncelle (1905–1976), and Paul Ricoeur (1913–2005) and the communitarian personalism of Mounier, Maritain, Jean Nabert (1881–1960), René Le Senne (1882–1954), Gabriel Madinier (1895–1958) and Jean Lacroix (1900–1986).

⁶ Angelo Giuseppe Roncalli (1881–1963) became Pope in 1958.

⁷ Giovanni Battista Montini (1897–1978) became Pope in 1963.

⁸ The Social Weeks of Italian Catholics were founded in 1907 by Giuseppe Toniolo (18945–1918) and were interrupted in 1934.

However, in Pope Paul VI's social and economic statements we can identify the *direct* significant influence of French communitarian personalism. In fact, although Maritain criticized the insufficient progressive theological changes in the works of the Second Vatican Council, he was always invited in the sacred palaces by Pope Paul VI⁹. This last also developed Maritain's stress to the duty of developed nations of helping concretely the underdeveloped ones to surpass the problem of *pauperism*¹⁰. Finally, Pope Paul quoted Maritain's *Les conditions spirituelles du progresse et de la paix*¹¹ and his *Humanisme intégrale*¹² respectively in note number 16 and 37 of *Populorum Progressio* (1967) encyclical letter while the precedent (and successive) Popes usually cited in encyclicals the saints, the doctors of the Church, and their predecessors.

1. THE PHILOSOPHY OF COMMUNITARIAN PERSONALISM

Mounier pointed out the necessity of a change of people's mentality aimed at changing the way society works. He invoked a "revolution of human hearts" capable of transforming from inside the political institutions and the economic practices of affairs¹³. In Mounier's project, the central point was realized as a process of *unification* of the fragmented anthropology imposed by Positivism. In his view, it was necessary to rediscover the *natural order* of personal and social life which characterized the Middle Ages. In fact, in the first edition of "Esprit", Mounier argued for a new Renaissance capable of rendering to human persons their dignity of being created in the image of God¹⁴. He affirmed that a person was ontologically more than a simple individual by giving the example of his first daughter. François Mounier, although handicapped from cowpox with lost self-knowledge and self-mobility, remained a person, because being a person is an original property independent of the possession of some, even elementary, capacities¹⁵. According to Mounier, man's final end lies in the next world, but this does not mean that one must work for bettering off the conditions of his life, his family and his nation in the earth. In other words, persons must bear witness to the eternal verities by committing themselves in the *temporal affairs* of their time.

⁹ In 1996 Jacques et Raïssa Maritain. *Le Mendiant du ciel*, translated in Italian as *Jacques e Raïssa Maritain. Da intellettuali anarchici a testimoni di Dio*, Paoline, Milano, 2000, p. 495, Jean-Luc Barré told that "Paul VI receives who judges his master (Maritain) "with an exceptional goodness and affection"—Maritain observed. Paul VI and Maritain embraced each other. Paul VI said to be happy for the only fact that Maritain was here. Paul VI quoted common reminds, commented Maritain's books, remembered "an unforgettable evening together at Taverna Palace where was represented the theatre of Satie's Socrate". In addition, from a historical point of view, we must remember that in August 1924 the young priest, Giovanni Battista Montini, went to Paris to improve his cultural preparation. Here, Montini read many works of French literature and personally became a friend of Maritain and Jean Guitton (1901-1999). On these last relationships see the book of Joseph Coppens called *In Memoriam sa Sainteté Paul VI 1897-1978. La Sainteté Jean-Paul Ier 1912-1978*, Peeters, Louvain, 1978.

¹⁰ See C.M.A. Cauliff, *The Friendship of Pope Paul VI and Jacques Maritain and the Declaration on Religious Freedom*, unpublished paper, available at url: www.works.bepress.com/catherine_mc_cauliff/1/1

¹¹ J. Maritain, "Les conditions spirituelles du progrès et de la paix", Aa. Vv., *Rencontre de culture à l'UNESCO sous le signe du Concile œcuménique Vatican II*, Mame, Paris, 1966.

¹² J. Maritain, *Humanisme intégrale*, Aubier, Paris, 1936.

¹³ See E. Mounier, *Manifeste au service du personnalisme*, Aubier, Paris, 1936.

¹⁴ See E. Mounier, *Révolution personnaliste et communautaire*, Aubier, Paris, 1935.

¹⁵ See J.M. Domenach, , *Emmanuel Mounier*, Éditions du Seuil, Paris, 1972.

However, he affirmed “Personalism is a philosophy and not exclusively a modality of behaviour. It is a philosophy and not a system ... But the decisive affirmation of personalism is the presence of free and creative persons. This introduces at the fundamental of any politics and economics a principle of uncertainty which destroys the want of definitively systematizing the social structure. Today there is nothing so absurd than to want to provide solutions to problems as an automatic distributor by undervaluing the persons’ worries, uncertainties, and values”¹⁶.

Consequently, Mounier emphasized the *freedom*, the *creativity* and the capacity of developing *social relations* as the distinctive features of the human capital of people¹⁷. His theorisation of communitarian personalism was based on the person’s social nature. Mounier held that for a person it is decisive to belong to a community in order to develop talents and participate in the attainment of the common good of society, as man is a unity made by body and soul and at the same time made by a desire of self-interest and one of community-interest¹⁸. In Mounier’s judgement¹⁹, capitalistic systems generate a spirit against good human relations and against the care of the spiritual aspects of human life; rather, planning economies eliminate the freedom in human work and in private life. Instead, the society of the Renaissance needs the cultivation of an anthropology of people which takes contemporaneously into account the individual human tension as well as social human tension²⁰. This can only happen if people accept the Christian message of salvation. Christian moral and ethical values shape virtuous behaviours of people and transform the market into a *trustworthy* place of reciprocal gifts. In addition, Mounier highlighted that Christianity has a constitutive *eschatological* character and cannot be identified with any particular economic system²¹. Nevertheless, Mounier recognized that the incompatibility of human capital promoted by Christianity can be affirmed when considering some kinds of economic systems, such as capitalism and socialism. A just society presupposes a “revolution” of the content of people’s mentality because any economic system can give happiness to men. Secondly, Mounier thought that happiness was exclusively possible only when the person meets the person of Jesus Christ risen again.

On the other hand, Jacques Maritain belonged to Mounier’s personalist group but also attended the Thomist classical school and taught for many years in the

¹⁶ E. Mounier, *Le personalisme*, Les Presses universitaires de France, Paris, [1949], (1961), p. 8. The French original quotation is “Le personalisme est une philosophie, il n'est pas seulement une attitude. Il est une philosophie, il n'est pas un système ... Mais son affirmation centrale étant l'existence de personnes libres et créatrices, il introduit au cœur de ces structures un principe d'imprévisibilité qui disloque toute volonté de systématisation définitive. Rien ne peut lui répugner plus profondément que le goût, si commun aujourd'hui, d'un appareil de pensée et d'action fonctionnant comme un distributeur automatique de solutions et de consignes, barrage devant la recherche, assurance contre l'inquiétude, l'épreuve et le risque”.

¹⁷ See C. Moix, *La pensée d'Emmanuel Mounier*, Éditions du Seuil, Paris, 1960, and Z. Siernhell, “Emmanuel Mounier et la contestation de la démocratie libérale dans la France des années trente”, *Revue française de science politique*, 1984, vol. 34, n°6, pp. 1141-1180.

¹⁸ See E. Mounier, *Communisme, anarchie et personalisme*, Éditions du Seuil, Paris, 1966.

¹⁹ See E. Mounier, *De la propriété capitaliste à la propriété humaine*, Desclée de Brouwer, Paris, 1936.

²⁰ See J. Hellman, *Emmanuel Mounier and the New Catholic Left*, University of Toronto Press, Toronto, 1981.

²¹ See E. Mounier, *Liberté sous conditions*, Paris: Editions de Seuil, Paris, 1946.

United States²². In his *Le personne et le bien commune*²³ Maritain suggested an original proposal founded on the valorisation of the *integral upbringing* of persons in a social context ordered according to the natural law of creation wanted by the Creator. In fact, the initial Maritain believed that everything is intrinsically aimed at an end, which in turn tends towards the unique End (the truth of the same Creator)²⁴, was enriched by Mounier's personalist perspective²⁵. Therefore, for Maritain, a human person can adequately comprehend every contingent aspect of reality only in relation to a wider understanding of the meaning of all reality. In this picture, person's human capital is constituted by the human intellect and the human will, which work together to attain the knowledge of reality. Finally, Maritain distinguished the moral institutions from the political ones in his 1936 *Humanisme intégrale*. He thought that Church and state have a different nature and must be careful to diversify their problems²⁶. The Church does not directly intervene in political matters as well as the state has to abstain from commenting on religious questions. In fact, Maritain observed: "As far as the Church herself is concerned, it is not her task to descend to undertakings directly temporal in the ebb and flow of political activities. Hers is the treasury of energies of another order more hidden and more powerful. It is justice and love, and Christian revelation, which she must keep alive. Once they have been conveyed into the substance of history, these energies have their own action which unfolds in a measure of duration quite different from the rhythm of time"²⁷.

Nevertheless, Maritain identified the common point of action of Catholicism and state in the growth of human capital²⁸. Human capital is actually fundamental for economic improvement and for social stability as well as for the maturity of people's faith. As a consequence of this, Maritain stated that a human capital which incorporates Catholic values (e.g. the concept of human person, human dignity, value of life etc.) shapes the minds of people in a better possible way in supporting the working of the economy. In fact, he believed that the natural law of creation in a Thomist sense has been perfectly revealed in Christian fact and can now be known by the human person²⁹. How? Maritain pointed at the necessity for the human person to cultivate good *social relations* with all others; to care for *every* spiritual and material aspect of her life; to develop every characteristic and talent of her *personhood*. In this way, Maritain put forward the basis of the concept of "integral human development", which was then developed by Pope Paul VI³⁰.

²² See B.E. Doering, *Jacques Maritain and the French Catholic Intellectuals*, University of Notre Dame Press, Illinois, 1983.

²³ J. Maritain, *Le personne et le bien commun*, Desclée de Bomver, Paris, 1947.

²⁴ See J. Maritain, *Le Docteur Angélique*, Hartman, Paris, 1929.

²⁵ See J. Maritain, *Le droits de l'homme e la loi naturelle*, Editions de la Maison Française, New York, 1937.

²⁶ See J. Maritain, *Man and the State*, University of Chicago Press, Chicago, 1951.

²⁷ J. Maritain, *Redeeming the Time*, The Centenary Press, New York, 1946, p. 112.

²⁸ See J. Maritain, *Education at the Crossroads*, Yale University Press, Yale, 1960.

²⁹ See J. Maritain, *De la grâce et de l'humanité de Jésus*, Desclée de Bomver, Paris, 1967.

³⁰ See G. Acone, *Jacques Maritain e la filosofia italiana dell'educazione*, Morano, Napoli, 1982, and M.O. D'Souza, "Educational Pastiche versus the Education of Natural Intelligence and the Intellectual Virtues according to Jacques Maritain", *Educational Theory*, 1996, vol. 46, n. 4, pp. 501-510.

2. THE ROLE OF CARDINAL PIETRO PAVAN IN CATHOLIC SOCIAL THOUGHT

We have just maintained that the role of Cardinal Pietro Pavan in Catholic social thought was unjustly undervalued. Only a few scholars, such as Franco Biffi³¹, Rosemarie Goldie³² and Fabiano Longoni³³, have deeply examined the strength of Cardinal Pavan's works in the development of Catholic social doctrine and in the works of the Second Vatican Council. Anyway, Cardinal Roger Etchegary, when he was president of the Pontifical Council for Justice and Peace, described Cardinal Pavan as "the principal collaborator of John XXIII in the drafting of the encyclical *Mater et Magistra* and *Pacem in Terris*"³⁴, and Monsignor Loris Capovilla, personal secretary of Pope John XXIII, testified to the great esteem of Pope John XXIII towards monsignor Pavan³⁵ at the point that Capovilla has guessed that the former included the latter among the cardinals *in pectore* (unmentioned) created by Pope John XXIII on March 28th of 1960³⁶. In any case, Pavan was named Cardinal by John Paul II³⁷ in 1985 after his retirement from the Pontifical Lateran University where he had been Rector since 1969 and full professor of Catholic social doctrine since 1947. On the other hand, in the beginning, Cardinal Pavan was called to Rome in 1945 by Giovanni Battista Montini, at that time a substitute secretary of the Vatican state, in order to guide the initiatives of the newly formed Catholic Institute of Social Action and coordinate the activities of the Social Weeks of Italian Catholics. Moreover, Cardinal Pavan was a personal friend and counsellor of the Italian first minister Alcide De Gasperi³⁸ and spiritual assistant of Association of Christian Workers, National Conference of Direct Farmers, National Centre of Artisans, Italian Centre of Women, Confederation of Italian Cooperatives, Catholic Union of Managers and Entrepreneurs, Movement of Catholic Graduates, Confederation of Italian Syndicate of Workers and of the academic team which wrote the famous "Camaldoli Code". Finally, Cardinal Pavan strictly collaborated with Father Agostino Gemelli³⁹, founder and rector of the Italian Catholic University of Sacred Hearth and editor of the *Osservatore Romano* newspaper, and was constantly invited to give everywhere lectures, from the United States to Russia, from Canada to Latin America.

³¹ See F. Biffi, *Il cantico dell'uomo. Introduzione al pensiero sociale del card. Pietro Pavan*, Città Nuova Editrice, Roma, 1990, and F. Biffi, *Prophet of our Times. The Social Thought of Cardinal Pietro Pavan*, New City Press, New York, 1992.

³² See R. Goldie, *L'unità della famiglia umana. Il pensiero sociale del Cardinale Pietro Pavan*, Studium, Roma, 2001.

³³ See F. Longoni, *Verso la riforma dell'ONU. Contributi del Card. Pietro Pavan*, Pontificia Università Gregoriana, Roma, 1992.

³⁴ R. Etchegary, "Preface", in F. Biffi, *Prophet of our Times. The Social Thought of Cardinal Pietro Pavan*, New City Press, New York, 1992, pp. vii-viii.

³⁵ Pope Roncalli and Pavan met each other in Paris, where the former was an apostolic delegate and the latter a visiting professor.

³⁶ See L. Capovilla, "Pietro Pavan nelle pieghe del Magistero di Giovanni XXIII", Aa.Vv., *Pietro Pavan tra tradizione e modernità*, Agrilavoro Edizioni, Roma, 1999, pp. 85-90.

³⁷ Karol Wojtyla (1920–2005) became Pope in 1978.

³⁸ Alcide De Gasperi (1881–1954). The closed relationship of collaboration between Cardinal Pavan and De Gasperi is testified by some documents collected in the historical appendix of the book of Andrea Riccardi called *Pio XII e Alcide De Gasperi: una storia segreta*, Laterza, Roma-Bari, 2003.

³⁹ Agostino Gemelli (1878–1959). For example, see the exchange of letters A. Gemelli, *Lettera a Pietro Pavan*, 3 luglio 1944, AUC, cart. 166, fasc. 296, sotfasc. 2154 and P. Pavan, *Lettera ad Agostino Gemelli*, 17 luglio, 1944, AUC, cart. 166, fasc. 296, sotfasc. 2154.

2.1 THE SOCIAL VISION OF CARDINAL PAVAN

Cardinal Pavan originally elaborated a systematic and organic conception of society by drawing from classical tradition, the publishing of Luigi Taparelli d'Azeglio⁴⁰ and the teachings of the Church⁴¹. In his 1939 work, *Il valore trascendentale della persona umana*⁴², Cardinal Pavan argued for the necessity of identifying an adequate anthropology to elucidate the role of single persons, of intermediate bodies and of institutions in an attempt to attain the common good. Therefore, the bishop, Mario Toso, current secretary of the Pontifical Council of Justice and Peace, outlined that "Cardinal Pavan elaborates a reflection which must be naturally included in that community personalism of the XX century ... in the attempt at promoting a new humanism open to Transcendence, historical, not anthropocentric but theocentric, politically anti-totalitarian and democratic"⁴³.

Cardinal Pavan observed that every person has so many spiritual and material needs that any amount of goods and services cannot satisfy them. Man always shows an ineradicable desire to assimilate the *transcendent values* of truth, beauty, goodness and justice that constitute his "heart". As a consequence of this, Cardinal Pavan believed that these transcendent values cannot be those abstract ones suggested by Plato or by Kant, but those embodied and testified by Christ's life. He maintained that the infinitive desire for the happiness of every person is exclusively fulfilled in the experience of following Christ here and now. This means that a good social and economic system must respect the person's liberty concerning religious choice, such as the Second Vatican Council later stated, thanks to Cardinal Pavan's and Pope Paul VI's urging⁴⁴.

On the basis of universal human dignity, Cardinal Pavan was the first to propose the constitution of an international world authority for regulating market injustices⁴⁵. From the perspective of defending universal human dignity he also rejected⁴⁶ any type of selection of persons according to categories of language, race, social class, sex and so forth⁴⁷. For Giorgio Campanini "the Cardinal Pavan's universality of human rights is strictly connected to the universality of human nature, besides any difference among men"⁴⁸. Cardinal Pavan thus set forth that all

⁴⁰ Luigi Taparelli d'Azeglio (1793-1862)

⁴¹ See G. Crepaldi, *Intervento al convegno "La cattedra Pavan per l'Etica Sociale"*, Pontificia Università San Tommaso, Roma, 2003.

⁴² P. Pavan, *Il valore trascendentale della persona umana*, Tipografia Editrice Trevigiana, Treviso, 1939.

⁴³ M. Toso, "Studio introduttivo", P. Pavan, *La democrazia e le sue ragioni*, Studium, Roma, [1958], 2003, p. 14. The Italian original quotation is "Il cardinal Pavan elabora una riflessione che si iscrive naturalmente in quel "personalismo comunitario" del secolo ventesimo ... nell'intento di promuovere un nuovo umanesimo aperto alla Trascendenza, storico, non antropocentrico ma teocentrico, politicamente antitotalitario e democratico".

⁴⁴ See I. Sanna, "Pietro Pavan e gli anni del Concilio", Aa.Vv., *Pietro Pavan tra tradizione e modernità*, Agrilavoro Edizioni, Roma, 1999, pp. 53-58.

⁴⁵ See S. Zamagni, "Democrazia e governance globale. Verso un nuovo ordine sociale internazionale", Aa.Vv., *Dinamica economica e istituzioni*, Cedam, Padova, 2004, pp. 461-470.

⁴⁶ See P. Pavan "La personnalité de la femme chrétienne", Aa.Vv., *Actes du XI Congrès de l'Union mondiale des organisations féminines catholiques*, Ed. Secrétariat de l'union, Paris, pp. 1-11.

⁴⁷ See M. Toso, "L'unità della famiglia umana nella dottrina sociale della Chiesa e in Pietro Pavan", L. Bosio, F. Cucculelli, (ed.s), *Costruire l'unità della famiglia umana. L'orizzonte profetico del Cardinal Pietro Pavan (1903-1994)*, Studium, Roma, 2004, pp. 45-74.

⁴⁸ G. Campanini, "La famiglia umana universale. Nuovi orizzonti del bene comune", L. Bosio, F. Cucculelli, (ed.s), *Costruire l'unità della famiglia umana. L'orizzonte profetico del Cardinale*

employments are equal if they are realized with responsibility, intelligence and creativity⁴⁹. A Christian worker is one who carries out his task with *competence*, *honesty* and *availability* in collaboration with colleagues. This does not mean that a Christian worker does not have the aim of maintaining his family and of ameliorating the conditions of the life of it. In Cardinal Pavan's view⁵⁰, family is the privileged space for the growth of a person's human capital⁵¹. Here, every person easily communicates her identity and understands the identity of her relatives. As a consequence, in family, the witness of faith is somehow more worthy because the dynamic of gift is constitutive of family workings. Cardinal Pavan thus connected this dynamic of gift with that of Trinity. He anticipated for more than twenty years some contents of the Pastoral Constitution *Gaudium et Spes* (1965) of Second Vatican Council, by affirming: "The Gospel narrows the deepest social and political revolution forever in history ... Why? Because Jesus reveals to human person who is human person by revealing God to her ... For analogy to the relation between God and man we can construct all other human relations according a hierarchical unity ... such as the holiness of marriage, the essential instrumentality of state and society"⁵².

Therefore, Cardinal Pavan contrasted any kind of theorisation related to socialism or liberalism, but he developed Pope Pius XII's 1944 *Christmas Radio Message* to promote the centrality of the human person in political and economic affairs. Cardinal Pavan was thus in favour of the establishment of a plural democracy if the historical conditions allow it. In fact, Cardinal Pavan explained that plural democracy has "its deep and alive inspiration in Christianity"⁵³. This last motivation is particularly significant because it implies that a democracy presupposes the people's consensus on the Christian culture for working⁵⁴. In fact, Cardinal Pavan held that the Revelation allows us to consider society as a spiritual entity because it is formed by human persons⁵⁵. If human beings are conceived as persons and not as individuals, a state can become a good instrument at the service of the *integral* well-being of human community⁵⁶. In concrete terms, this means that politicians must be much wiser by intervening in market activities according

Pietro Pavan, Studium, Roma, 2004, p. 41. The Italian original quotation is "Nella prospettiva di Pavan l'universalità dei diritti umani è strettamente connessa all'universalità della "natura umana", al di là di ogni contingente differenziazione fra gli uomini".

⁴⁹ See P. Pavan, "Elementi di una spiritualità del lavoro", *Studi sociali*, 1981, vol. 11, n°12, pp. 49-53.

⁵⁰ See P. Pavan, " *Aspetto sociale del matrimonio*", Aa.Vv., *Atti del XIV Congresso Nazionale Maria Cristina di Savoia*, Studium, Roma, 1962, pp. 23-58.

⁵¹ S. Beretta, L. Currini, (2003), "Il ruolo della famiglia nel generare capitale sociale: un approccio di economia politica", P. Donati, (ed.), *Famiglia e capitale sociale nella società italiana*, VIII Rapporto CISF sulla famiglia italiana, Edizioni San Paolo, Milano, 2003, pp. 290-339.

⁵² P. Pavan, *L'ordine sociale. Ragione e rivelazione*, Studium, Roma, 1943, p. 22. The Italian original quotation is "Dal Vangelo si determinò la più profonda rivoluzione sociale e politica, forse la più vera rivoluzione sociale che mai si sia verificata nella storia ... Perché mai? Gesù rivelò Dio all'uomo ... La precisazione del rapporto fra l'uomo e Dio si ripercosse in tutti gli altri rapporti umani, li compose e corresse in gerarchica unità ... come la santità del matrimonio, l'essenziale funzionalità dello Stato e della società".

⁵³ P. Pavan, *La democrazia e le sue ragioni*, Studium, Roma 1958, p. 219. The Italian original quotation is "la sua profonda e vivace ispirazione nel cristianesimo".

⁵⁴ See S. Zamagni, *Economia, democrazia, istituzioni in una società in trasformazione: per una rilettura della Dottrina Sociale della Chiesa*, Il Mulino, Bologna, 1997.

⁵⁵ See P. Pavan, *L'uomo nella comunità internazionale*, Figlie della Chiesa, Roma, 1950.

⁵⁶ See P. Pavan, "Intervento dei poteri pubblici in campo economico", *Studi sociali*, 1963, vol. 3, n°5, pp. 403-417.

to the principles of subsidiarity and solidarity in order to respond to market failures and injustices, to orient persons' actions towards the common good and to recognize the liberty of a persons' economic initiative⁵⁷. In fact, the principal actors of the economy must be human persons and intermediate bodies. Cardinal Pavan highlighted that the person's features are *freedom, creativity, responsibility and sociability*, which are fully developed when a person works with other persons together in the name of a transcendent ideal. For this reason Cardinal Pavan strongly distinguished between the human freedom of Christian thought, that is the human capacity of taking choices in relation to conscience, and the freedom invoked by the scholars of liberalism, that is the "pure spontaneity aimed to selfishly attain individual objectives"⁵⁸. Secondly, Cardinal Pavan argued that the intermediate bodies possess an autonomous *creative subjectivity*, which is much important for the attainment of society's common good.

2.2 THE ECONOMIC THOUGHT OF CARDINAL PAVAN

Cardinal Pavan attained a degree in political science at Padua University, besides one in theology and one in philosophy at the Pontifical Gregorian University in Rome. He had a humanist background and a specialised preparation in social sciences which uniquely allowed him to propose interesting insights concerning the relation between ethics and economics *within* the economic epistemology⁵⁹. In fact, he demonstrated that the macroeconomic and microeconomic models of mainstream literature deny the consideration of *moral judgments* of economic agents⁶⁰. During the process of decisions, a human person realizes moral choices, although these choices can be apparently neglected. In this sense, Giovanni Tondini pointed out that "Cardinal Pavan underlines the mistake made by those economists who think that acting economically is the same as acting morally. Such a mistake is due to a false analysis, since the economic rationality can be identified with morality only if the "sectional" rationality (typical of the productive activity) is not distinguished from the "universal" rationality (peculiar to the moral order). The former concerns only human activity, the latter concerns the whole man, considered in the totality of his relations: with himself, with God, with the others. Therefore, as Saint Thomas of Aquinas taught, the sectional rationality must be followed and fulfilled within the limits fixed by the other one. That is why in everyday language it is usually said that "profit must be pursued within the bond of honesty". In fact, profit is only half-justified in comparison with moral good; as a result, the former must be pursued subordinately to the latter"⁶¹.

In fact, Cardinal Pavan thought that the economic aims must be conciliate with the moral claims for the attaining of the common good. This is not a

⁵⁷ See G. Manzone, "Il principio di sussidiarietà nell'opera di Pietro Pavan", P. Licciardi, (ed.), *Sussidiarietà, pensiero sociale della Chiesa e riforma dello Stato*, Editrice Monti, Saronno, 2000, pp. 23-37.

⁵⁸ P. Pavan, *L'ordine economico*, Figlie della Chiesa, Roma, 1957, p. 290. The Italian original quotation is "pura spontaneità, tesa a conseguire egoisticamente interessi individuali".

⁵⁹ See P. Pavan, *Elementi di economia e di diritto ad uso dei licei classici e scientifici e negli istituti magistrali*, Tipografia Trevigiana, Treviso, 1938, and P. Pavan, *Le leggi della convivenza umana nel settore economico*, Sedas, Treviso, 1945.

⁶⁰ See A. Fazio, *Razionalità economica e solidarietà*, Laterza, Roma-Bari.

⁶¹ G. Tondini, "Man and Work according the Social Doctrine of the Church, particularly in the Thought of John Paul II", *International Journal of Social Economics*, 1998, vol. 25, n°11/12, p. 1645.

macroeconomic dimension but something related to the conscience of every person. For Cardinal Pavan, man must act within a perspective of morality to develop his personhood and integrally perform his talents. Human action cannot only be realized for the goal of utility but also for that of personal growth. In this regard, Cardinal Pavan wrote “It requires that the utility that a human person tends to realize becomes concrete in an affirmation and in a fulfilment of her humanity ... A human person in every act has the duty of revealing herself as a human person, consequently even when she attains the utility she has the duty of operating in conformity to moral law”⁶².

We can draw from this affirmation why Cardinal Pavan was so careful to distinguish⁶³ between the Christian right of *personal* economic initiative and that of the liberal right of private economic initiative⁶⁴. In the former case, freedom is recognized in a human being who is both the creator and the one responsible for his own actions, while in the latter case, liberty is constituted by a simple lack of exogenous interventions in market activity independently from the morality of the person’s exercise of this liberty⁶⁵. In addition, Cardinal Pavan defended the right of *propriety* and invited its diffusion everywhere. In his opinion, this right represents a guarantee of the *universal destination of goods* among persons according to social justice because it avoids, on one side, the attempts of the rich to put more poor people into a condition of slavery and, on the other side, reduces the fashion of the utopian proposals advanced by the collectivist ideologies⁶⁶. Finally, Cardinal Pavan explained⁶⁷ that an *economic order* is possible if there is an active civil society which tries to unify the individual interests with the general ones⁶⁸. This supposes the agreement of the population regarding the primacy of labour factor over the capital factor in the economy. As mechanization had substituted workers in some phases of the production process, Cardinal Pavan stated that the states might invest many resources in the formation of more highly qualified competences of persons⁶⁹. He referred to works of planning, projecting, managing and controlling. Concerning these working positions, Cardinal Pavan stressed the importance of the human spirit, such as “the capacity of understanding novelties, of discovering new solutions, of introducing innovation, of acting with social sensibility and

⁶² P. Pavan, *L’ordine sociale ...*, quoted, p. 270-271. The Italian original quotation is “Occorre che l’utilità che l’uomo tende a realizzare si concreti in un’affermazione e in un perfezionamento della sua umanità ... L’uomo in ogni suo atto ha il dovere di realizzarsi uomo: quindi anche quando persegue l’utile ha il dovere di operare in conformità a quella legge che segna lo sviluppo della sua umanità, la quale legge è quella morale”.

⁶³ See P. Pavan “Libertà di lavoro e diritto al lavoro”, Aa.Vv., *Atti della XX Settimana Sociale dei Cattolici Italiani. Problemi del lavoro*, ICAS, Roma, 1947, re-published in Biffi F., (ed.), *Scritti/2 del card. Pietro Pavan*, Città Nuova, Roma, 1989, pp. 51-71.

⁶⁴ See G.D. Marangoni, S. Solari, “Personalism vs. Individualism: A Critical Historical Perspective”, O’Boyle E.J., (ed.s), *Looking Beyond the Individualism and the Homo Economicus of Neoclassical Economics*, Marquette University Press, Milwaukee, Wisconsin, 2010, pp. 49-60.

⁶⁵ See S. Zamagni, *Una critica alla dottrina liberal-individualista dei diritti*, Università degli studi di Bologna, Bologna, 1995.

⁶⁶ See P. Pavan, *Vita economica ed ordine morale*, ICAS, Roma, 1957.

⁶⁷ See P. Pavan, “La sussidiarietà come principio della struttura sociale”, *Politeia*, 1950, vol. 2, n° 2-3, pp. 95-105.

⁶⁸ See D. Finn, *The Moral Ecology of Markets: Assessing Claims about Markets and Justice*, Cambridge University Press, Cambridge 2006.

⁶⁹ See P. Pavan, “La Universidad fuerza progresiva de la transformación social”, *Prologo*, vol. 2, n°1, pp. 15-22.

responsibility”⁷⁰. For Cardinal Pavan⁷¹, these person’s characteristics will never be substituted by machines because they are strictly a part of human nature.

3. THE ROLE OF FRANCESCO VITO IN CATHOLIC SOCIAL THOUGHT

Francesco Vito was a Franciscan tertiary endowed with a degree in law (1925), another in political science (1926) and another in philosophy (1928). He came from Naples and moved in 1929 to Milan because he won a fellowship at the Catholic University of Sacred Heart thanks to the recommendation of Monsignor Pietro Del Prete⁷² to Father Gemelli⁷³. Here, Vito became a full professor, director of the department of economics, director of the International Review of Social Sciences⁷⁴ from 1945, director of the Studies of Sociology Review from 1963, dean of the faculty of Political Sciences, Vice Rector (1943–1945) and finally Rector (1959–1965). During his career, Vito went around the world for periods of study. He particularly examined trusts, syndicates, cartels and the increasing technical progress in Munich University under the supervision of Alfred Weber⁷⁵, while he analysed topics of history of economic thought in Berlin University in collaboration with Edgar Salin⁷⁶. Then Vito was a research student at the London School of Economics and Political Science, working under the supervision of Friedrich von Hayek⁷⁷ and attending the seminars of Lionel Robbins⁷⁸ concerning the nature of economic science and finally he received a Rockefeller Foundation grant to spend two years in the United States in the institutes of research he wanted. He chose to participate in scholarly activities at the beginning of his time at the Columbia University of New York and then at Chicago University under the supervision of Frank Knight⁷⁹.

Vito was a central figure in the scenario of a Catholic world successive to the Second World War at the point when he was called to guide, as Vice-President with Cardinal Pavan, the Social Weeks of Italian Catholics and to directly participate in the activities of the Second Vatican Council as a lay listener⁸⁰. Although he was constantly in contact with many non-Catholic scholars who proposed an economic

⁷⁰ P. Pavan, “Il lavoro nel Magistero della Chiesa: natura, diritti, doveri”, *Apollinaris*, vol. 44, n°2, p. 524. The Italian original quotation is “un lavoro sempre più qualificato di programmazione, di progettazione, di direzione, di controllo, un lavoro cioè in cui sono soprattutto impegnate le forze dell’animo: intuito divinatorio, inventività creativa, spirito di innovazione, sensibilità sociale, senso di responsabilità”.

⁷¹ See P. Pavan, *Cresci in quello che sei*, Edizioni Centana, Roma, 1980.

⁷² Pietro Del Prete (1885–1950)

⁷³ See A. Caloia, *Francesco Vito. La vita di un cristiano economista*, Rusconi, Torino, 1998, p. 7.

⁷⁴ The slow process of specialization that turned the review into a periodical dealing with economics and statistics had already been evident under 1933 editorship of Amintore Fanfani (1908-1999); so much so that in 1934 the original denomination International Review of Social Sciences and Auxiliary Disciplines was shortly to omit its final title part.

⁷⁵ Alfred Weber (1868–1958)

⁷⁶ Edgar Salin (1892–1974)

⁷⁷ Friedrich von Hayek (1899-1992)

⁷⁸ Lionel Robbins (1898-1984)

⁷⁹ Frank Knight (1885-1972)

⁸⁰ See G. Formigoni, *Alla prova della democrazia. Chiesa, cattolici e modernità nell’Italia del ‘900*, Il Margine, Trento, 2008.

epistemology of neutrality⁸¹, Vito proceeded throughout his life in the attempt to *unify* moral claims with economic purposes⁸², such as Cardinal Pavan also suggested. Vito realized this effort in a very *concrete way* by introducing⁸³ real economic instruments grounded on Christian anthropology⁸⁴. Therefore, Vito successfully proved the expediency for society to adopt an economic system directed to the common good *versus* one aimed at total good.

3.1 THE ECONOMIC “THIRD WAY” OF VITO

In the 6th paragraph of *Quadragesimo anno* encyclical letter Pope Pius XI indicated with farsightedness the Social Weeks of Catholics (not only of Italian ones) as the decisive cultural appointment for orienting Catholic activities towards the common good of society. Here, the topics of family, education, dignity of labour, enterprise, syndicate, professional organization, social security and economic role of the state and of the international community are viewed from a *perspective of unity*. In the history of the Social Weeks of Catholics we can see that the participants do not try to solve problems of social politics but are invited to examine the facts in the light of *eternal principles*. As Taparelli just pointed out⁸⁵, Vito held that the ethics of an economic activity is determined by the connection between the absolute values of Christianity and the contingent aspects of present situations⁸⁶. Therefore, as ethics is an *endogenous* factors in economic decisions, Vito advised humanity to resist the temptation of confusing economic growth with human development⁸⁷. He explained that social reform must lead from the right of labour to the protection of the worker in his physical and moral entirety⁸⁸. In the 1949 *Economia e Personalismo*⁸⁹ Vito wrote: “The appeal to a personalist vision of the economy needs to be the invitation to prefer the ethical primacy over the technical one, thus to surpass both forms of economic organizations, the collectivism and the ideology of the free market, whose arrogant technical performances are respectively at the service of depersonalized aggregations and of privileged powerful men”⁹⁰.

⁸¹ See F. Parisi, “Francesco Vito at the Catholic University from 1929 to 1968. Forty years in the Biography of an Economist”, *Rivista internazionale di scienze sociali*, 2009, vol. 117, n°2, pp. 177-197.

⁸² See F. Duchini, “Ethics and Economics in Francesco Vito”, Gaburro G., (ed.), *Ethics and Economics. Catholic Thinkers in the 20th Century*, Verlag-Springer, Heildelberg, 1997, pp. 15-24.

⁸³ See F. Vito, *Introduzione all’economia politica*, A. Giuffrè, Milano, 1946.

⁸⁴ See A. Quadrio Curzio, “Francesco Vito: un economista politico con prospettive europee”, Parisi D., Rotondi C., (ed.s), *Francesco Vito. L’attualità di un economista politico*, Vita e Pensiero, Milano, 2003, pp. 57-79.

⁸⁵ See L. Taparelli d’Azeglio, *Saggio teoretico di diritto naturale appoggiato sul fatto*, Tipografia Civiltà Cattolica, Roma, [1839], 1852.

⁸⁶ See F. Vito, *Economia a servizio dell’uomo*, Vita e Pensiero, Milano, 1945.

⁸⁷ See F. Parisi, “Revealing the Connection between the Gospel and History: Definition of ‘Economics at the Service of Humankind’ in the Analysis of Francesco Vito”, *History of Political Economy*, vol. 40, n°5, pp. 88-113.

⁸⁸ See F. Vito, *La Riforma Sociale secondo la Dottrina Cattolica*, Vita e Pensiero, Milano, 1945.

⁸⁹ F. Vito, *Economia e personalismo*, Vita e Pensiero, Milano, 1949.

⁹⁰ Ibidem, p. 47. The Italian original quotation is “L’appello alla visione personalistica dell’economia vuol essere appunto invito ad optare per il primato etico sul primato tecnico, e quindi a superare l’una e l’altra forma d’organizzazione economica, il collettivismo e

Vito rejected the theory of the use of economic instruments in an anti-market perspective as well as the identification of economics with physical science based on a general economic equilibrium. He strongly contrasted the framework of the utilitarian philosophy and positivist methodology because it introduced “a social conception which separates economics from moral order”⁹¹. On contrary, as Siro Lombardini (a Vito’s pupil) suggested, we cannot assume that society is an entity distinguishable from human persons because the “human behaviours cannot be understood set aside from society”⁹². In fact, the labour factor is judged as the principal factor of the dynamic of formation of economic value. Vito clearly stated: “It is not the human person that has to be adjusted in conformity to the machines constructed for productivity purposes, but the machines –and, in general, all the technological structures and conditions– that have to be adapted to the human person’s stature”⁹³.

On the basis of this awareness, Vito suggested a *coordination* of the economy. He studied non-competing markets, cyclical fluctuations, world hunger and backwardness and socio-cultural factors affecting development and territorial disparities⁹⁴. In the perspective of a social *solidarity*, he believed that it was possible to combine the introduction of technological innovations with the preservation of employment positions, the increase of the supply of consumption goods with the recovery of gains for capital investments. This meant to qualify and specify manpower in shaping the dialectic between capital and labour in order to attain the common good of society. Vito thus proposed to emphasize the role of administrative institutions, social intermediate bodies, organizations of entrepreneurs, syndicates of workers and so forth. He believed that civil society can modify the law of naked competition in economic trades by substituting a coordination of them according to principles of solidarity, reciprocity, cooperation and gifts. The point in Vito’s insight was to promote *social justice* through fiscal and redistributive policies to allow everyone the access to the services of education, health, professional training, retirement and social aids. Angelo Caloia underlined that the welfare state theorised by Vito was much different than that realized in European countries after the Second World War because this last “missed the objective of personalism ... the duty of personal responsibility and the supply not of material resources but of human investments in a strict sense”⁹⁵. Vito pointed out that liberalism had caused too many failures, such as unemployment, regional discrepancies, international conflicts and underdevelopment in some large areas of

l’automatismo di concorrenza, in cui le superbe realizzazioni della tecnica o sono al servizio dell’uomo collettivo o procurano il vantaggio dei privilegiati”.

⁹¹ F. Vito, “Economia e persona umana”, *Vita e Pensiero*, 1957, vol. 40, n°2, p. 228. The Italian original quotation is “concezione sociale separatrice dell’economia dall’ordine morale”.

⁹² S. Lombardini, “Economia ed etica: dall’indifferenza alla ricerca di nuovi rapporti”, *Rivista internazionale di scienze sociali*, 1993, vol. 101, n°4, p. 760. The Italian original quotation is “non si possono comprendere i loro comportamenti prescindendo dalla società”.

⁹³ F. Vito, “Agostino Gemelli: in memoriam”, *Rivista internazionale di scienze sociali*, vol. 30, n°5, p. 388. The Italian original quotation is “Non è l’uomo che deve essere adattato alle macchine costruite per fini di produttività, ma sono le macchine – e, in genere, tutte le strutture e condizioni tecnologiche – che devono essere apprestate secondo la statura dell’uomo”.

⁹⁴ See S. Beretta, “Quale programma per lo sviluppo? Una nota a partire dalla Dottrina Sociale della Chiesa”, *Rivista internazionale di scienze sociali*, 2006, vol. 114, n°1-2, pp. 21-36.

⁹⁵ A. Caloia, *Francesco Vito ...*, quoted, p. 125. The Italian original quotation is “se si fosse tenuto in mente l’obiettivo del personalismo ... si noti l’onere di responsabilità personale e l’offerta non di generiche risorse materiali, ma “specificamente” di investimenti umani”.

world⁹⁶. Contrary to this, he proposed a theory of economic development in the perspective of international collaboration grounded on the growth of persons' human capital. For human capital, he referred not only to the competences and abilities of entrepreneurs and workers but also to their practice of moral virtues, which distinguish human personhood. Vito invited all men to "apply in the temporal field that interior liberty which nourishes and empowers the dignity of the human person"⁹⁷.

3.2 THE HUMAN CAPITAL THEORY OF VITO

For Vito the integral development of human capital of people constituted the decisive factor for attaining the common good of society. He concretely advanced some proposals to reform the Italian system of education. He possessed significant experience as a researcher and teacher and was called to the presidency of the Association of University Professors and Lecturers, to the vice-presidency of the International Federation of Catholic Universities and to the board of the International Association of Universities. In addition, Vito collaborated with the Pontifical Commission regarding Universities and Seminars formed for directing the works of the Second Vatican Council on this matter.

The Italian University system was still based on the 1859 Casati law, while that of elementary and secondary schools was updated by the 1923 Gentile reform, according a bureaucratic centralization of powers. However, Vito did not propose an original theory of human capital but highlighted that the reform of education cannot be promoted in a perspective of economic calculus of efficiency. He pointed out that the Latin expression "*vir bonus dicendi peritus*"⁹⁸ is always true because who acts in obedience to an adequate *hierarchy* of values generates behaviours that are also useful in economic terms⁹⁹. From a macroeconomic perspective, Vito understood that the growth of the population and the progress of the role of women in society implied an increase in education demand. He viewed in this change the creation of many specialized figures capable of introducing new modalities of production by using technological instruments and discovering other ones. Vito thus required *state intervention* in the education markets to give every person the possibility of achieving her intellectual talents. On the other hand, Vito advised the presence of the risk that "the stress on the instrumental function of the school from the perspective of the accumulation of material goods could shift the focus of study from the emphasis on human values and from the research of truth"¹⁰⁰.

As a consequence of this, Vito recommended promoting initiatives dedicated to the research of the *unity of knowledge*, such as those which he attended within the

⁹⁶ See A. Magliulo, "Liberalismo e cattolicesimo nel pensiero economico di Francesco Vito", *Studium*, vol. 15, n°3, pp. 399-430.

⁹⁷ F. Vito, *Economia e personalismo*, quoted, p. 46.

⁹⁸ We can translate this Latin expression as "the good man is even an expert in identifying the best way of action".

⁹⁹ See F. Vito, *Funzione dell'università e degli universitari nella educazione al senso sociale*, Vita e Pensiero, Milano, 1962.

¹⁰⁰ F. Vito, "Luci e ombre della riforma universitaria", Aa.Vv., *Scritti sulla scuola*, Vita e Pensiero, Milano, 1967, p. 172. The Italian original quotation is "l'accentuazione della funzione strumentale della scuola in vista dell'accrescimento dei beni materiali a scapito del preminente ufficio di educazione, di esaltazione dei valori umani e di ricerca della verità".

Committee on Social Thought of Chicago University. This means that a student and more so a professor must follow external courses to their working programmes to enrich their formation. In fact, Vito stated: "The preparation of specialized labourer, of professor, of professional worker, of teacher, is not complete if it is at the same time also the integral formation of person"¹⁰¹.

How could this integral formation of person take place? Vito responded that in the process of the flourishing of man's human capital it is essential that there is a presence of a human *community* around him¹⁰². This means that schools and universities must transform into a space where the spirit of cooperation is a constitutive dimension. In Vito's mind, this climate of friendship in educational institutes would be later communicated throughout society through the work of culture transmission operated by professors and students in their natural social relations. For example, a career in liberal professional works would become more human if the social relation is grounded on reciprocal valorisation of capacities and personhood between the magister and the pupil than if the social relation is based on the former's exploitation of the latter's availability. Vito was somehow a prophet of our times regarding the indispensable necessity of determining a *set of ethical values* in the approach to sciences, in economics as well as in medicine or in biology or in other areas¹⁰³. Finally, Vito advanced some practical proposals, such as the constitution of public funds of fellowships for students who attain the best performances, the creation of two lines of academic courses, one oriented to shape a working-life preparation (Degree and Master) and another with research profile (Degree and Ph.D.) following the Anglo-Saxon model and the alternative modalities of financing economic research. On this last point, Vito showed some difficulty around allowing private subjects to finance research studies because this leads research into the service of enterprises' interests instead of into the service of all humankind.

4. THE SOCIAL MARKET ECONOMY OF POPE JOHN XXIII

Drawing upon Pope Pius XI's¹⁰⁴ *Quadragesimo Anno* (1931, n. 80) encyclical letter, Pope John XXIII stated the importance of providing responses to human needs within a social context based on subsidiarity principle. Pope John believed that was an injustice for larger associations to claim responsibility for activities that can be performed by smaller associations or single persons. In light of this, in *Mater et Magistra* (1961) encyclical letter he argued: "In the economic order first place must be given to the personal initiative of private citizens working either as individuals or in association with each other in various ways for the furtherance of common interests" (n. 51).

Secondly, discussing theories of industrialization, Pope John held that it was an urgent matter to support the person's freedom in economic affairs. This means providing the means necessary to people for creating new entrepreneurial

¹⁰¹ F. Vito, "L'università di fronte alla crisi sociale del nostro tempo", *Rivista internazionale di scienze sociali*, 1952, vol. 5, n°2, p. 22. The Italian original quotation is "La preparazione dello specialista, del professore, del professionista, dell'educatore, non è completa se non è al tempo stesso formazione dell'uomo".

¹⁰² See D. Riccio, *Il pensiero economico e sociale di Francesco Vito*, Istituto Grafico Editoriale Italiano, Napoli, 1997.

¹⁰³ See F. Duchini, *Etica ed economia in Francesco Vito*, Dehoniane, Roma, 1993.

¹⁰⁴ Ambrogio Damiano Achille Ratti (1857-1939) became Pope in 1922.

activities as well as to favour the work of intermediate bodies which try to perfect *personality* and a sense of responsibility in human beings. In fact, for Pope John, the freedom to take the initiative enables persons to actualize themselves more fully as persons created and loved by God. On the other hand, Pope John connected the person's right of propriety and that of creating business activities with the responsibility of global economic development¹⁰⁵. As a consequence of this, he attacked the *unequal distribution* of wealth in the world and invited the political leaders to promote the action of the balancing of social injustices. Pope John affirmed: "Public authority must encourage and assist private enterprise, entrusting to it, wherever possible, the continuation of economic development" (MM, n. 152).

Indeed, Pope John exhorted to create a wide collaboration among nations even in his 1963 *Pacem in Terris* encyclical letter. Here, he stimulated the entrepreneurs to establish their activities in underdeveloped regions by insisting on the moral implication of their role in the economy¹⁰⁶. For this reason, Pope John argued that the rights of propriety and of realizing personal economic initiatives are consequences of the person's dignity. The value of this dignity is ontologically un-reducible even concerning attempts at reduction connected to better efficiency of the economic system or to improve the performances of firms. Social justice is not a matter of contraction because it directly derives from moral natural law¹⁰⁷.

5. THE SOCIAL MARKET ECONOMY OF POPE PAUL VI

It is rumoured that Pope Paul VI was intransigent and trusted to tradition regarding topics of moral theology, such as the rejection of anti-contraceptive methods in his 1968 *Humanae Vitae* encyclical letter and his strong stance against divorce and abortion laws, while he was progressive concerning social doctrine, such as his invite to the development of the third world in his 1967 *Populorum Progressio* encyclical letter and his creation of the Pontifical Council of Justice and Peace. However, we personally think that this contradiction is totally false if one looks at Pope Paul's teachings from a perspective of Christian anthropology conceived as *integral human development*. We know that his pontificate took place in the age of radical changes of the values of society, such as the rebellions of students in universities, the female movement, the sexual revolution and so forth. Faced with these circumstances, Pope Paul opposed the Christian paradigm of integral human development which Pope Benedict XVI recently developed in his 2009 *Caritas in Veritate* encyclical letter. Daniel Finn clearly affirmed: "This issue of development down to some kind of formula that econometrics cannot measure easily. Human development is the way out of this problem, but it must integrate all aspects of human flourishing, which would include the family as one psychological state, equations of status in society, and spiritual questions, all of which taken collectively could create a proper development plan. The other piece is the fact that all of these elements claim that integral human development needed

¹⁰⁵ See F. Felice, *Persona, impresa e mercato. L'economia sociale di mercato nella prospettiva del pensiero sociale cattolico*, Lateran University Press, Città del Vaticano, 2010.

¹⁰⁶ See P. Pavan, *Pace in terra. Commento all'enciclica Pacem in terris*, Editrice San Libérale, Treviso.

¹⁰⁷ See S. Beretta, "Wealth Creation in the Global Economy. Human Labor and Development", Alford H., Clark C.M.A., Cortright S.A., Naughton M.J., (ed.s), *Rediscovering abundance. Interdisciplinary Essays on Wealth, Income, and Their Distribution in the Catholic Social Tradition*, University of Notre Dame Press, Indiana, Notre Dame, 2006, pp. 136-139.

in our own lives, rather than being a special case, based on a fundamental Christian anthropology. In other words, it is not just something we desire for the people of Guatemala or Tanzania. It is something we all need"¹⁰⁸.

In fact, Pope Paul adopted the communitarian personalist framework when he recognized that the persons coming from underdeveloped countries are "deprived of almost all possibility on their own initiative" (PP, n. 9). For Pope Paul the development of nations meant a growth of economic initiatives, an empowerment of creative subjectivity of intermediate bodies, a defence of private property, a support to free commerce, a reduction of economic abuses towards the more flawed persons and an improvement of public political institutions aimed at guaranteeing peace and security. From this same perspective (not in a parallel one) Pope Paul highlighted the claim of attaining *social justice* within every nation and mainly among nations. He observed that "whole populations destitute of necessities live in a state of dependence barring them from all initiative and responsibility, and all opportunity to advance culturally and share in social and political life" (PP, n. 30). Indeed, Pope Paul believed that the economic power was concentrated into too few developed nations while the majority of the population was condemned to misery. He contrasted the "theory of dependency" of the third world with the developed world. In poor countries, the available resources of eating goods were actually incapable of satisfying the elementary needs of the people. As a consequence of the liberal principle of demand and supply, the rich nations imposed *unequal rules* of international trade on poor nations, which they were forced to accept. Facing this situation, Pope Paul set forth the human character of economic activity, evoked the moral importance of the human spirit of solidarity and asked powerful nations to modify their behaviours¹⁰⁹.

However, Pope Paul did not give a set of practical instructions for solving economic problems in the world (e.g. famine), and neither did he outline an economic theory alternative to his predecessors¹¹⁰. Rather, he exclusively advanced moral suggestions from a Christocentrism perspective at the point that he personally explained in his 1971 *Octogesima Adveniens* apostolic letter that "in concrete situations, and taking account of solidarity in each person's life, one must recognize a legitimate variety of possible options. The same Christian faith can lead to different commitments. The Church invites all Christians to take up a double task of inspiring and of innovating, in order to make structures evolve, so as to adapt them to the real needs of today ... It is true that people, in the midst of modern structures and conditioning circumstances, are determined by their habits of thought and their functions, even apart from the safeguarding of material interests. Others feel so deeply the solidarity of classes and cultures that they reach the point of sharing without reserve all the judgments and options of their surroundings. Each one will take great care to examine himself and to bring about that true freedom according to Christ which makes one receptive to the universal in the very midst of the most particular conditions" (n. 50).

¹⁰⁸ D. Finn, *The Church, the Economy and Social Justice: Reflections on "Caritas in Veritate"*, Address at Boisi Center for Religion and American Public Life, Massachusetts, Boston College, October 9th, manuscript, p. 2.

¹⁰⁹ See F. Vito et al, *I problemi dell'economia mondiale alla luce della "Populorum Progressio"*, Vita e Pensiero, Milano, 1967.

¹¹⁰ See S. Solari, "The Corporative Third Way in Social Catholicism (1830-1918)", *European Journal of the History of Economic Thought*, 2010, vol. 17, n°1, pp. 87-113.

However, Pope Paul updated the Catholic theory of the “third way”¹¹¹ to the new economic scenario by confirming the centrality of a person’s dignity and the role of intermediate bodies in economic affairs¹¹². Pope Paul hardly contrasted socialism as well as the philosophy of individualism which lays beyond value-free liberalism. He opposed a communitarian personalism *à la Mounier* and *Maritain*, where human personality flourishes within social relations inspired by the experience of Christian faith. From this perspective Pope Paul developed Vito’s suggestions regarding human capital in a specific section of *Populorum Progressio* called “Man’s Complete Development”. When considering the industrialization necessary for human growth and human progress, Pope Paul stated: “Trough intelligent thought and hard work, man gradually uncovers the hidden laws of nature and learns to make better use of natural resources. As he takes control over his way of life, he is stimulated to undertake new investigations and fresh discoveries, to take prudent risks and launch new ventures” (PP, n. 25).

On the other hand, speaking to the Christian Union of Employers and Executives in 1964 Pope Paul had particularly praised the entrepreneurs’ and managers’ attitudes to taking initiative, accepting business risks, creating jobs, promoting working conditions, developing scientific and technological innovations, making beneficial sacrifices and resolute forecasting.

In conclusion, Pope Paul proposed a balanced picture of roots for attaining the common good. He underlined that real social justice is an output of a *complementary relation* between human freedom and human responsibility, human capacities and human duties, the principle of subsidiarity and principle of solidarity, commutative justice and distributive justice. In Pope Paul’s view, to practically teach this complementary relation, it is necessary to provide an integral formation to all persons, especially those that were born in poorer nations. It deals with a claim of an *equality of opportunities* among persons, not of a “socialist” equality of rewards, because in Pope Paul’s mind the reward of a *person’s merit* for acting better than others is not excluded from this¹¹³.

CONCLUSION

In this paper we have analysed the evolution of Catholic social thought in sixties by highlighting the implementation of French communitarian personalism in economic and social matters. Mounier argued the Aristotelian-Thomist paradigm of the human being. He conceived man as a social being by pointing out that being a person is an ontological quality which cannot ever be placed for discussion, even in cases of quasi-elimination of basic and elementary capacities (as in the case of the daughter of Mounier). This substantive personalist approach to economic epistemology was developed by Maritan within a Thomist and organic vision of reality¹¹⁴. Maritain clearly distinguished the role of spiritual institutions, like the Church, from those of temporal institutions, like the state. Nevertheless,

¹¹¹ See S. Solari, “The Dawn of the Third Way: The Impact of Neo – Thomist Thought on Political Economy”, P. Bini, G. Tusset, (ed.s), *Theory and Practice of Economic Policy, Tradition and Change*, Franco Angeli, Milano, 2008, pp. 194-210.

¹¹² See A. Ambrosio, S. Beretta, G. Bertoni, *Sviluppo dei popoli, sviluppo della persona. A quarant’anni dalla Populorum Progressio e venti dalla Sollicitudo Rei Socialis*, Vita e Pensiero, Milano, 2008.

¹¹³ See F. Felice, “Bene comune e sviluppo. A quarant’anni dalla *Populorum Progressio* e a vent’anni dalla *Sollicitudo Rei Socialis*”, Incipit. Etica della scienza e della società, 2010, n. 2.

¹¹⁴ See P. Viotto, *Introduzione a Maritain*, Laterza, Roma-Bari, 2000.

he also argued that the good exercise of a person's freedom, the flourishing of human personhood and the development of a person's creativity are important for spiritual institutions as well as for political ones.

On his side, Cardinal Pavan set forth that political democracy was the more suitable political system to valorise the importance of intermediate bodies in economic affairs. He thus suggested the realization of an economic order grounded on the human dignity of every person and aimed at attaining the common good of the entire society. Vito contributed in the same direction but introduced a series of economic practical instruments, such as the combination between the establishment of ever-more technological machines in the production process and the preservation of employment through the specialization of manpower. Secondly, Vito remembered the importance of educating persons to reflect on the sense of their life and to research the truth of reality. Otherwise, people risk becoming similar to intelligent computers that carry out a task and nothing else. This could mean an increase in the total good of society (economic growth) but certainly would neglect the common good of society (human integral development).

Finally, Pope John XXIII and Pope Paul VI held the primacy of labour factor over the capital factor as had their predecessors. The former, in *Mater et Magistra* (1961) and in *Pacem in Terris* (1963), particularly identified in the moral responsibility of entrepreneurs the decisive factor for the growth of underdeveloped regions. The latter, in *Populorum Progressio* (1967), pointed out the necessity of recovering the "world's sickness" by diffusing a culture of friendship and solidarity among persons and by applying measures of social justice in economic trade and in relations among nations. However, Pope Paul referred to the equality of possibilities for all people and not to a "socialist" distribution of resources without the premium of a persons' effort and merit –as some scholars have commented.

The market and the distribution of income in Italy: “liberal” vs. “social market” perspectives

1. THE PRESENT CRISIS IN THE DISTRIBUTION OF INCOME

In the last twenty years, Italy has experienced a constant decline in the share of national income earned by labour and smaller firms. In general, we have experienced a decline in the lowest wages and in employee compensation for those with medium-level qualifications. On the other hand, earnings of medium-top management and capital owners have augmented to levels that have no precedent in recent history. This evolution apparently is not very favourable to the growth of the economy, as Italian internal demand stagnates.

This is a synthetic “snapshot” taken after twenty years of deep structural reforms in the Italian economy that were oriented to reducing the role of the state in the coordination of the economy and increasing the role of “the market” as an allocation mechanism. The aim of this contribution is to discuss the so-called “market-oriented” reforms, distinguishing two visions of the market economy: that of the “liberal” economists (which prevails) and that of the *social market economy*, as well as other theoretical perspectives which consider the market as a legal construct. We will particularly focus on the distributional implications of these interpretations.

2. THE LEGAL VIEW OF THE MARKET AS AN ALLOCATION MECHANISM

The starting point of a legal¹ analysis of the markets is that we can, up to a certain point, give a shape to economic processes by redefining the legal context of free contracting. Mainstream economics has difficulty in conceiving of this issue because of its epistemology, which is deeply inspired by utilitarianism and by the positivistic interpretation of science. From the neoclassical perspective, exchange is determined by a confrontation in the relationship between an “objective good” and the “subjective utility” it supplies to different economic actors. As a consequence, the standard vision of the market is that of a place where simple and well-defined goods are exchanged and where the only relevant right is an oversimplified property right.

From a legal and institutional perspective, on the other hand, a more articulated view of market interaction is assumed. This analysis is focused on persons, endowed with a set of entitlements and social relationships, who contract reciprocal modifications of their juridical sphere. As a consequence, an exchange is the insurgence of rights and obligations relative to any conceivable elements composing individuals’ juridical sphere. Finally, we can conceive of some fundamental need of human beings which defines a natural right—following the essentialist perspective—which, on the one hand, deserves respect and, on the

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¹ With the term “legal,” we intend a broad set of elements varying from the moral law to the constitution.

other hand, introduces incomparability in the economic analysis.² From this perspective it is possible to understand the relative complexity of the study of both efficiency and the justice of exchanges. Generalisations and theorems springing from hypotheses concerning commensurability, homogeneity of goods and absence of wealth effects are of little help, since they eliminate that which should be studied. From this point of view, the usefulness of the abstract model of the market to the study of actual economic processes is questionable.

From such a law-and-economics perspective, the market is a social construction: that is to say, it takes the form that past solutions to the problem of regulating economic interaction have left by way of present market institutions. Rules shape markets and define the relative position of negotiating parties. On the one hand, rules define what can be exchanged and how—and this is acknowledged by mainstream economics; on the other hand, rules also define individual entitlements and therefore the juridical sphere which can be modified through contracting. Such rules have a different nature and evolve as solutions to uncertainty. Sometimes they emerge as spontaneous conventions; sometimes they are introduced “top-down” by political actors.

As a consequence, the study of market allocation has to start from a set of variables:

- the individual positions and entitlements (legally and institutionally defined);
- the relationships between the needs and the will of the contracting parties (involving problems of rationality);
- the rights and obligations unfolding from contracts and their connection with the will of the parties (involving problems of information asymmetries);
- the organisational and technological environment in which exchange takes place, defining how parties get in contact and how they can negotiate (involving problems of time and communication); and
- the institutional setup defining which exchanges can be settled, and how (including laws prohibiting certain business or taxing some transaction).

The final allocation emerging from the exchange is obviously affected by the arrangement of all these elements. The perfect market theorised by mainstream economics textbooks really amounts to a scanty reference from a real study of market processes. In particular, it assumes a legal environment overlaying the will of people and not fundamentally affecting their preferences. This means that laws are purely oriented to the enforcement of the contract, and any other rule causes inefficiency. In this way, any regulation alters the outcome of negotiations, and that tends to negatively affect the allocative efficiency of the market. All these assumptions obviously tend to systematically distort any applied study of the distributive impact of laws and institutions.

Focusing on the institutional perspective, in order to obtain a virtuous market interaction each of the points listed above should be arranged in a way that allows the unfolding of a free and informed negotiation. In general, only the involved parties can judge their satisfaction. However, ethical liberalism, contrary to neoclassical liberalism, has affirmed the need of some essentialist perspective to judge how well markets perform—although we cannot fully expand this topic in this paper. In the following sections, a specific market exchange will be discussed: the interactions in which income is distributed between those who take part in a

² See SEN A. (1981) “Plural utility”, *Proceedings of the Aristotelian Society* 193, pp. 193-215; NUSSBAUM M. (1997) “Flawed foundations: the philosophical critique of (a particular type of) economics”, *The University of Chicago Law Review* vol. 64 (4) pp. 1197-1214; NUSSBAUM M. (1992) “Human functioning and social justice: in defense of Aristotelian essentialism”, *Political Theory* 20 p. 202.

production process. We will analyse the problem in light of debates in the history of economic thought and in the context of a capitalistic economy.

3. INCOME DISTRIBUTION AND TWO CONTEMPORARY VIEWS OF THE MARKET

The theoretical framework used to study markets fundamentally affects the way we conceive the role of regulation. We can distinguish two perspectives in economics between those who believe in the merit of the free allocation of resources. The most diffused is the “rationalist” view of the so-called *liberals* (progressive market fundamentalists) who rely on economic textbook theorems to interpret reality. They believe that some a priori laws of economics exist and that regulation, which is an *overimposed structure*, can only reduce the efficient allocation of resources. They realise that the distributional outcome can be bad, but they also believe in the “second welfare theorem” which supports state intervention to redistribute resources in order to achieve a socially desirable situation. As a consequence, rationalists believe in the dichotomy between an “efficient market” and a “re-equilibrating state”.

The other view, the “realist”, assumes that no absolute pre-legal market exists and that the issue of regulation is more complicated than that. Realist economists tend to distrust the a priori results of the textbooks and to assume, on the one hand, a more essentialist perspective about the needs and capabilities of the interacting parties, and on the other hand, to focus on the institutional context in which exchanges take part. In this way the benefit of a reference point for measuring the efficiency of outcomes is abandoned, and that obliges more articulated ways of analysing the economic processes.³

Income distribution is not only the result of the labour market process but the effect of various economic interactions. In capitalistic systems, the distribution of value added takes place under some fundamental asymmetries. The most relevant is due to the attribution to capital owners of the residual control rights: that is to say that profit goes to capital owners. This aspect, however, should be integrated with a variety of other economic interactions to understand the distribution of value: the governance structure, the structuring of capital markets, the segmentation of the labour market, the education system, etc. All of these are markets legally framed, and therefore the distribution of income depends on the performance of different intersecting and complementary markets.

Claims of the various actors for their share of value added are determined by the force of their position. The latter is fundamentally affected by institutions and laws which are not only responsible for reducing the uncertainty of transactions and helping efficient contracting, but also for balancing the force of contracting parties so that an “equilibrated” market negotiation can arise. A “good market” is that in which no monopolistic forces affect the outcomes, and the distribution proportionally rewards everyone’s contribution to production. Neoclassical theory argues that a feedback interaction exists between marginal productivity of factors and the market price of each factor of production. Actually, in an organised system of production it is not possible to make a reliable estimation of a single part’s productivity. As a consequence, the reward is simply affected by negotiations in which the scarcity of the factors and the legal context are relevant.

Labour is a fictitious good, as its reward is an important acknowledgement of human competence, commitment and dignity. As a consequence, a competence which is important and scarce has to be rewarded well to signal to the young

³ This current of economic thought is quite variegated, and different positions can be found among these scholars.

population the need of investing in that direction. On the other hand, there is no benefit in letting labour market prices shoot to both the bottom or the top. In the former case, human capital investments and human dignity are at risk (an argument in favour of a minimum wage); in the latter, there is a waste of resources, as even more moderate incentives work well. This is not the case, e.g., in the contemporary huge rise of top management pay, which is not determined by scarcity at all. An (over)abundance of competencies in management exist today as education in economics is widely available and good students have difficulty finding adequate jobs. Top management pay is driven up by imbalances in the relationships between the rules in different domains, from corporate governance to financial and labour markets. Financialisation—the reforms which have deregulated markets in favour of the dominance of financial capital against any other economic actor—has improved the position of top management and legitimated the increase in their compensation.

In the literature on “models of capitalism,” some of the complementarities of the rules of these markets have been studied, and the resulting complexity has been framed by the help of ideal types.⁴ From this perspective, the problem is not the amount of regulation; the problem is the achievement of a coherent order of rules coordinating different domains of human action.

Hereupon we would like to insist in particular on the differences existing between the liberal (neoclassical or neo-Keynesian) and the realist, restricted to those who theorised the broadly defined Social Market Economy and the ethical economy.

4. WAYS OF REDISTRIBUTING INCOME: EX POST AND IN THE MARKET PROCESS

The two views of liberals and realists have some ground both in history and in the history of ideas. We can simplify the issue by pointing out two different visions of how to achieve a fair distribution of income. Liberals favour a free market plus ex-post redistribution by a universalistic welfare state, joining the individualistic vision of markets to the role of the state as a guarantee for the unfortunate (which is the system theorised by John Rawls). The realists tend to avoid the word “redistribution”—which sounds like an expropriation of a right which, actually, is not established at all—and favour a vision of equilibrating markets to assure a reasonable distribution of income *in the market process*. That is to say that a fair wage or profit should be the result of a market process and not the top-down action of the state. This means regulating markets to achieve a legal order able to spontaneously grant a distribution of income which does not need an ex-post intervention. Obviously, this view does not preclude some form of insurance and providence. Both the “in the market process” and “ex-post” principles have been put into practice in the course of history. The former, when it is well enacted, almost cannot be perceived by actors. The latter instead produces problems of self-reinforcing inequalities and increasing dependence on state intervention. This view emerged in Wilhelm Röpke and in the school of ethical liberalism.⁵

⁴ See B. AMABLE, E. ERNST and S. PALOMBARINI (2005) “How do financial markets affect industrial relations: an institutional complementarity approach” *Socio-Economic Review* (3) 311-330; M. BELLOC and U. PAGANO (2009) “Co-evolution of politics and corporate governance”, *International Review of Law and Economics* 29 pp. 106-114.

⁵ See RÖPKE W. (1958 [1998]) *Humane Economy - The Social Framework of the Free Market*, ISI books, Wilmington (Del.) (Nach Angebot und Nachfrage); KOSŁOWSKI P. (1998) “The Social Market Economy: Social equilibration of capitalism and consideration of the totality of the

Fragmented interactions between actors characterised by balanced forces are the ideal configuration of a humane market. However, contemporary economy is seldom based on fragmented and equilibrated interactions. Consequently, other arrangements have to be organised to grant a balanced negotiating capability between parties: associations, agreements, laws, etc.

The problem of the juridical weaknesses of labour emerged in the nineteenth century in the debates on the social question. In this discussion two positions emerged: one that favoured a legal re-equilibration of the position of labour⁶ and one that held it to be inopportune to modify what it called “property rights” and was favourable to an ex-post redistribution⁷ of income through various mechanisms.⁸ We can underline the contribution of moralists (Jesuits) to this debate on the just wage. In the German context, Lehmkuhl and Costa Rossetti developed important works on moral theology and reaffirmed that labour contracts do not correspond to a contract of sale of a commodity (where prices can fluctuate freely). Even if salaries can fluctuate for many reasons, due to excess demand or supply of labour, the remuneration for personal engagement cannot exclude a reference to the personality of the worker and his needs, so some general rules had to foster natural rights to achieve the decommodification of work. Other philosophers entered the sphere of economic problems, proposing innovative solutions to the problems of capital-labour relationships. In 1881 Georg Ratzinger proposed co-ownership of capital and labour in production facilities and can be considered a forerunner of important theorists who further developed this concept in the twentieth century.⁹

However, history took a different trajectory, determined by the Bismarckian necessity to legitimate the newly united state and support industrialisation.¹⁰ The nationalistic politics oriented to supporting industrialisation could not conceive of a fragmentation of the industrial structure, and in the second part of the century large concerns developed in the form of cartels—which became quite competitive anyway. Consequently, German initiatives on labour regulation became quite active but abandoned the idea of an interaction based on natural law in favour of state-driven intervention in support of labour to face the growing power of large companies. On the other hand, large firms could afford this rise of “labour rights” because of the reduced competition due to cartels and the huge increases in productivity assured by the reduction of uncertainty. The result was the birth of strong corporative labour associations and social insurances. This kind of state

economic order, notes on Alfred Müller-Armack”, in KOSLOWSKI (ed) *The Social Market Economy – Theory and Ethics of the Economic Order*, Springer, Berlin: 73-95.

⁶ We can consider here the parallel work done by both Lassalle and Ketteler (with different political visions) to organise labour associations favouring both the education and the negotiating power of labour.

⁷ Here we can recall the theoretical position of Walras and John Stuart Mill.

⁸ For a confrontation between the “liberal” view of Walras and the legal view of Taparelli see D. CORRADO and S. SOLARI (2009) “Social justice and different views of natural law among XIX century economists” *Rivista Internazionale di Scienze Sociali*, 1 pp. 3-21. See also SOLARI S. (2010) “Catholic perspectives on poverty and misery: from nineteenth century French Catholic social economists to the contribution of moralists”, *Chaiers d'Economie Politique* vol. 59 pp. 185-203.

⁹ See LEHMKUHL, A. (1893) *Die Sociale Frage und die staatliche Gewalt*, Freiburg im Breisgau: Herder. COSTA-ROSSETTI, J. (1883) *Philosophia Moralis seu Institutiones Ethicae et Ius Naturae*, Oeniponte: Typis Feliciani Rauch; RATZINGER, G. (1881) *Die Volkswirtschaft in ihren sittlichen Grundlagen*. Freiburg im Breisgau: Herder.

¹⁰ See CORRADO D. and SOLARI S. (2010) “Natural law as inspiration to Adolph Wagner's theory of public intervention”, *European Journal of the History of Economic Thought* vol. 17 (4) pp. 865-879.

intervention was theorised by Kathedersozialisten¹¹, and its outcome is at the foundation of twentieth century social democracy.¹² In fact, at the ground of social-democracies in the mixed economies of the second half of the twentieth century lies the principle of balancing the force of large industries with strong trade unions to favour equilibrated negotiations on labour conditions and remuneration. Moreover, the position of labour has been reinforced by strict regulation and by a specific bureaucracy in charge of controls.

Twentieth century social democracies developed through different combinations of two political visions of labour rights: on one hand, the conservative and corporative vision of Catholic parties and, on the other hand, the individualistic and universalistic conception of the Beveridge tradition, which prevailed in Northern Europe. In post-Second World War Germany, social market economy was theorised, which recovered the former idea of fragmented ethical interaction between capital and labour. Ordo-liberal theories on the one hand acknowledged the need for a minimum wage and for some social insurance, and on the other hand, they were very strict about the concentration of industry, supporting an active anti-trust agency.¹³ Again, large industry was important for the recovery of Germany, so in this way, the social democratic model was re-established and the fully fragmented and decentralised model remained a mere theory. Codetermination was the juridical element able to achieve a new compromise between capital and labour.

5. THE CRISIS OF SOCIAL DEMOCRACY AND THE DISASTERS OF “LIBERAL” DEREGULATION

The two main historical declinations of social democracy had in common the concept of uniform labour conditions, equally distributing income between different sectors and territories. Equality also involved the distribution of income between lower and higher employee profiles: that is to say, reduced the spread between workers and managers (mostly achieved in the Scandinavian countries). Labour conditions and remunerations were fixed by collective negotiations between representative trade unions and associations of entrepreneurs. That, together with state enforcement of specific labour rights, assured a certain fairness in revenue levels even in the presence of large firms or high industrial concentration.¹⁴ All this is possible when the legal definition of entitlements takes place in a closed juridical space where such entitlements can be enforced.

In Italy, social democracy was never achieved because of the specificity of Italian development. The corporative fragmentation of interests, and the late development and fragility of the finance industry connection, led to massive and pervasive state intervention in the economy and strong (i.e., formal) labour protection, but with little equalisation of income. The situation was characterised by strong entrepreneurs weakly organised, facing fragmented labour unions. The

¹¹ See the work of VON SCHEEL A. E. F. (1884-1893) *The Theory and Policy of Labour Protection*, Bibliolife reprint.

¹² See the account of BERTA (2010) *Eclisse della Socialdemocrazia*, Bologne, Il Mulino.

¹³ See LENEL H. O. (1989) “Evolution of the Social Market Economy”, in A. PEACOCK and H. WILLGERODT (a cura di) *German Neo-Liberals and the Social Market Economy*, Londra: Macmillan pp. 16-39. EUCKEN W. (1952 [1990]) *Grundsätze der Wirtschaftspolitik*, Tübingen: J.C.B. Mohr.

¹⁴ See D. AUSTEN SMITH, J. A. FRIEDEN, M. A. GOLDEN, K. O. MOENE, and A. PRZEWORSKI (2008) *Selected Works of Michael Wallerstein: The Political Economy of Inequality, Unions, and Social Democracy*, Cambridge, Cambridge University Press.

consequent difficulty in achieving fair and comprehensive negotiations led to tough regulations to protect labour. Those, however, were poorly enforced, giving rise to a schizoid situation of labour rigidity, easily although not evenly bypassed by many companies.

In Europe, under the pressure of globalisation, the contemporary general tendency is that of dismantling the institutions and regulations which characterised social democracies. Globalisation, with the general concern of capital flows to low-cost labour areas and labour migration to high-wage regions, tends to undermine these schemes of labour regulation. Actually, only in small homogeneous countries, such as those in Scandinavia, do such arrangements tend to persist unaltered.

Unfortunately, reformers have adopted the liberal view of the markets which has dominated the academy since the 1980s. As we argued in the first section, market fundamentalism assumes that regulation distorts efficient market interaction. As a consequence, the main measure is that of deregulating labour markets, a perspective assisted by the partial focus on this specific market instead of a comprehensive view of the whole institutional configuration. The general tendency is that of reducing labour protection regulation, increasing flexibility of labour and favouring decentralised and differentiated negotiations to reduce the rigid homogeneity of labour conditions. In Italy, as well as in Spain, flexibility has been introduced by a proliferation of atypical labour contracts which have created a dualistic labour market between employees enjoying full entitlements and employees with minimal entitlements. In a decade, Italy, which had the highest indexes of labour protection in Europe, has dropped to having one of the lowest. On the other hand, these reforms are not matched by a reduction of the contractual force of companies. On the contrary, globalisation and capital mobility reinforce the negotiating power of capital and the opportunistic bargaining of medium-top management. Moreover, antitrust appears as a rather weak institution compared to the task of achieving a decentralised competitive market.

The result of these processes is a growing inequality in the distribution of income and growing poverty in the country. The consequent uncertainty causes the stagnation of internal aggregate consumption and investments. The increasing number of labourers with little protection and weak entitlements cause a rising demand of ex-post redistribution, which the government is not ready to fund. The tendency is toward a way back to proletarianisation of wide categories of workers.

6. CONCLUSION: "SAVAGE CAPITALISM" IS NOT A (GOOD) MARKET SYSTEM

In the last twenty years, labour market reforms have mainly aimed at achieving deregulation and flexibilisation. The effect has been a differentiated reduction in employees' entitlements and a reduction in real earnings of labourers with medium-low qualifications. The reduction of "in the market" equalising mechanisms has let incomes diverge, and that has increased the demand for state managed redistribution. This tends to inflate welfare expenditure to levels which taxes have difficulty financing. It also entrap again a wide part of people in a situation of no-return (proletarianisation), which took two century to be eliminated. This kind of deregulation is totally irrational because the dismantling of the rigid regulation of social democracies is not replaced by any other juridical space that can ensure an equilibrated market interaction in the allocation of value added. The fundamental point is that more deregulation does not necessarily lead to a more market-oriented system. The idea that "the more deregulation, the higher the efficiency" is wrong and leads to chaos. "Savage capitalism" is not a pure market

system; it is a system where some unbalanced entitlements exist between various parts of society. Markets can have a healthy effect on the economy and an ethical effect by helping the deproletarianisation of society, which is an objective of the social market economy. This can be achieved by a programme of reforms which reduce the rigidity of labour markets if new entitlements are provided to the parties so that balanced interactions can take place. But it can only be achieved in a juridical space where the law is effective.

Urban Growth and Development in Emerging Countries: Recalling the City Approach for Policy Making

1. INTRODUCTION

Since Rosenstein-Rodan (1943), first chief economist of the World Bank, development policies were shaped in extend by the big push theory, in which national and supra-national agents coordinate a simultaneous investment to boost inter-related and complementary industrial settings, creating a virtuous circle, able to move all the economic system and procuring a sustainable growth. Under this frame, national planners and multilaterals became main players to raise global, national and local standards of living.

This approach implied the scaling of the space of policy making and the necessity to use several abstractions to synthesize and capture the complexities of national economies, to resolve “bread and butter” problems. This thinking implied, on one side, the recognition of global interdependencies and the necessity of cooperation and coordination; by the other, increasing distances between policy making and the concrete (local) economic matters.

In this context, the concept of city as a natural place where culture, economy and policy evolves became eclipsed by national and international matters. This trend was encompassed by the idea that cities and their sizes, were a stable and hierarchical fact; therefore not relevant from the policy making perspective.

This believe was reinforced by the Zipf’s law (Zipf,1949) or rank size rule, which states that the distribution of city sizes correspond to a deterministic phenomena, ruled by the Pareto parameter of one¹, which implies that the population in the second city is half of the primate, the third city, a third of the primate, and so on². According this argument, landscapes of cities would be a standardized matter, without any particular connotation for national policy becoming cities and their sizes less important.

Zipf’s law became relevant and confirmed by several studies carried out after the world war (Vining,1955; Beckmann, 1958; Parr ,1969). These findings were based on observations in developed countries, characterized by a large experience of institutional arrangements and economic progresses.

Nevertheless, furthers studies (Rosen and Resnik, 1980; Guerin- Pace, 1993; Soo, 2004; Dimou and Schaffar, 2009), criticize and reject the stability Zifp’s law, remaining only as a first approximation to the distribution of urban spaces.

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¹ An stable parameter of 1 indicates that the distribution of city sizes correspond to $\log R = \log A - \log S$ where R is the number of cities with population S or more; A is a constant; S, population city and , the Pareto exponent.

² See Rosen and Resnick, 1980 ; Gabaix and Ionnides, 2003.

Moreover, the striking high urbanization rate of the last years, especially among former colonies, transition economies and new democracies, are reshaping the world's urban spaces and the national economic structures and is challenging the denkform of a policy making anchored in the predominant role of central governments. Increasing city sizes, usually in capital cities, creates policy bias among national governments, issue that would be assessed further.

2. THE RAISING OF URBAN GIANTS

As a matter of fact, in the 60's, mega cities³ were an exclusive phenomena of developed countries, where only two cities had more than 10 million people (New York and Tokyo), contrasting our current decade with 21 mega cities from which 16 are located in developing countries.

Large urban agglomerations are particularly present among developing areas "which absorb an average of 5 million new urban residents every month and [are] responsible for 95 per cent of the world's urban population growth"⁴.

Growth rates among different city sizes (see Table 1) are impressive and implied several questions. Furthermore, high urbanization rates and large agglomerations are boosting the dramatic phenomena of slums, which account about 39% of world's urban population (World Resource Institute, 2005), tendency that would increase in the next years.

Table 1. Urban Population Growth by City Size 1960-2000

City sizes			Growth %
Mega cities	> 10	mill.	942
Big cities	5 - 10	mill.	102
Midsized	1.5 - 5	mill.	246
Small cities	0.5-1.5	mill.	140
Town size	< 0.5	mill.	26
<u>World urban population</u>			<u>148</u>

Source: Own elaboration (1925 cities observed) based on Henderson City data-set.

These unprecedented changes in urbanization are raising congestion costs in cities and are threatening the capacity of governments to deal with urban stress, because urban problems are increasingly perceived as central government inefficiencies.

The evolution of city sizes have attracted several researches –Krugman and Livas (1992), Glaeser (1995), Davis and Henderson (2003) among others - to explain the main drivers of this phenomena. In their analysis, a broad range of variables are taken into account, such as the level of trade openness, GDP per capita, urban population, transport infrastructure, geographical locations, etc. But, besides the

³ World Urbanization Prospects of the United Nations handle five categories of cities: Cities with more than 10 mill. people (called Mega Cities); cities with 5-10 mill. (Big Cities); cities with 1.5-5 mill. (Midsized cities); cities with 0.5-1.5 mill. (Small Cities) and cities with less than 0.5 mill. (called Big Towns, but referred in this research as Towns).

⁴ UN Habitat 2009.

different approaches and variables assessed, a common driver emerge: It is the political variable to explain city's agglomeration or dispersion forces.

These studies suggest the necessity of deepening the analysis in different areas, i.e. the relationship between economic growth and urbanism; the sustainability of large agglomeration; the mismatch between mobility of goods (capital) and mobility of people (labour), among others).

Nevertheless, our current concern is not about urban centripetal or centrifugal forces, but the consequence of urbanism, particularly in the third world, from the policy making perspective.

3. URBAN PRIMACY IN THE THIRD WORLD

In developing countries is usual to find one or two cities that represent the core places in which the economy and the policy of the country evolve. This can be verified observing the primacy rates among main developing regions, defining primacy as the population in largest city as percentage of the countries' urban population.

In average, among developing countries, one city holds about 40% of the total urban population, which implies a high concentration of economic activities a political power in one city (see Table 2).

Table 2. Changes in primacy rates by regions

(Primacy: Percentage of population largest city as percentage of total urban population)

Average of primacy by region	1960	1995
Latin America and Caribbean	38.5	40.3
Sub-Saharan Africa	33.7	39.5
East and Asia Pacific	38.0	36.0
Middle East and North Africa	35.0	29.2
Western Europe	27.5	25.3
South Asia	17.2	21.2
Eastern Europe and Central Asia	20.8	18.6
North America	13.6	13.4

Source: Davis and Henderson (2003), own modification

This fact contributes with the emergence of split-cities, it is the establishment of two asymmetric economic systems which operate, compete and cooperate within the same city systems. One system is characterized to be formal and recognizable, tax payer and with formal employees. The other operates in the shadow economy which "includes all market-based legal production of goods and services that are deliberately concealed from public authorities..."⁵.

High primacy rates and large shadow economies are twin experiences. Table 3 present the countries with the highest rate of shadow economy in the world and their correspondent primacy rates.

⁵ Schneider et. al. 2010:5. Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007. Background paper World Bank regional report on the informal sector in Central, Southern Europe and the Baltic countries (Task number P112988).

Table 3. Shadow economy and primacy rates

<u>Country</u>	<u>Shadow Economy % GDP</u>	<u>Primacy rate</u>
Bolivia	68	29
Panama	65	60
Azerbaijan	63	47
Peru	62	40
Tanzania	60	31
Nigeria	60	25
Zimbabwe	57	42
<u>Myanmar</u>	<u>55</u>	<u>32</u>

Source: Own elaboration using Henderson data-set and Schneider 2010.

As it can be observed, in several developing countries the shadow economy represents about the 40% of the GDP and main cities hold about the 40% of the country population. In such context split-cities arises, establishing an “urban economic divide”, where in one part, the government can exert its power, meanwhile in the other hidden economic and political relationships exert their dominium.

Both systems coexist and survive, but the policy it is not able to unify the systems and build a health and strong economic system. Moreover, split-cities do not allow the conformation of an organic market which can be effectively govern and impel. Illicit economic activities find in split-cities attractive environments in which operate, threatening the stability of the system.

In such context, national economic policies can operate and provide basic fundamentals to improve the national economic performance, but are not able to confront the problems of cities, facing strong limits to improve the quality of living.

Usually mega cities and big cities are synonymous of pollution, criminality, income differences, congestion, high cost of living, slums and off course engines of growth. But, if large cities are becoming unsustainable, at least for living: How can it curve their raising population?

According the World Development Report (2009), it is usual to observe an inverted U-shape that relates the increasing of wealth with the reduction agglomerations. Nevertheless, the report indicates that this pattern does not hold in developing countries, where urbanization is not curving with the increasing wealth.

But not all is about large cities. These accounts only about the 10% of the world’s urban population, remaining midsize cities and other cities sizes the natural spaces for the rampant world urbanization, where rurality is diminishing and cities are becoming even more important.

Although these facts, policy makers are not acknowledging the implication of these structural changes for the policy making.

Mainstream development policies remained shaped by a national perspective, which is generating several policy bias such as, the consideration of main city problems as national problems; the use of main city indicators for national decision

making; tax burden based on formal economy and increasing of indirect taxes to grab informal sectors.

It implies the materialization of new city-states within national states. Social and economic environments of main cities, usually the capitals, exert strong influences in the national policy agenda. The rule of law becomes stronger and sometimes exclusively in the capital city, which actually operates as a city state, leaving a vast national periphery under the forces to shadow powers and markets.

Such reality remarks the necessity to re-think, in a modern way, a feasible approach to pursue peaceful environments and better living conditions in a context of increasing urbanization.

4. RECALLING THE CONCEPT OF CITY

Due to the scope of the present analysis, we are not going to present the evolution of the concepts of villages, city, city-state and national states. Nevertheless, we should recognize the dramatic changes in the role and scope of cities from the development perspectives, especially in those contexts in which the creation of the nation has not been a scaling process, from territorial autonomies (city-states, kingdoms, etc) towards federal or similar territorial unities.

Cities used to be the main scope of the polis. Greek city-states are a clear example of the importance to conceive cities as strong policy entities revealing their character and its potential to become global players in their territory and in the history. For Greeks, the polis is the natural relational and material space for the policy; it was conceived as a unique society, resulting from the will of families, which first conformed villages and then cities. I was a natural result of the will of men and women, with the aim of facilitating the supply of family needs and to pursue happiness by living in community. Aristotle remarks this process:

"the society of many families, which was first instituted for their lasting, mutual advantage, is called a village, [...] and when many villages so entirely join themselves together as in every respect to form but one society, that society is a city, and contains in itself, if I may so speak, the end and perfection of government: first founded that we might live, but continued that we may live happily. For which reason every city must be allowed to be the work of nature, if we admit that the original society between male and female is; for to this as their end all subordinate societies tend, and the end of everything is the nature of it..." Aristotle (Politics, Book I, Chapter II)

What is important to recognize, is the comprehension of the city as a unique society, naturally self-governed and contained, where citizens should be strongly involved in the life of the polis. The Plato's concern on city sizes and his idea of perfect size corresponds to the necessity to host all the heads of family of the *polis* in a public meeting (Plato, Laws v.74); this could guarantee the political engagement of citizen in city matters.

What surprises is that the concept of city-state was born without large agglomerations. City-states were characterized for being small towns, conformed by a population around 30,000 inhabitants. Only Athens, the largest Greek city-state, held in the 5th century BC about 100,000 inhabitants, but the concern of large agglomeration was strongly present. Greeks prefer to found a new city that

overpass a number about 30,000 inhabitants. This numbers should be read in their historical context.

For Greeks small city sizes were not a problem by itself but strength. When a threat or problem surpasses the capacity of the polis, city-state alliances were created. This was the recognition of the city's indivisibility and the necessity of keep short political distances. This made the *polis* more cohesive and responsible of its own future.

According to this consideration, we can assert that the real problem is not related to the size in terms of quantities, but the size in terms of political distance and community engagement, where geographical and demographical magnitudes matter. It is not an apologetic of small city sizes, but the recognition that political distance are relevant in the complexity of governing human spaces.

Subsequently we assess some of the paradoxes observed when geographical and demographical magnitudes among cities increase.

5. *POLIS* DISTANCES AND THE PARADOXES OF CITY SIZES

Paradoxes arise when we take into account the political distances within the *polis*: they are (1) city sizes and political engagement; (2) city sizes and social inventions capacity and (3) city sizes and supra-state alliances.

The first paradox indicates the existence of a contradiction between the city size and the political engagement in the territory of the urbanity. It is the fact that large agglomerations create less commitment in common matters. For Plato, large population implies less political space, less involvement in the public life. It means that large agglomerations tend to reduce partnership, responsibility and could weaken the spirit of democracy. Large agglomerations increase the concentration of power in political representatives, who not necessarily can comply with the political will of citizens. Moreover, larger agglomeration increase anonymity and reduce responsibility within the community. Pseudo-Senofonte appoints:

"I pardon the people themselves for their democracy. One must forgive everyone for looking after his own interests. But whoever is not a man of the people and yet prefers to live in a democratic city rather than in an oligarchic one has readied himself to do wrong and has realized that it is easier for an evil man to escape notice in a democratic city than in an oligarchic."⁶

Pseudo-Senofonte acknowledged the necessity that the citizens must be intensively involved in the governance and government of the *polis*, rejecting settlers, who enjoying the environment of democracy were not participating in the political life of the city. In this sense, he condemns the anonymity, which has an important implication in current cities.

New settlers within countries or legal new settlers between countries, although being part of the people (citizens), usually do not participate in political sphere of the polis, operating mainly in the economic sphere reinforcing the phenomena of split-cities.

⁶ Pseudo-Xenophon, *Constitution of the Athenians* 2,20. E. C. Marchant. Harvard University Press, Cambridge, MA; William Heinemann, Ltd., London. 1984.

Cohesive communities and short political distances, facilitates the sense of self-governance, political freedom and the capacity to project and work for the improvement of the life conditions, as De Tocqueville recognize:

“The strength of free peoples resides in the local community. Local institutions are to liberty what primary schools are to science; they put it within the people's reach; they teach people to appreciate its peaceful enjoyment and accustom them to make use of it. Without local institutions a nation may give itself a free government, but it has not got the spirit of liberty.”⁷

The second paradox regards the size of cities and the social invention capacity. Usually small cities are considered less vibrant social environments, which do not provide the best frame for social creativity due to the lack of social and economic diversities. Nevertheless, the city-state experience teaches us a different tale. It is precisely among compact political environments where some of the most relevant inventions for social life take place. City-states where structured around three pillars (political, economical and religious) that created a balanced institutional setting, which drives the invention capacity of the *polis*. This social capacity rotates around the Agora, an open and accessible place to all citizen in which they could interact according the three pillars of social life, creating a unique social environment. This compact social, economic and cultural spaces where able to support social capacity to invent strong solutions to improve the quality of life, such the alphabets, coined money, primitive central banks and stock exchanges.

In this sense, the full citizenship is not only to be able to participate in the political and economic sphere of the city, but also the involvement in religious and cultural activities, merge that strength the *polis* creativity.

The tale is different among large agglomerations, which increases distances between the three pillars in modern Agoras, harming the invention capacity to overcome social problem. This large *polis* distances, increase the concentration within each pillar, resulting in unbalance social system. It means the raising of a sort of ghettoized society in which one sphere tends to be self-contained, or one of sphere, usually the political, tends to segregate the social space of the others. In this scenario be observe the paradox; it is when large agglomeration instead to reduce distances due the increasing densities, it increases the political, economic and cultural distances within the polis, reducing freedom and invention capacity.

The third paradox regards city sizes and supra state alliances. What is observed here is a simple fact: Large agglomerations tend to reduce the necessity to create supra-state alliances, first within countries and then between countries. Large city sizes are perceived as strong political and economic entity, with enough potentiality to overcome it own social problems. Moreover, due its large size, their problems tend to be perceived as national problems. It means that national institutions and central authorities become accepted as the “natural” entities of get control of the society and resolve their problems.

Furthermore, large agglomerations face a problem of alliance scaling, due to the lack of *partnership matching*. Their particular size, impede to find similar entities to cooperate and to resolve problems together. In this sense they run a sort of

⁷ Alexis de Tocqueville, Democracy in America, 1835.

political loneliness in which only the national state is able to “take control” of their problems.

Large agglomerations in developing countries tend to diminish the need to create “city-state” alliance or federal system, reinforcing the role of national states.

6. SHAPING THE POLICY MAKING UNDER A CITY APPROACH

As it has been mentioned above, until now, this analysis is not an apology of small city sizes, but a concern about city distances; it is political, economic and cultural distances among citizens.

It implies that a small city does not guarantee higher political commitment, increasing social collaboration or stronger sense of freedom. Political distances can be very large among small urban agglomerations, where the city is characterized as a territory in which its future is shaped by a distant government, where its economy is not well rooted in their area and when the cultural life becomes a ghetto. Under this perspective we are not observing a city but only an agglomeration of people in a territory which is not governed, sustained and protected by their settlers; it means land of nobody or urban anonymity.

A city approach becomes a key element for policy making in the XXI century, which has been called the “century of the city” UN-Habitat (2009), remarking the predominant role that cities will have in the creation of better standard of living, especially for the third world.

The problem of the enlargement of the political spaces, as has been previously remarked, implies the increasing of distances between reality and policy, which creates serious problems for policy making, particularly in social contexts where shadow economy and weak intuitions do not allow to capture properly the effectiveness of the policies and could mislead their scope.

The enlargement of the *polis* space, has also contribute with the formation of ghettos within and between the three social pillars, where politicians tend to be exclusively politicians, entrepreneurs tend to be only in business with not enough engagement in polis matters, and cultural institutions are losing dialog capacity with the other spheres. This specialization, on one side can be positive for efficiency social roles, but in the other, reduces the capacity of mutual understanding and the establishment of strong ties between social actors, harming development of capacities.

Cities became concrete communities and material spaces, where standards of living can be easily observed and the effectiveness of policy can be directly perceived without falling in complex interpretations or in the manipulation of data for political purposes.

This approach provides an accurate observation of policy performance and allows concrete interventions to improve quality of life. It also implies the reduction of power of central institutions that possess large discretionarily to decide the allocation of resources.

It is certainly about regional enforcement, decentralization, local management but it does not imply municipal functioning. It is related to the truly concern in the engagement of citizens in city matters, in its economy, political and cultural life, with the aim to improve their access to material and spiritual needs which are not able to be provided by the government itself, by and economy itself and by a religious approach not embedded in life of the polis.

Therefore, it is not only about better transportation, housing, educational, health infrastructure. It is about an active economic, political and religious quest, where societies find their vocation and pursue a superior significance.

Such approach cannot be planned, must but be orient and act. It is about ignite the sense of community to get the spirit of liberty, confronting their concrete material and spiritual needs. It is about the concrete recognition of the city needs, material and relational, and the capacity to overcome difficulties in concrete social and geographical spaces.

Our policy making approach to cities regards the engagement of citizens, in their capacity to enjoy the benefits of the *polis* and in the capacity to strive for their economic, political and cultural development. It is going beyond any racial or national bias, recognizing the spirit of the citizenship.

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Concealed Ordoliberal Inheritances

1. THE EUROPEAN ORIGINS OF EUROPEAN COMPETITION LAW

Europeans began to develop the idea of competition law around the end of the 18th century in Vienna, the *true core* of the European competition law tradition. In Vienna, a group of intellectuals – Carl Menger and Eugen Bohm-Bawerk, among others – began to explore the idea of using law to protect the process of competition (Gerber 1987, 1998, 1999).

From Vienna, Austrian ideas were planted in Germany, where the first European competition law was enacted in 1923; but this law was too weak to withstand the pressures of economic lobbying and public opinion against it, and Nazism eliminated it. However, during the Nazi regime, a group of lawyers and economists called Ordoliberals continued to explore, “underground,” the issue of Continental and Austrian ideas on competition law (Gerber, 1999). The Freiburg School of law and economics composed by Walter Eucken, Franz Bohm, Friedrich A. Lutz and Fritz W. Meyer and, later, Hanns Grossmann-Doerth, became the main reference for competition law.¹ Interestingly, Friedrich August von Hayek agreed with Ordoliberals about the importance of competition and, although he did not consider himself part of the Freiburg School, maintained close personal and intellectual ties with its members (cfr. Gerber, 1994).

However, as Professor Gerber (1999:17) writes, “The most important [misleading assumption], and perhaps the most persistent and pernicious, is [the] widely held belief that antitrust law in Europe was merely an import from [the] United States.” Indeed, many scholars believe that after the Second World War Germany copied U.S. antitrust law and transmitted it to Europe. There is, instead, a *mistaken identity* (Gerber, 1994) between Allied decartelization laws – based on U.S. antitrust law – and the conceptual foundations of German and European competition laws, which were in large part indigenous products (Gerber 1998, 1999).

Although scholars do not wholly recognize it, Ordoliberal thought had a direct and relevant impact on EU law and, in particular, on EU competition law after the Second World War. In fact, the German Law Against Restraints of Competition (hereinafter GLARC), and in particular its draft – the so-called Josten draft, which had a deep Ordoliberal derivation (Gerber, 1998) – substantially influenced the formulation of the Treaty of Rome (Gerber, 1987).

Moreover, the members of Ordoliberalism played a prominent role in the political program of the German Christian Democratic party. In particular, Ludwig

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¹ For a review of the main ideas of Ordoliberalism we suggest Willgerodt & Peacock (1989), Streit (1992), Rieter & Schmolz (1993), Nicholls (1994) and Gerber (1998).

Erhard – the economic minister of the Federal Republic from 1949 to 1964 and its chancellor from 1964 to 1966 – followed most Ordoliberal ideas and generated the so-called “German miracle”.²

In light of this, Germany – hostile territory for liberalism during the Second World War – by the advent of Ordoliberal thought had given more ground in the liberal direction after the Second World War than traditional European liberal bastions such as England (Gerber 1998).

2. A DIFFERENT FORM OF LIBERALISM

In accordance with Kerber and Hartig (1999), Ordoliberalism is not a “third way” between capitalism and socialism – it should be seen as a different form of liberalism. The main characteristic of Ordoliberalism is its insistence on the fact that markets can fulfil positive functions only if the state establishes a clear institutional framework within which spontaneous market processes take place. In this respect, Ordoliberalism is different from the Hayekian and Austrian School’s spontaneity in determining the rules of the system.

For Eucken and his colleagues, history, with particular regard to the Weimar Republic, has proven that competition tends to be self-destructive because firms prefer to coagulate in joint power,³ form cartels or misuse economic power rather than compete. Moreover, the failure of the Weimar Republic shows that firms often achieve such a great degree of economic power that they can affect political power and restrain competition. Therefore, if the state does not take active measures to foster competition, then firms with market power will emerge; they will not only subvert the advantages offered by the market economy, but will also possibly undermine democracy itself, since strong economic power can be transformed into political power.

Market participants have incentives to incrementally transform the decentralized decision making of competitive markets into increasingly centralized variants: each individual agent can improve its welfare if it is able to circumvent competitive pressures or gain protection from competition. Therefore, unlike the *laissez-faire* idea of the night watchman, in the Ordoliberal paradigm, liberals must take initiative when a government’s weakness or lack of judgment leads to capitulation to private business (see Ropke, quoted in Megay 1970:425).

A weak state allows the private concentration of power, which, through interest group pressure, threatens individual freedoms. Ordoliberals demand a strong and independent state, with functions strictly limited to the protection of individual freedoms, to ensure economic order and leave all forces to pure spontaneity. In order to accomplish their goals Ordoliberals called for a strong state with their slogan, as Rustow (1932, in Friedrich 1955) titled: *Strong State, Free Market*. For Rustow, the rules of the free market game could be guaranteed by a

² For the connections between Ludwig Erhard and Ordoliberalism see, among others, Luckomski (1966) and Mierzejewski (2006).

³ Ordoliberalism seems to anticipate the case of joint dominance and conscious parallelism. For an Institutionalist explanation, see Vatiero (2009A).

strong. However, a strong state does not imply a strong totalitarian state,⁴ but a strong guarantor of the free play of market forces. Hence, the competition office would have to be a strong institution to wield sufficient enforcement authority and resources to operate quickly and effectively, in order to attract high-level personnel and protect them from outside political and pecuniary influences.⁵

Ordoliberals advocated a strong state to establish a set of general rules and rejected discretionary regulations that hamper the proper working of markets. It was especially important to them that economic policies should not interfere with the smooth function of the price system (cfr. Kerber and Hantig 1999). Ordoliberals asserted, indeed, that such a society could develop only where the market was imbedded in the constitutional framework that is necessary to protect the process of competition from distortion and to minimize governmental intervention in the economy – i.e., public officials derive their actions from an economic constitution, a sort of Kelsenian *Grund Norm*, without any discretion. Hence, rejecting Marxist central planning – and therefore implicitly the Nazi variant of central planning, corporatism and its tradition of cartels, and interventionism – Ordoliberals advocated a genuine market economy (Vanberg 1998; Kerber and Hartig 1999).

However, Ordoliberals also rejected the idea of the minimal state; in their opinion a *laissez-faire* economy would fail to ensure the proper working of markets due to an inherent tendency toward the cartelization and monopolization of markets (Eucken, 1951). As noted by Eucken (1951:83, italics added), property and freedom do not assure a competitive order:⁶

[t]o an increasing extent, for example, ‘freedom of contract’ is used to abolish competition by means of cartel agreements [...] Freedom of contract is often used *to alter the form of the market* and build up concentrations of economic power. As a result, it reduces economic freedoms of consumers. Moreover, such concentration of economic power can exercise *strong lobbying and rent-seeking activities*, threatening the normal functioning of democracy and, thus, the *effective political liberties of citizens*.

Indeed, having witnessed the use of private economic power during the Weimar period to destroy political and social institutions, the Ordoliberals emphasized the need to protect individuals from the misuse of such power. The Weimar experience led Ordoliberals to demand the reduction not only of political power, but of economic power as well. In this way, Ordoliberals expanded the *lens of liberalism* (Gerber 1994, 1998). It was not sufficient to protect the individual from the power of the government, because government was not the only threat to individual freedom. Powerful economic institutions (i.e., cartels) could also destroy or limit freedoms, especially economic freedom (Gerber 1998). The core of the Ordoliberal philosophy is that the legal system should prevent the creation and misuse of private economic power.

⁴ Many scholars have criticized this aspect of their program as an inevitable threat to economic freedom (Gerber 1998). It is what Giuliano Amato calls the liberal dilemma: “the risk of ‘too much’ public power or, contrariwise, ‘too much’ private power” (Amato 1997:109).

⁵ On the independent authority in a Ordoliberal perspective, see Vatiero (2010B).

⁶ See also Karsten (1985).

When the presence of a relevant economic power is counterbalanced by a strong state in a sort of *Schumpeterian creative destruction process*, we obtain the Ordo – the economic order for Ordoliberals. They indeed realized that power could be controlled only by power, *and* in reasserting the limits of state functions over and against private interests, they were willing to entrust the government with the balance of power.

		Economic Power	
		Relevant	Irrelevant
Political Power	Relevant	ORDO	Nazi Dictatorship
	Irrelevant	Weimar Republic	Marxist Communism Neo-Classical Equilibrium

Figure 1. The matrix of public and private power.

The failure of the Weimar Republic derived from the presence of a relevant private economic power in the form of cartels, which were not counterbalanced by the power of the state (Gerber 1994). Oppositely, the dictatorial case is formed by strong political power in the absence of private economic power. In particular, Eucken and his colleagues believed, generally, that too much business power had destroyed the Weimar Republic, and they saw too much government power producing the Nazi dictatorship (Gerber 1994).

To complete the picture in Figure 1 we need to define the case composed by the absence of both political and economic power. The neo-classical world and Marxist communism almost paradoxically describe the same result (Vatiero 2009B). On the one hand, in the neo-classical world, given the perfect institutional framework of property rights, neo-classical authors excluded the presence and the exercise of power. On the other hand, in accordance with Marxian ideas, man is wholly good and is well disposed to his neighbour; hence, if private property was abolished and all wealth held in common, then ill will and conflict among men would disappear.

3. AS-IF COMPETITION AND THE NOTION OF MARKET DOMINANCE

The main two theses of Ordoliberalism are: (i) only a state independent of economic lobbies can secure the freedom and rights of its citizens against abuses of

market power and (ii) only a state with bounded functions can protect individuals from the arbitrary use of public power.

Hence, a central tenet of Ordoliberalism is the defence of competition. For Ordoliberals, “The only way of achieving sustained economic performance and stability was through an economic order based on competition” (Gerber, 1998:241). The main pillar in the defence of competition is competition law, which defines and limits the conduct of powerful enterprises (or market-dominating firms) while it defines and limits state intervention.

When Ordoliberalism talks about competition, it means an open form of supply and demand (cf. Eucken, 1951:186f.) with actions and reactions among agents. Milton Friedman (1962:119-20, *italics added*) wrote clearly,

Competition has *two different meanings*. In the ordinary discourse, competition means personal *rivalry*, with one individual seeking to outdo his own competitor. In the economic world [referring to neo-classical economics] competition means almost the opposite. There is no personal rivalry in the competitive market place. [...] No one participant can determine the terms on which other participants shall have access to goods or jobs. *All take prices as given* by the market and no individual can by himself have more than a negligible influence on price.

Competition for Ordoliberals is closer to first meaning than to the second. Also for Adam Smith competition was a process stimulating rivalry among agents (to improve their performances) through reacting and counter-reacting behaviours. Such a process constitutes the (relative) price system and *invisibly* coordinates the interactions of market participants. Analogously, for Ordoliberalism: “Every supplier and demander does exert some small influence. Without individuals being conscious of it, all together determine prices and therefore the whole economic process” (Eucken, 1951:270).

This dynamic perspective was abandoned by neo-classical economics. Its idea of perfect competition was based on a stationary equilibrium: the instantaneous Walrasian *tatonnement* mechanism implies that agents cannot affect any market condition but that they must go along with the *visible* hand of the Walrasian auctioneer. For Ordoliberals the idea of competition is not related to price-taker agents, but involves contexts in which “the individual unit is *almost* powerless, but not completely so” (Eucken 1951:270, *italics added*). Therefore, the Ordoliberal program states that where competition is weak, the state should require enterprises to conduct business *as if* they were without the power to coerce other firms in the market (see Moschel 1989).

Ordoliberal Leonhard Miksch was the first to adopt the idea of as-if competition. Miksch states that any economic policy measure requires a normative reference point to uncover and restrict private market power. He individualized the prospect of a comparison between markets with and without market power. Conduct must be compared in such a way that competition is emulated where it does not work.

Eucken distinguished between capacity and handicap competition (cf. Budzinski 2007). Capacity competition serves to absolutely improve one’s performance, that is, to produce the best goods and services at the lowest prices. Handicap competition aims to degrade the performance of competitors, thereby

relatively improving one's own performance (but without any absolute improvement). Capacity competition is based on rival self-interested agents. Handicap competition, however, also called prevention-competition by Ordoliberal, is based on rival other-regarding agents and is directed at preventing competition from other producers, rather than improving one's own performance in the service of consumer interests (Vanberg 1998). For Eucken and his colleagues, the target of competition policy was to frustrate handicap competition and, thereby, force enterprises to concentrate on capacity competition: "This objective justifies us to speak of an economic policy as-if" (Miksch 1949; quoted in Goldschmidt and Berndt 2003:4).

This objective is included today in the European concept of the *abuse of the dominant position*. According to the European Court of Justice, abuse occurs when a dominant firm utilizes its economic power to gain a competitive advantage other than by "competition on the merits" and where this conduct has a substantial effect on the structure of competition. The Court says that, in the presence of a significant power, competition on performance can degenerate into "different methods" with the effect of hindering maintenance of the degree of competition still existent in the market.

As Parcu (2006) noted originally, the definition of a dominant strategy in game theory – which implies the possibility of choosing without taking into account the other players' strategies – suggests a natural parallel with the occurrence of the firm with market power that we find in European antitrust law, that works, to "an appreciable extent independently of its competitor, its customers and ultimately of consumers." A dominant strategy represents this request, recalling the significance of the "substantial" independence of a dominant firm from the choices of other agents, as is required by Art. 106 TFEU. Handicap competition illustrates the idea that when the *dominant* firm abandons its *dominant* strategy, renouncing part of its profits, it reduces its competitors' payoffs relative to its own; this impairs capacity competition.

Take, for instance, predatory pricing practices. The firm with the dominant position continues to lower its price until it is below the average cost of its competitors, thereby losing its profit per unit sold. The rationale of this practice is not derivable from capacity competition; it is, indeed, irrational to self-determine a reduction of one's own profits. The rationale, instead, can be found in handicap competition. The aim of this practice by the dominant firm is to force their competitors out of the market and, consequently, to raise price and gain monopoly profits forever thereafter. In fact, such a practice is successful if and only if the losses of the dominant firm's competitors are greater than those of the firm with the dominant position. When this occurs, competitors may exit the market, allowing the dominant firm to improve its market position. Then, predatory pricing becomes a convenient practice for the dominant firm, which does not want to compete by cutting prices or improving product quality, or both, in capacity competition. Therefore, the special responsibility given to the market-dominant firm in accordance with Art. 106 TFEU can be illustrated as a mode in which handicap competition is reduced because a switch from the dominant strategy of capacity competition is sanctioned.

4. COMBATING MARKET POWER AND DEFENDING CONSUMER POWER

In the GLARC there is a distinction between the “exploitation of abuse” and “impediment abuse” (Gerber 1987, 1998). Exploitative abuse regards practices concerning suppliers and buyers extracting extra profits, offering, respectively, low- and high-exchange prices. Impediment abuse, rather, concerns the practices that do exclude a competitor from competing. This distinction relies on two aspects of power (see Vatter 2009B; and also Gerber 2004): the concept of exploitation, which describes the level of power between a powerful agent and its vertical counterpart (i.e., the firm with market power and her supplier or client), and the concept of exclusion, which describes the level of power between a powerful agent and its horizontal competitor (i.e., a market-dominant firm and her competitor).

Exploitative and exclusionary power may be (and actually they are) circularly connected. By excluding a viable competitor, the dominant firm can increase its exploitative power over clients and suppliers because their alternatives are reduced. Greater exploitative power can offer the economic resources to the market-dominant firm to increase her power of exclusion, and greater power of exclusion can offer her the economic resources to increase her power of exploitation.

In this process, cause becomes effect and such an effect becomes a cause:⁷ the dominant firm benefits through exercising exploitative power that determines her means of increasing her exclusionary power, and vice-versa. This *path-dependence* leads to a polarization of power: any power accumulation becomes the means of new accumulation. This is the Ordoliberal understanding of economic power. Nevertheless, in order to prevent this occurrence potential subordinates could coagulate as a countervailing power that can rebalance the system – or can attempt to directly polarize power. Accordingly, Galbraith’s (1956) assumption about economic power is that the path-dependence of power may determine the countervailing path-dependence.

Given the process of the polarization of power, for Ordoliberals who want to limit the accentuation of power, a third party must *make order*. This does not mean that the third party must play the game, but that it must design the rules of the game in such a way that the path-dependence of power is limited. In this sense, a central tenet of Ordoliberalism is that the state should form an economical order because, as Galbraith supposed, agents cannot spontaneously coagulate into an effective countervailing power. Hence, for Ordoliberals, when individuals or groups have the power to influence the conduct of other market participants, the model does not work properly. Protecting the economic freedoms of individuals from the power of the government is not enough, because powerful economic agents could also destroy or limit such freedoms. Ordoliberalism sees this as the lesson of the Weimar period, when political and social institutions were undermined by private economic power. Therefore, in order to preserve a free market is necessary to have a strong state. This strong state does not imply totalitarianism, but is only an independent guarantor of the free play of market forces. In this respect, Ahlborn and Grave (2006:209 *italics added*) noted recently,

[W]hile economic freedom is the guiding star for ordoliberalism, there is the underlying assumption that the preservation of economic freedom will indirectly

⁷ Economists have defined such a process by the notion of circular and cumulative causation (Young 1928; Myrdal 1956).

lead to technological progress and allocative efficiency. To the extent that ordoliberalism and the consumer welfare approach result in fundamentally different policy decisions, this raises questions about the validity of the two underlying assumptions, namely: (i) whether there is actually no conflict between political and economic goals, and (ii) whether the preservation of economic freedom does lead to *consumer welfare maximization*, at least in the long run.

Here, it is worth a pause to explain the Ordoliberal concept of consumer welfare. Clearly, while Eucken and others developed their ideas in the 1930s and 1940s, modern consumer welfare approach benefited from the insights of the so-called Chicago School and advances in game theory. However, Ahlborn and Grave (2006:209 *italics added*) stated,

[O]rdoliberalism drives competition policy still today, in relatively undiluted form by the Federal Cartel Office in Germany and, *at least partially and indirectly*, by the European Commission in Brussels. Therefore, rather than contrasting economic thinking of the 1940s with economic thinking of 2006, we are contrasting *two forms* of intellectual underpinnings of current competition policy.

In this respect, recent words by EU Competition Commissars Kroes or Almunia can be read as an inheritance of Ordoliberal thought rather than as *an import from Chicago*. In 2008 Kroes affirmed (*italics added*):

In this age of the global economy, the fight to promote consumer rights is one of the great battles of our age. *Defending consumers' interests is at the heart of the Commission's competition policy*. In concrete terms: competition gives citizens better goods and services, and ensures businesses have more opportunities to sell them.

In other words (Kroes 2009, *italics added*):

The Commission has concrete successes to point to, and today we have the right political context for *promoting consumer welfare* [...] For the Commission's part, competition policy is about more than lowering prices for consumers. Our effect on choice and quality is just as important. We must also consider the benefits of more dynamic efficiencies associated with innovation and increased productivity. *This is not to say that our work delivers these benefits directly. We are not a one-stop-shop for consumer demands – that should be the job of companies. But we do occupy an important space: we enable a functioning market.* And we step in when companies rip-off consumers, in one way or another. This is the right thing to do. Consumers are not always able to protect their own interests in the market, so a market referee is essential. It's not as simple as protecting the weak or small against the big and strong. We step in when European market rules are broken, regardless of how big or small the company is. *For these reasons our policy outlook is comprehensively pro-consumer.*

Analogously, Joaquim Almunia (2010, *italics added*) adds,

[...] our ultimate objective is: *competition policy is a tool at the service of consumers. Consumer welfare is at the heart of our policy and its achievement drives our priorities and guides our decisions.* Our objective is to ensure that consumers enjoy the benefits of competition, a wider choice of goods, of better quality and at lower prices.

Although for some scholars⁸ the a strong state requested by Ordoliberals corresponds to weak individuals, Ordoliberal thought seems to leave room for the strong power for a particular (private) individual: the consumer. Indeed, as the Commissars repeated, consumer welfare is at the *heart* of EU competition policy.

5. DISCUSSION OF THE *ORDNUNGSPOLITIK* AND CONCLUDING REMARKS

Ordoliberalism saw two basic threats: state power and private economic power. Defence from the second threat extends the investigation of liberalism. The Ordoliberal solution to these two problems was to embed the market in a “constitutional” framework that would protect the process of competition from distortion by private power and minimize state intervention in the economy.

According to Franz Bohm (quoted in Gerber 1998:246), an economic constitution is “a comprehensive decision concerning the nature and form of the process of socio-economic cooperation.” As Bohm (1989:47) emphasises, it is a constitutional choice in and of itself, a choice of the *rules of the game* under which social and economic interactions would proceed. Similarly, for Walter Eucken (1951:88), “[b]y an economic constitution we mean the decision as to the general ordering of the economic life of a community.” Namely, it represents a political choice about the kind of economy a community wants, in the same way that the political constitution represents basic decisions about the kind of political system a community wants; Ordoliberals called this *Ordnungspolitik*.

This *untranslatable soul of liberalism* (Gerber, 1998:246) envisages markets flowing from the principles embodied in the economic constitution. In this respect, the state does not direct the processes of the economy, but merely establishes structural conditions within which those processes might function effectively (Gerber, 1998). Such economic constitution assures the free play of the actors, limiting harmful interventionism. The aim of the state is not to regulate or to steer the market as an interventionist, but rather to shape the legal and economic frameworks from which an economic order can emerge.

Ordnungspolitik has two major consequences. First, the state must intervene when (and only if) a powerful firm misuses her power: this occurs when a firm with market dominance does not act *as if* she were powerless. The as-if standard requires that firms refrain from conduct that would be unavailable to them if they had no monopoly power. State intervention would be merely authorized to apply this standard; the law would not give the state discretionary power to intervene in the economy. This intervention is necessary because Ordoliberal path-dependences lead to the polarization of power. By this polarization, Ordoliberals state, economic power will affect political power and, consequently, will reduce competition. The second consequence of Ordnungspolitik is that the defence of competition is seen as an end, and not as a means towards a goal. In particular, following the terminology of Barry (1989), Ordoliberal economists’ idea of competition is not a mere “procedural rule,” but an actual “end-State.” That is, the “[e]conomic system did not just ‘happen’; there were ‘formed’ through political and legal decision-making. These fundamental choices determined nation’s ‘economic constitution’” (Gerber, 1998:245).

⁸ See Somma (2009, 2010).

This implies that a legal setting cannot be merely *functional* for efficiency, as in the *Coasean vulgata*, and neglect agents' preferences (in particular, those of consumers) concerning the final legal setting – namely, the distribution of liberties, power and rights (that is, legal positions) between producer and consumer, and among consumers. Consumers' preferences must matter not only in order to determine *which* output vector should be produced, but also in order to decide *how* that output should be produced. How the output is produced involves a certain *legal setting* and consequent final legal positions to which society cannot be indifferent. This is not purely a matter of terminology. Treating part of human activity, i.e., the consumption of legal positions, only as means of or factors in production (cfr. Coase 1960) violates the basic principles of Kantian ethics: *act so as to treat man, in your own person as well as in that of anyone else, always as an end, never merely as means*. The same Kantian principle is the foundation of liberal thought.

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The Overlooked Harmony of Chicago and Ordoliberalism in the Immediate Post-WWII Period¹

INTRODUCTION

Scholars almost invariably portray the Chicago school and Ordoliberalism as propounding contrary major premises regarding monopoly.² For example, Chicago is said to maintain that competition has a self-correcting power, which ensures that monopoly power is short-lived. Ordoliberals, on the other hand, are not champions of self-healing competition: “Ordoliberal policy does not rely exclusively on the long-term process of self-healing of the overall society [through competition], but protects the individual’s economic freedom of action as a value in itself against any impairment of excessive economic power” (Moschel 2001, p. 5). While such characterizations are in broad outline correct, they tend to lead to the blinkered generalization that Chicago liberals and German liberals have always been at loggerheads over the issue of monopoly (and the issue of corporations). In fact, in the immediate postwar period, these two schools held relatively similar positions on these issues. This essay argues that one reason for this was their intellectual inspirations had a common ground: the classical liberal and Chicago economist, Henry Simons.

This essay proceeds by first briefly summarizing Simons’ economic views, particularly his negative attitude toward concentrations of power and his proposed reforms for this problem. Next, this essay explores how ordoliberalism echoes Simons. Then, this essay describes how Aaron Director, a representative of the Chicago School, gave voice to Simons’ ideas in the immediate postwar period. In closing, this essay briefly explores the irony that the Chicago liberals rather than the German liberals rejected Simons’ views on industrial monopoly and large corporations.

CHICAGO AND THE ORDOS SET OUT IN SWEET HARMONY

From the mid-1930s and through the mid-1940s, among the economists (and economists in training) associated with the University of Chicago, there was a group of young economists—which included Henry Simons, Aaron Director, Milton Friedman, and George Stigler—who opposed concentrations of economic power on the basis of the classical liberal doctrine. The public face of this group was Simons. His “widely read” 1934 pamphlet, *A Positive Program for Laissez Faire*, was at the vanguard of a barrage of arguments against increased concentration in industry (Hawley [1966] 1995, p. 292). Simons maintained: “[T]he great enemy of democracy is monopoly, in all its forms: gigantic corporations, trade associations and

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¹ This paper largely draws from section 1 of “Reinventing Monopoly” by Robert Van Horn—see Van Horn (2009). Reprinted by permission of the publisher from “Reinventing Monopoly and the Role of Corporations: The Roots of Chicago Law and Economics,” by Rob Van Horn in *THE ROAD FROM MONT PELERIN: THE MAKING OF THE NEOLIBERAL THOUGHT COLLECTIVE*, edited by Philip Mirowski and Dieter Plehwe, pp. 209-213, Cambridge, Mass.: Harvard University Press, Copyright © 2009 by the President and Fellows of Harvard College.

² Typically, scholars who portray the Chicago position concerning monopolies and corporations as contrary to the ordoliberal position include (e.g., Moschel 2001).

other agencies for price control, trade-unions—or, in general, organization and concentration of power within functional classes” (Simons 1948, p. 43). For Simons concentrations of power posed a threat to the “heart of the contract,” and thus to relative prices, which should adjust freely to reach competitive equilibrium. Because the “heart of the contract” was the sine qua non of freedom, concentrations of power threatened the foundations of the economy and society. Since a monopoly could exert a tremendous power in order to exploit society and sabotage the economy, the state must, as Simons put it, “destroy” that monopoly. If the state acted otherwise, the consequence, according to Simons, would be “a usurpation of sovereignty” by the monopolists and, perhaps even, “a domination of the state by them.”

In response to this threat, Simons called for an “outright dismantling of...gigantic corporations” and demanded vigorous antitrust enforcement. According to Simons, “*there must be a complete ‘new deal’ with respect to the private corporation. ...[The] corporation is simply running away with our economic (and political) system*” (Simons 1948, p. 58). Simons’ policy recommendations included: 1) the federal government, not the state, should charter corporations, and the existing state-granted charters should be annulled; 2) a corporation that manufactures or sells goods and services should not have an ownership interest in another corporation; and 3) all corporations should have the amount of property they own limited, which should ensure that no single corporation dominates an industry.

In the conclusion of his pamphlet, Simons emphasized that his anti-monopoly, anti-gigantic-corporation proposals would serve to help to maintain liberty and prevent another Great Depression from happening. Also, he called for “the custodians of the great liberal traditions” to join him in order to stop the movement toward collectivism in the United States (1948, p. 77). Two swiftly responded: Allen Wallis and George Stigler. Wallis and Stigler claimed Simons’ *Positive Program* exemplified great scholarship: “economics enables us to formulate...concrete and practical proposals for social policies, such, for example, as that contained in Professor Henry Simons’s brilliant and suggestive ‘A Positive Program for Laissez Faire.’”

Besides Stigler and Wallis, Director nurtured a deep respect for Simons’ work. After Simons’ untimely death in 1946, Director played a principal role in compiling Simons’ essays for publication. In the Prefatory Note of *Economic Policy for a Free Society*, Director stated: “[Simons] was a first-rate economic theorist ...He had no illusions about the great obstacles to the re-creation of a free-market society...We have to believe that the additional work which Henry Simons would have accomplished would will ultimately be done by others” (p. vii).

In addition to his colleagues at Chicago, the ordoliberalists also embraced and praised Simons’ work. One student of Ordoliberalism has observed, “With regard to competition policy Simons’ programme, especially his 1934 “Positive Programme for Laissez Faire,” inspired [Walter] Eucken” (Meijer 1994, p. 30). Shortly after the publication of Simons’ *Economic Policy for a Free Society* in 1948, which contained Simons “Positive Programme” as well as other previously published works, Groningen University (where Eucken was a professor until his death in 1950) economics students had been assigned Simons book as required reading (Meijer 1994, p. 28).

Not surprisingly, when he delivered his 1947 Mont Pelerin Society address, Director—as I will argue in detail below—sounded very much like Simons, and it is also not surprising that Eucken (who was present at the meeting) had no major

objections to Director's talk.³ Before turning to the 1947 address of Director and a comparison of his claims to those of the ordoliberals, it is useful to provide a brief sketch of ordoliberalism, especially its position concerning monopoly, corporations, and antitrust policy in the 1940s.

Ordoliberalism, like classical liberalism, maintained that a free enterprise system was necessary for a free, prosperous, and equitable society.⁴ Unlike classical liberals, ordoliberals advocated that a competitive economic system should be grounded in a specific "constitutional" framework; this, according to Gerber (1998), was the signature contribution of ordoliberalism and its significant departure from classical liberalism. For ordoliberalism's vision of society to become a reality, society needed both a political constitution and an "economic constitution." The political and legal decisions that would give rise to society's economic system would determine the nature of its economic constitution. Ultimately, the economic constitution must be grounded in ordoliberal economic theory; consequently, ordoliberals appointed themselves *de facto* lawmakers. Specifically, the economic constitution should construct an economy with "complete competition"—wherein no firm would possess the power to coerce another firm. Like Simons and classical liberals, ordoliberals feared governmental and non-governmental concentrations of power. They were convinced that Nazi Germany emerged as a result of the misuse and abuse of political and economic power, which crushed liberalism.⁵ Hence, under ordoliberalism, the legislature "made" the law; the executive had virtually no political and economic power; and the judiciary ensured that policy implemented by the legislature was consistent with the economic constitution.

Even though the economy is grounded in a "constitutional" framework, an *Ordnungspolitik* (order-based policy) must be designed to implement society's economic constitution. Markets must be maintained and created through prudent non-discretionary government policy. According to the ordoliberals' understanding of *Ordnungspolitik*, government policy decisions needed to flow from and be constrained by the economic constitution. Thus, "Government did not 'direct the process' of the economy. It merely established the 'forms' or structural conditions within which those processes could function effectively" (Gerber 1998, p. 248). Ordoliberals called this "indirect regulation," which comprised "constitutive" and "regulative" principles. Constitutive principles—the fundamental principles of economic policy—served to establish the form of the economic system. They included: monetary stability, open markets, private property, contractual freedom, liability, and policy consistency. Regulative principles flowed from constitutive principles. Regulative principles functioned to maintain the efficaciousness of constitutive principles. Competition law, for example, was a regulative principle. Like other types of regulative principles, competition law had to not only be embedded in constitutive principles, but also to

³ Notably, Friedman acknowledged that he learned from both Simons and Eucken (Friedman 1962, p. 28). Friedman later stated, "I've gone back and reread the Positive Program [See Simons (1948)] and been astounded at what I read. To think that I thought at the time that it was strongly pro free market in its orientation" (Kitch 1983, p. 178).

⁴ The description of Ordoliberalism in this section primarily draws from Gerber (1998). For other sources on ordoliberalism, especially their competition policy, see (Moschel 2001; Gerber 1994; and Hildebrand 1998, chapter 3).

⁵ "In this perspective, the collapse of democracy in Germany is not caused by a functioning market economy, but rather the consequence of the fact that such an economy did not exist. From the viewpoint of the Ordoliberals, the Third Reich was the inevitable result of a series of anti-liberal policies" (Lemke 2001, p. 193).

be symbiotically related to other regulative principles, such as monetary policy and trade policy.

Ordoliberals considered competition law the keystone of their program: “Monetary and other policies designed to foster competition would have little effect, ordoliberals argued, if firms could act in concert in setting prices or determining output, or if firms with economic power could use that power to foreclose opportunities for competition” (Gerber 1998, p. 250). Competition law served both to create and protect the conditions of complete competition; “it had to block the anti-competitive mechanisms which society can spawn” (Lemke 2001, p. 195). It sought to prevent monopoly power, to extirpate existing monopoly power, and—if dissolution was not feasible—control conduct stemming from monopoly power. Ultimately, it served to eradicate private monopoly power, such as cartels and, importantly, exclusionary practices. In general, in keeping with the classical liberalism exemplified by Director in 1947 and by Simons, ordoliberals sought to eliminate monopolies, minimize “big business,” and support an economy comprised of small and medium-sized firms.

In 1947, Director believed authority had either supplanted individualism or ominously threatened to supplant it in short order. In short, state intervention had become regrettably ubiquitous. Director maintained that state intervention had destroyed or nearly destroyed the competitive order because liberals lacked solutions to resolving conflicts between social interests and the results of free enterprise. Director advocated for a reconstituted liberal: “The theory of liberalism must be extended to include a prescription of the role of the state in making private enterprise the equivalent of competitive enterprise” (p. 77).⁶ However, in promoting these changes, Director was adhering to the classical liberalism of Simons.

Importantly, in keeping with Simons, Director steadfastly believed that the liberal doctrine needed, above all else, to champion freedom by, “promoting the dispersion of power necessary for competitive order” (pp. 77-78). Notably, Director observed that a substantial amount of monopoly power existed in the free enterprise system. To create a working competitive order, Director, like Simons, advocated state action on three fronts: (1) preventing private monopoly; (2) controlling combinations among workers and businesses; and (3) providing monetary stability. Because of the scope of issues examined in this paper, we shall restrict ourselves to addressing only (1) and (2).

Regarding industrial monopoly, although Director maintained that international trade normally provided a check on industrial monopoly, he admonished that this was not a sufficient check. Antitrust law was also needed to play a critical role. Concerning the U.S., Director indicated that antitrust law had lessened but not eliminated private monopoly. He suggested that heightened antitrust enforcement and additional policy measures were necessary to deal with the substantial extent of industrial monopoly. For Director, additional policy measures needed to target patent law and needed to address the inequality of income and inequality of wealth that stemmed from exercised monopoly power. Regarding the former, he stated: “A study of the American antitrust cases discloses the crucial importance which patents on inventions have played in creating and maintaining industrial monopoly”.⁷ Regarding the later, he asserted, “Some of the existing

⁶ Records of the 1947 Mont Pèlerin meeting, Liberaal Archives, Ghent, Belgium. Henceforth cited as MPS1947LA.

⁷ MPS1947LA, p.79

income inequality of income and inequality of wealth reflects the monopoly power of industry”.⁸

Interestingly, Director asserted that antitrust laws were “mere stopgap measures”.⁹ Radical corporate reform also needed to be undertaken. He maintained that classical liberalism failed to adequately address the scope of power of corporations and trade unions. Concerning corporations, he asserted:

The unlimited power of corporations must be removed. Excessive size can be challenged through the prohibition of corporate ownership of other corporations, through the elimination of interlocking directorates, through a limitation of the scope of activity of corporations, through increased control of enterprise by property owners and perhaps too through a direct limitation of the size of corporate enterprise.”¹⁰

Significantly, the first MPS member in the transcript to respond to Director’s disquisition was Eucken. Eucken pointed out that Director erroneously presumed that the government should directly address the monopoly problem. Eucken commented, “[The monopolist] is more afraid of competition than of government control. What is required is an independent supervisory authority guided by law and not by Parliament.”¹¹ Eucken based his comment on a key premise of ordoliberalism: The autonomous monopoly office, the enforcer of competition law, should be immune from political influence and should be guided in assessment by established legal strictures. These legal strictures needed to be grounded in an economic constitution.

At this juncture, despite the fact that Director did not support an economic constitution and an independent monopoly office, Director shared Eucken’s disdain for concentrated power because it undermined freedom. Thus, both were utterly convinced that monopoly needed to be prevented. Moreover, both harbored strong reservations against large corporations; each disapproved of the ramifications of that power for the market and for society.

CONCLUDING REMARKS

This common ground, however, proved transient. Director and other Chicago economists would soon take the development of liberal doctrine in a radically different direction than that favored by the German ordos. However, it took a few years for a sharp break from the classical liberal position of Simons to transpire and for a “new liberal” or “neoliberal” doctrine to emerge.¹² By the early 1950s, the Chicago neoliberals maintained business monopoly was no longer viewed as a relatively ubiquitous and powerful phenomenon in the United States; rather it was seen as relatively un-pervasive and benign because the “corrosive effects” of competition would always and eventually undermine it (Director 1950; Friedman 1951).¹³ Moreover, they claimed large corporations were no longer considered harmful to competition because of their market power, but rather another aspect of a competitive market (Director 1951). After a Chicago neoliberal position concerning monopoly, corporations, and antitrust law emerged, there was an ironic turn of events; it now seemed that Simons had more closely evoked the ordoliberals, not the Chicago neoliberals. As one historian of economic

⁸ MPS1947LA, p.84

⁹ MPS1947LA, p.79

¹⁰ MPS1947LA, p.80

¹¹ MPS1947LA, p.85

¹² For a detailed look at this break, see Van Horn (2009).

¹³ See Friedman (1962) for a later manifestation of this view.

thought observed: "In general, the West Germans' program resembles Henry Simons" (Olivier 1960, p. 118).

ARCHIVAL SOURCES

MPS1947LA Records of the 1947 meeting, Mont Pèlerin Society, Liberaal Archief,
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3. BUSINESS LAW

Maria De Benedetto

Some Implications of Roepke's "well weighed laws"

1. THE NEED FOR "WELL WEIGHED LAWS"

In recent decades, the spread of the market economy has been accompanied by the emerging concept of regulation, the new way in which to understand the content of law and law making itself.

The concept of regulation was imported from the U.S., where it has been widely used. In particular, U.S. scholars (economists as well as lawyers) have given to regulation a broad meaning, in order to include the diverse forms of public intervention in the economy. These broad meaning has been clarified thanks also to some supranational bodies, in particular the OECD, which has stressed the need to assure good quality regulation¹. In general, it follows that the regulatory State must be qualified as a State which governs society by imposing rules externally, with a conception of public interest and of welfare which does not imply an active presence of public powers in the market².

Therefore, regulation consists of the institutional result of the State economic intervention model, represented firstly by the School of Freiburg and, later in the theoretical context of the Social Market Economy³. By refusing both the perspective of traditional liberalism and collectivism, the Social Market Economy aspires to a legal system based on competition, capable of guaranteeing economic freedom and social progress through State intervention, and where the State is the institutional guarantor of market mechanisms⁴.

This approach has proved to be consistent with Italian Constitution⁵ and also has conditioned the European Treaties, in particular with an explicit reference in the Treaty of Lisbon (art. 3.3 of the Consolidated version: "The Union shall establish an internal market [...] based on [...] a highly competitive social market economy, aiming at full employment and social progress [...]").

When Wilhelm Roepke described the characters of an economic "third way", neither liberalism nor collectivism (the Social Market Economy), he said that the functioning of the markets needs "a firm moral, political and institutional framework", constituted by four elements: "a minimum standard of business ethics, a strong State, a sensible 'market police' and *well weighed laws appropriate to the economic system*"⁶.

He knew that it is necessary to take the possible effects of regulation into account, as did some scholars in Italy (for example, Tullio Ascarelli and Vittorio

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¹ See M. De Benedetto, M. Martelli e N. Rangone, *La qualità delle regole*, Bologna, Il Mulino, 2011

² See A. La Spina, G. Majone, *Lo Stato regolatore*, Bologna, Il Mulino 2000, p. 27 and C. Blankart, P. Baake and C. Jansen, *Growth and regulation*, in G. Galli, J. Pelkmans (ed. by), *Regulatory reform and competitiveness in Europe – horizontal issue*, Elgar Publishing, UK, 2000, pag. 40

³ See F. Felice, *L'economia sociale di mercato*, Soveria Mannelli, Rubbettino, 2008

⁴ See G. Amato, *Il potere e l'Antitrust*, Bologna, Il Mulino, p. 40

⁵ See S. Cassese, *La nuova Costituzione economica*, Bari, Laterza, 2000, p. V and p. 286

⁶ W. Roepke, *The social crisis of our time*, Transaction Publishers, 1942, New Brunswick and London, p. 52.

Bachelet) and as also did Economic Analysis of Law scholars, who developed these ideas later.

As we know, the Italian legal system has expressed a latent “dirigisme” for a long time⁷, showing a pathology of regulation: legislative inflation was considered, in fact, a typical manifestation of a regulated economy⁸.

The awareness of regulatory costs and, in general, of the need for good quality regulation, has produced institutional and regulatory reforms in several legal systems. In the 1970s, a series of Executive Orders were adopted in the U.S., which imposed procedural constraints on rulemaking, in order to evaluate the costs of regulation⁹. Since E.O. 12291/1981, it has been a requirement of executive agencies to produce cost-benefit analyses of the regulatory options, with oversight by the Office of Management and Budget. From the U.S., the analytic management of regulation has been adopted in several legal systems. In the 1990s, the UK Government adopted cost-benefits analysis techniques; in France, *études d'impact* (now obligatory) were introduced in governmental regulation; in the EU, Impact assessment was introduced and largely used. In various legal systems, monitoring and evaluation of regulatory impacts were established, in order to verify the consistency between regulatory objectives and the effects produced by regulation¹⁰.

What does assuring good quality regulation mean, as it is required by the OECD? It is said that “laws of good quality, precise and transparent statutes, are essential elements of rule of law”¹¹. Our legal and economic system aims to increase the quality of social and economic regulation, whereas the increasing of good quality regulation (and its quantitative reduction) is relevant for the costs to enterprises, citizens and administrations. The reduction and the redistribution of these costs will produce effects on institutional legitimacy¹².

2. SOME IMPLICATIONS

What kinds of consequences are connected to regulatory evaluation?

We will try to examine some of these implications, related to the methods, the forms and the procedures of regulation; the relationship between politics and administration in the organization of those institutions in charge of regulatory functions.

We will conclude by stating a few indispensable rules for the maintenance of consistency in the “regulatory philosophy” (as E.O. 12866/1993, section I, requires) and by indicating some indispensable institutional virtues necessary in the creation of useful tools which can achieve good quality regulation.

2.1 Regarding methods

We have just clarified that there is a structural link between legislative inflation and

⁷ See G. Amato, *Il mercato nella Costituzione*, in “Quaderni costituzionali”, 1992, p. 12

⁸ See T. Ascarelli, *Certezza del diritto e autonomia delle parti nella realtà giuridica*, in “Il diritto dell’economia”, 1956, p. 1255

⁹ See S. Cassese e B. Mattarella, *L’eccesso di regolazione e i suoi rimedi*, in S. Cassese e G. Galli, *L’Italia da semplificare. Le istituzioni*, Bologna, 1998, Il Mulino, p. 29

¹⁰ See C. M. Radaelli, *Diffusion without convergence: how political context shapes the adoption of regulatory impact assessment*, in «Journal of European Public Policy», vol. 12, n. 5, 2005, p. 924.

¹¹ See U. Karpen, *Law Drafting and the Legislative training course for law drafters*, in L. Mader e C. Moll, ed. by, *The Learning Legislator*, Baden-Baden, Nomos, 2006, p. 9

¹² See R.W. Hahn, P.C. Tetlock, *Has Economic analysis Improved Regulatory Decisions?*, in «Journal of Economic Perspectives», vol. 22, 2008, p. 67

regulated economy and we have also clarified that liberalization and deregulation processes both imply fewer rules and better quality rules.

In impact regulatory analysis (and in other regulatory techniques) there is, for example, an important procedural tool to limit law-making (from a quantitative point of view). This procedural tool is the so-called “zero option”, which implies the maintaining of the status quo. In impact regulatory analysis the predictable effect (or impact) of the various regulatory alternatives must be evaluated: it is, indeed, necessary to take the “zero option” into account too. In a key point of U.S. Executive Order no. 12866/1993 (Regulatory planning and review), it is stated that “in deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating”. As in other regulatory options, in the “zero option” there is a specific distribution of regulatory costs and benefits. Differently from other regulatory options the alternative of not regulating reduces the costs related to the regulatory change, which is, indeed, very difficult to quantify.

Already in 1960, the need to evaluate firstly the “zero option” was clear to Italian academics: Aldo Maria Sandulli held that legislative innovation could have opposite effects and that the legal system has, in any case, tools which are useful in the achieving of regulatory purposes (in administrative procedures, legal evaluation must be the last one and it could express also a decision to “not make”)¹³.

Moreover, regulators must give many reasons if they choose not to accept the distribution of costs and benefits connected to regulation already in force. More than one reason pushes in this direction. In particular, it is necessary to go beyond the asymmetric approach which overvalues the adoption of rules and undervalues implementation and enforcement of rules. Francesco Carnelutti, on this subject, wrote that man, by adopting rules, goes beyond his condition of minority which, otherwise, would not leave him¹⁴.

In fact, it is not only the market which fails. Regulation fails, too.

2.2 Regarding forms

In order to appreciate the “zero option”, regulation must give its reasons. Reasons must be given also when the context of regulation changes.

The concept of justification reflects the legitimacy of regulation, which is based on the economic Constitution (interpreted on the basis of international and European law, too), and which requires (under the formal point of view) that regulation is accompanied by a motivation.

Galligan noted that “the standard of fair treatment is [...] not only that there be good reasons, but also that the reasons be given”¹⁵. In fact, giving reasons is the formalization of the justification process and is also the object of the various kinds of review by oversight bodies and by judges¹⁶.

However, the Italian law n. 241/1990, which regulates administrative procedures, imposes (as a general provision) the motivation of each administrative

¹³ A.M. Sandulli, *Conoscere per legiferare*, in «Il diritto dell'economia», 1960, p. 977

¹⁴ F. Carnelutti, *Certezza, autonomia, libertà, diritto*, in “Il diritto dell'economia, 1956, pag 1195

¹⁵ D.J. Galligan, *Due process and fair procedures. A study of administrative procedures*, 1996, Clarendon Press, Oxford, p. 433

¹⁶ See R.J. Pierce, S.A. Shapiro, *Political and judicial review of agency action*, in «Texas law review», 59, 1980, p. 1175.

act, except for rulemaking (normative acts), among other things. In the European legal system, indeed, regulations, directives and decisions adopted by the European institutions “shall state the reasons on which they are based and shall refer to any proposals or opinions which were required to be obtained pursuant to this Treaty” (art. 253, consolidated version of the Treaty).

If we look at the U.S., we can find a tradition of very compelling and specific constraints on federal agencies activities: regulatory decisions even had to give reasons by demonstrating market failure (“both qualitatively and - where feasible - quantitatively”) which justify government intervention (Office of Management and Budget, Circular A-4, 2003).

2.3 Regarding procedures

Public participation and consultations are not yet regulated everywhere. As noted above, in Italy, administrative procedures have excluded public participation from rulemaking. Furthermore, even Italian rulemaking itself has been weighed down by different kinds of obligations, in order to consult with the targets of regulatory decisions (citizens and enterprises). Consultations are required firstly by European provisions (such as in the case of electronic communications) and secondly by specific rules in matters concerning independent regulatory authorities (for example, the Italian Authority for the supervision of public contracts or the Italian Regulatory Authority for electricity and gas). The general principle of participation has been recognized by administrative judges, even in rulemaking. So, at the moment, Italian regulation is supposed to be adopted through consultation processes, even though, in practice, this is not the case.

If we look at different experiences, all over the world, we can very often find specific provisions on rulemaking, which involve also regulatory techniques, such as impact assessment.

In the case of the U.K., where the Regulatory and Reform Act was adopted in 2006, consultations are indeed characterized by a strong discretionary power of the Minister: consultations are to be performed only as the Minister “considers appropriate” or “as appear to him” (art. 13, Regulatory and Reform Act).

Therefore, public participation in rulemaking should be considered not only in the traditional way, such as a guarantee for administrative procedures, but in another way too: as a tool to improve the informative basis of regulatory decisions and to achieve compliance, both of citizens and enterprises¹⁷. In this way different objectives can be matched, both by increasing the spontaneous accomplishments of public law obligations and by reducing the litigation ratio¹⁸.

2.4 Regarding the relationship between politics and administration

Regulatory evaluation is found at the boundary between politics and administration. In other words, regulatory evaluation expresses a process in which technical decisions (oriented to carry out, for example, regulatory options) are related to political decisions, which impose the goals. Impact assessment, for

¹⁷ See C. Coglianese, H. Kilmartin and E. Mendelson, *Transparency and public participation in the federal rulemaking process: recommendations for the new administration*, in «The George Washington Law review», vol. 77, 2009, p. 927.

¹⁸ See M.D. McCubbins, R.G. Noll and B.R. Weingast, *Administrative procedure as instruments of political control*, in <<Journal of law, economic and organization>>, 1987, p. 243.

example is based on consultation with citizens, enterprises and administrations which should be developed in administrative offices, in order to increase the substantial legitimacy of political decisions.

Both in impact assessment procedures and in regulatory organization it is necessary to clearly distinguish between administrative and political tasks¹⁹.

Designing better organization for regulatory functions is not a simple question²⁰. It is important, indeed, to make a distinction between two different bodies: the first is responsible for administrative functions inside line structures (near the general/permanent secretary or near the executive director); the second is responsible for political functions, attached to the office which supports the Minister in matters of legislative procedures.

This minimal framework allows organization to remain consistent with regulatory procedures: i.e., gathering of evidence, consultations and regulatory options, in administrative offices; the choice of the preferred option and the normative/legislative process in a political office.

3. FEW RULES, SOME VIRTUES

It is time to outline a few rules concerning “well weighed laws appropriate to the economic system” which are indispensable in order to achieve the third economic way, an alternative both to collectivism and classical liberalism.

Firstly, the “zero option” must be pursued with firm belief. In other words, the non-regulating alternative must be considered firstly and preferably, for the reason that all legal systems are condemned to be imperfect: the capacity of rules to transform reality is overestimated (it was asserted that rules place people in an artificial heaven, with all the illusions and the disadvantages of artificial heavens)²¹.

Secondly, when the regulator is to adopt a rule, it is necessary to carry out evidence gathering as well as reason giving, as if it were obligatory. Without impact assessment, for example, it would be sufficient to clarify some premises, in particular regarding the impact of regulation on competition²².

Thirdly, transparency in procedures should be ensured, as much as possible, by making regulatory options and related costs and benefits accessible. We know that behaviour changes when it is observed: transparency is the best way in which to stimulate stakeholders to monitor the work of regulators and to achieve better regulatory performances.

Fourthly, in order to increase the value of technical decisions in formulating regulatory options, impact assessment functions should be assigned to line offices which should work together with offices in charge of political support.

In our discussion we have followed a legal approach. Now, it is right to make a digression, in order to highlight the limits of an exclusively legal perspective: a

¹⁹ See J. Chevallier, *L'évaluation législative: un enjeu politique*, in *Contrôle parlementaire et évaluation*, ed. by A. Delcamp, J.L. Bergel e A. Dupas, Paris, 1995, La documentation française, p. 20.

²⁰ See A. Alesina, G. Tabellini, *Bureaucrats or politicians? Part I: a single policy task*, in «American Economic Review», 97, 2007, p. 169 and also A. Alesina, G. Tabellini, *Bureaucrats or politicians? Part II: multiple policy tasks*, in «Journal of public economics», 92, 2008, p. 426.

²¹ See F. Canelutti, *Certezza, autonomia, libertà, diritto*, in “Il diritto dell'economia, 1956, p. 1191

²² See L. Mader, *Evaluating the effects: a contribution to the quality of legislation*, in «Statute law review», 2001, p. 119.

virtuous relationship between markets and public regulations is, in fact, possible not only thanks to good quality rules but also thanks to virtuous regulators.

In recent years we have seen that virtue is necessary and people look for rules of honesty. Ethical codes have been adopted by several enterprises and institutions. Enterprises are, also, loaded with social responsibility²³.

There are three important practical virtues, useful in the regulatory perspective.

We have regulatory “frugality”, in order to reduce the regulatory excesses, to give an alternative to problem solving with recourse to legislation only; regulatory “prudence”, in order to prevent (ex ante) and evaluate the possible consequences of regulation; and finally, “vigilance” (ex post), in order to take care of the interests protected by regulation, by monitoring and evaluating regulation, in other words, by maintaining rules.

²³ See P. Koslowski, *Principles of ethical economy*, Kluwer Academic Publishers, Dordrecht-Boston-London, 2001,

4. POLITICAL AND ECONOMIC DOCTRINES

Flavio Felice

Luigi Sturzo and the social market economy

INTRODUCTION

Reading Luigi Sturzo's better structured, more academic and systematic works, as well as his collections of articles and essays that have become largely popular, not only can one grasp, in a crystal clear manner, the strong personality and the ideal horizon guiding the investigations and political actions of the Sicilian priest, but we can also highlight the most interesting features of his publications on current affairs: scientific rigor, political passion, love for his own country, the ongoing search for an order that could be meaningful from the Christian and, thus, human standpoint in the field of politics, economics, and culture. An order enabling the fulfillment of human beings, confirming the firm and intransigent refusal to yield to antireligious cultures; cultures that in the name of materialism and a sort of dogmatic rationalism ended up limiting freedom in the *political, economic and cultural spheres*¹.

1. ORDOLIBERALISM

Sturzo's reference to the social market economy happens in parallel with an academic, more than political, experiment, that was initiated – when he was an illegal immigrant and an exile – in the second half of the 30s in Nazified Germany². An experiment that took the name of “Ordoliberalism”, and among the main representatives who contributed to the development and dissemination of that school of thought there were economists such as Walter Eucken, Alexander Rüstow,

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Full Professor of Economic and Political Doctrines at the Pontifical Lateran University, where he is Director of the International Research Area “Caritas in Veritate”. Adjunct Fellow of American Enterprise Institute and No-Resident Research Fellow at the Faith & Reason Institute (both in Washington DC).

¹ «Maybe secularists will be shocked by Italian bishops appealing to God, to the conscience of duty, or to the liberty that the Church is entitled to. But if a law existed, like that which secularists think to find in the “Official Bulletin”, aimed to hinder the bishops’ ministry, whether approved by two-thirds or three-fourths of the Parliament, that law would have no value for bishops. This has been the theory for two thousand years; neither Napoleon nor William of Hohenzollern have changed it (remember the German *Kulturkampf*), neither Combes nor Stalin, nor will it be changed by people like Pannunzio or Reale. Those people should remember (since they witnessed it) that Pious XI was the only one to raise his voice against Hitler’s racism [...]. And when Germans occupied Italy, the bishops and the Pope were fathers to all, including today’s secularists, providing many political leaders with shelter and care, evidently breaching the laws that were in force, to abide by the law of Christ”; Luigi Sturzo, *Dal Laicismo al comunismo*, in “Il Giornale d’Italia”, May 16, 1958, today in L. Sturzo, *Politica di questi anni*, vol. XIV, edited by Concetta Argiolas, Publisher: Gangemi, Rome 1998, page 245.

² See F. Felice, *L’economia sociale di mercato*, Rubbettino, Soveria Mannelli, 2008.

and Wilhelm Röpke and jurists such as Hans Grossman-Dörth and Franz Böhm³; the latter were, with Eucken, the coeditors of the “Ordo” journal. In the first volume of their publication, *Ordnung der Wirtschaft* (1936), Böhm, Eucken and Grossman-Dörth drafted a programmatic introduction in which they articulated their firm stance against the persistent legacy of the German Historical School of Economics of Gustav Schmoller and they also asserted the general principle that “all the practical politico-legal or politico-economic issues had to be linked to the notion of economic constitution”, being convinced that the interrelationship between law and economics was “crucial”. In the essay/manifesto of 1936, named “Il nostro compito” (“Our task), the fathers of ordoliberalism pointed out: “Law and political economy were constitutive forces that exercised a remarkable influence – for instance, in the reconstruction of the legal and economic system that took place in all civilized countries at the end of the 18th century. Only during the course of the 19th century and at the beginning of the 20th century they lost their prominence»⁴. The Historical School of Economics, as Eucken wrote in the 1951 edition in his *Foundations of political economy* [1939], is atheoretical in the sphere of political economy and arbitrary in the sphere of economic policy: “Menger maintains that the historical economist must find out the “concrete relationships between facts”. But this is exactly what a historian cannot do. How can he, through his historical method, establish the connections that exist between price drops, unemployment and output decline and the concrete causes of all these phenomena?”⁵. The relations that the “historical economist” discerns, according to Eucken, “are still unknowable through his methods”.

The social market economy and its underlying theory, ordoliberalism, present themselves like an alternate and systematic approach leading up to the *Ordnungstheorie* and to the *Ordnungspolitik*⁶. Unlike the authoritarian understanding of the term, “order” for “ordoliberals” referred to the notion of *coordination* of individual plans, a decentralized coordination of economic activities in a general framework of rules of the game, and of refusal to *subordinate* economic activities to a central authority⁷. This is the reason why we believe, like Vanberg does, that the founders of ordoliberalism emphasized the role of the rules of the game, as the main means to attempt to put in place an economic policy capable of improving economy, i.e. to put in place “correct economic institutions”⁸. For our authors the combination of law and economic analysis is a prerequisite to create what they called the social market economy, i.e the development of an

³ Gerd Habermann, *La “mesure humaine” ou l’“ordre naturel”; l’humanisme économique de Wilhelm Röpke ed Alexander Rüstow*, in AA. VV. *Histoire du libéralisme en Europe*, P. Nemo – J. Petitot (eds), PUF, Parigi, 2006, pp. 937-951.

⁴ Franz Böhm – Walter Eucken – Hans Grossmann Dörth, *The Ordo Manifesto of 1936*, in *Germany’s Social Market Economy: Origins and Evolution*, by Alan Peacock – Hans Willgerodt, Macmillan Press Ltd, London 1989, p. 15.

⁵ W. Eucken, *Foundations of political economy*, Publisher: C G. Sansoni editore, Firenze, 1951, p. 51.

⁶ See Viktor J. Vanberg, *L’école de Friburg: Walter Eucken e l’ordoliberalisme*, in AA. VV., *Histoire...*, cited quotation, p. 916.

⁷ For an analysis of the debate between ordoliberals and Austrian economists, see F. Felice, *L’economia sociale di mercato...*, cited quotations, pages 57-62. See also: John P. Bladel, *Against Polanyi-Centrism: Hayek and the Re-emergence of “Spontaneous Order”*, in “The Quarterly Journal of Austrian Economics”, Winter 2005, Vol. 8, n. 4, p. 22. For a wide overview of the Austrian critique on the ordoliberal perspective, see Razeen Sally, *Classical Liberalism and International Economic Order: Studies in Theory and International History*, Routledge, London 1998.

⁸ V.J. Vanberg, *L’école de Friburg...*, cited quotation, p. 917.

economic constitution attempting to improve the economic system in an *indirect manner*, revising the rules of the game, in sharp contrast with an interventionist economic policy. Razeen Sally writes: "It's up to the State to put in place and maintain the institutional framework of a free economic order, but it must not intervene in the mechanisms of the competitive economic process: here is the essence of the *Ordnungspolitik*"⁹. All of this being convinced that the establishment of such an institutional and legal framework, of an effective market order, could have enabled to solve of the social issues of the 19th century. In 1936 Eucken, Böhm and Grossmann-Dörth themselves, in the "Ordo" manifesto, stated that: "We seek to create an economic and social order ensuring, at the same time, the proper functioning of the economic activity as well as decent and humane living conditions. We are in favor of a competitive economy, since it allows to achieve these goals. And we can also say that this end cannot but be accomplished by this means. Competition is a means, and not an end in itself"¹⁰.

2. THE THREE "BAD BEASTS"

In Sturzo's work, the search for a new order is conducted through the criticism of the factors that, in his opinion, characterized the present and had characterized the more or less recent past of the Country. In the *economic* sphere, the criticism of Sturzo focuses on bureaucracy and the State unduly encroaching into private initiatives. We have now come to the first of the three bad beasts of democracy: *statism*, that appears to go against freedom. Sturzo writes in this regard: "The mistake of those who are in good faith stems from a false vision of modern economy, believing that the State with its increasingly large interventions may repair inequalities, provide jobs for the unemployed and elevate the level of working classes; rather, the opposite will take place"¹¹. Statism, so fiercely condemned by Sturzo, should not be mixed up with public intervention in the economy. As we shall see later, Sturzo shares the opinion of the theoreticians of market social economy, as proven also by the firm support of the founder of the People's Party to the theoretical perspective ushered in by Röpke, reported in an article that can be considered to be his "economic" legacy since it appeared two days after the Sicilian priest passed away, on the 10th of August, 1959: "Prof. Roepke (*Sic!*) could not have better emphasized the problem of modern economy than by referring to the fundamental canon of morals. Without this, no public economy, nor private economy can hold"¹². A further evidence that the German "ordoliberal" theoreticians and Sturzo share ideals, can be found in a letter sent by German Chancellor Konrad Adenauer to prof. Giuseppe Palladino (Sturzo's executor) on the 25th of September, 1959, a few days after the death of the Sicilian priest: "I appreciated Don Sturzo as one of the great politicians who, for a deep-seated sense of Christian responsibility, after the chaos of the last war, strived to build a new Europe; I really hope Don Sturzo's prayers can help me work in the same spirit that motivated his noble intentions, to solve the problems the Christian West" will be faced with"¹³.

⁹ R. Sally, *Ordoliberalism and the Social Market; Classical Political Economy for Germany*, in "New Political Economy", 1, 1996, p. 8.

¹⁰ F. Böhm – W. Eucken – H. Grossman-Dörth, *The ordo manifesto...*, cited quotation, p. 15.

¹¹ L. Sturzo, *Statalismo ottimista*, in "Il Giornale d'Italia", January 24, 1957, in L. Sturzo, *Politica di questi anni...*, cited quotation, vol. XIV, p. 12.

¹² L. Sturzo, *Economia e moralità*, in "Via Aperta", August 10, 1959, today in Id., p. 497.

¹³ Cited in Giuseppe Palladino, *Don Sturzo oggi*, La Nuova Cultura Editrice, Naples, 1995, p. 53.

In the political sphere, Sturzo complained about the well established practice of *partitocracy*: the second of the three bad beasts that, according to our Author, go against the principle of equality; by *partitocracy*, Sturzo meant *the irresponsible encroaching of political parties and trade unions in the functions of the legislative power*. In Sturzo's words: "In the post-war period it was a calamity for our mother country that the Parliament and the Government, the only state bodies that are responsible towards the nation, have not only allowed the irresponsible interference of political parties and trade unions in the delicate functions of the legislative and active power; but they also tolerated their continuous predominance that constitutes an actual *partitocracy* and, in many cases, also an irresponsible and overwhelming *unions' power* with respect to the rights and the interests of the community"¹⁴. Then, we were speaking about the theory of a political, economic and cultural system – ordoliberalism – that would enable the fulfillment of human personality in the *political, economic, and cultural* spheres. What has been said so far about the economic and political sphere allows to extend the discussion to the ethico-cultural sphere as well. Against this backdrop, as a consequence of *partitocracy* and statism, Sturzo discerns the fauces of the third "bad beast": the *squandering of public money* that is thought to prevent the accomplishment of justice. *Partitocracy* and statism, through the misuse of public money, relieve the social body of its responsibility and empty human actions of their ethical significance: "As confidence may edify but also destroy, thus risk may educate, but also corrupt [...], neither the State, nor the Parties can presume to eliminate risk; it would cause harm to the society, in an attempt to paralyse the flow of human activities, subtracting momentum to emulation, to trading by individuals and by organized groups, lessening the possibilities of welfare itself. *Vexatio dat intellectum* ...»¹⁵. From this standpoint, claiming the right to eliminate the risk, that is the inevitable human ignorance, inhibiting the competitive process, besides wasting energies uselessly, would also mean causing very severe harm to society, paralysing the natural flow of human activity and depriving the human person of the necessary drive towards interpersonal relationships, discovery, and personal and social responsibility. A classic text on the social relevance of individual risk is provided in the following passage by Luigi Sturzo: "*Vexatio dat intellectum*; man, in order to understand, and then operate, needs coercion, to train his strength, to speculate intellectually, to prepare plans, to overcome obstacles; it fosters the spirit of conquest"¹⁶. Sturzo's viewpoint enables us to consider risk as an opportunity provided to men to go, each time, beyond the limits of knowledge and to train their own abilities to develop the necessary skills to pursue that multi-dimensional well-being that enables us to work out a mature notion of common good, being neither void political rhetoric nor a utopian "fatal presumption" that history has proven to be the noble cover of the most pernicious alchemies of social engineering.

3. THE RETURN FROM EXILE

Being aware that without freedom, equality and justice no democracy can ever exist, Sturzo realizes that the main battle in favor of democracy will have to

¹⁴ L. Sturzo, *Stato di diritto e Stato "di fatto"*, in "L'Azione Popolare", today in, L. Sturzo, *Politica di questi anni...*, cited quotation, vol. XIV, p. 31.

¹⁵ L. Sturzo, *Il rischio che educa*, in "Il Giornale d'Italia", August 20, 1958, today in Id., *Politica di questi anni...*, cited quotation, vol. XIV, pp. 298-299.

¹⁶ *Ibid.*, p. 299.

be fought on the practical and theoretical grounds to prevent the emergence of the arguments of the followers and theoreticians of the “three bad beasts”.

Sturzo, coming back from the twenty-year exile, is not a different person from the one who, in the late 19th century, took his first steps in the socio-political engagement in his Sicily and, in 1919, founded the Italian People's Party. The political action and the academic research of our author were always inspired by the defense of free and responsible human actions, against any form of interference of the State in the autonomous capacity for action of intermediate bodies: individuals, families, municipalities, provinces, and regions. His battles against usury and landed estates, the establishment of agricultural credit banks and cooperatives are all concrete experiences that must be interpreted as practical factors of political action, understandable from his epistemological reflection, an epistemology of social sciences that resulted in a sociological, political, and economic analysis found in the ample scientific work that he had the chance to write during the period of the exile in London and in the United States. At the same time, the political activity will lead him just *apparently* to drop the philosophy studies¹⁷ and a probably fortunate academic career will pave the way for the antistatist disputation in his publications of the '50s. For this reason, it would be utterly wrong not to grasp in his commitment to the South of Italy, in the federalism and in the subsidiarity principle, that are typical of the Social doctrine of the Church as well as of the Social market economy¹⁸, the cultural roots of Sturzo's antistatism and of the *methodological personalism*¹⁹ that eventually must be traced back to Christian personalism inspired by the social doctrine of the Church that dialogue, in an unprecedented manner, with the tradition of classical liberalism, with which Sturzo had come in contact both in the late 19th-century Sicily²⁰ - think of the influence of Francesco Ferrara and Napoleone Colajanni on Sturzo's economic reflection - and during the long exile in London and in the United States²¹. In a controversial statement intended for the young Christian Democrat

¹⁷ Cfr. L. Sturzo, *La mia vocazione politica*, in “Il Mondo”, New York, October 1940. Today in Francesco Malgeri, *I cattolici dall'unità al fascismo*, Publisher: Edizioni Frama Sud, Chiaravalle 1973.

¹⁸ On the principle of subsidiarity we refer to the classic definition left by Pius XI, *Quadragesimo anno*, May 15, 1931, n. 80. “However, the very important principle of social philosophy has to hold; as it is illegal to take from individuals what they can accomplish with their own strength and hard work to entrust it to the community, it is as unfair to commit to a greater and higher society what can be done by smaller and lower communities. This as a whole goes to the detriment of and disrupts the proper order of the society; because any intervention by society itself aims to the natural objective of helping the members of the social body in a complementary manner, rather than destroy or absorb them”.

¹⁹ See L. Sturzo, *Del metodo sociologico* (1950), Zanichelli, Bologna 1970. See also Claudio Vasale, *Appunti sul metodo della sociologia di Sturzo. Tra filosofia e storia*, Quaderni del Centro di Metodologia delle Scienze Sociali, Rome 1993; F. Felice, *Introduzione* a AA.VV., *L'opera di Luigi Sturzo nelle scienze sociali*, by F. Felice, Effatà Editrice, Cantalupa 2005; F. Felice, *Le ragioni morali dell'economia di mercato: riflessioni sul personalismo economico di Luigi Sturzo*, in AA.VV., *Le ragioni epistemologiche ed economiche della società libera*, edited by F. Felice, Rubbettino Editore, Soveria Mannelli 2003.

²⁰ See Annalisa Efficace, *Economia e società nel pensiero di don Luigi Sturzo*, in AA.VV., *Luigi Sturzo e la democrazia nella prospettiva del terzo millennio*, by Eugenio Guccione, Olschki, Firenze 2004.

²¹ With respect to the connection of Sturzo with the Sicilian economic liberalism of the late 19th century, read this passage written by Sturzo himself: “My critique against statism has lasted for half a century, statism starting to emerge in the late 19th century: then a few discerned the virus in it, that would undermine the economy and freedom; the most authoritative of all was

leaders who usually criticized the “liberalist” Sturzo of post World War II to contrast him with the “popular” Sturzo before the twenty-year exile, the priest, who founded the Italian People’s Party, mentioned a relevant point of the appeal “*To the strong and the free*” of 1919, to prove that there never were “two Sturzos”, the “popular” and “the liberalist”: “We intend to replace, on constitutional grounds, the centralizing State, aimed to limit and regulate each organic power as well as civic and individual activities, with a genuinely popular State, recognizing the limits of its activity, respecting individual personalities and encouraging private initiatives”²².

However, we must recognize that the tones and words used by Sturzo in the ‘50s in his everyday battle in favor of freedom, against *statism*, *partitocracy* and the *waste of public money* (“the three bad beasts”) were different from those used by the author in his political activity before the advent of fascism. The Sicilian priest himself admits this difference exists, but soon after that he explains the reasons for this. If on one hand it is undeniable that the nature of statism is immutable: “the systematic and abusive intervention of the State, violating freedom of individuals, of private and public social groups, and their related rights and autonomy”²³, the way in which this materializes in history can change over time. And this is why, in the eyes of Sturzo, post-fascist Italy appeared to have embraced the all-engaging Mussolini’s motto: *everything in the State and for the State, nothing outside the State*, inheriting a heavy authoritarian and illiberal tradition, first in the the Risorgimento’s secularist and antireligious version, then in the fascist one and eventually, supported by a sort of “catholic leftism” that mixes social tension up with an “opening to the left”, in the deadly embrace with the Socialist party, that would usher in the “Social Communism”, Italian-style. Here are the words of our author: “Unfortunately like in the two decades some Social Catholics borrowed political and corporative methods and doctrines from fascism; after Italy’s liberation, in the Christian Democratic Party, which has become the ruling and guiding Party, in fact the fundamental party, there are some who guide not only the contingent policy of alliances, but the directive social policy in a direction that is not our own and cannot be such: *the socialist conception*”²⁴.

Thus, Sturzo himself recognizes the differences between the Italian pre-fascist and fascist statism, that had settled at the end of World War II in the new and democratic Italy of liberation committees, political parties, trade unions, and countless State bodies. Sturzo, anti-fascist and anti-communist, could not helplessly witness the stepping up of the state presence in the business, banking, insurance and even cultural arena, to the point that it became necessary to establish an *ad hoc* Ministry of State Holdings; he had to denounce the historical contiguity between fascist nationalist totalitarianism and the economic statism of the rising centre-left. Sturzo writes: “In fact, after the many State interventions, the billions of INAM (Italian Workers’ Compensation Authority), the deficit of the film industry, here

Pantaleoni; thus my fight against protectionism in general, and against the duty on wheat goes back to last century’s years: among the most distinguished of his time Honourable Colajanni, a Sicilian like me; and later Prof. Giretti, outstanding liberalist. At that time, the term liberalist designated only free trade advocates, who wanted to have sort of a common market ahead of time”; L. Sturzo, *Statalismo e monopoli privati*, in “Il Giornale d’Italia”, October 31, 1957, today in L. Sturzo, *Politica di questi anni...*, cited quotation, vol. XIV, pp. 138-139.

²² Cit. in *ibid.*, p. 139.

²³ L. Sturzo, “Tre” *bestie nemiche della democrazia*, in “Orizzonti”, 21 giugno 1959, oggi in Id., *Politica di questi anni...*, cit., vol. XIV, p. 468.

²⁴ L. Sturzo, *Non confondiamo cattolici sociali e socialisti*, in “Il Giornale d’Italia”, 24 gennaio 1957, oggi in Id., *Politica di questi anni...*, cited quotation, vol. XIV, p. 13.

come the pretentious ENI initiatives, that pump out public money with the go-ahead of the Governor of the Bank of Italy; thus, we observe a State that is not only “*not social*” but rather “*antisocial*”, that disrupts, squanders, takes apart everything that it thinks to promote to the benefit of the people (meant as all tax paying citizens) and of the working people (meant as the class justifying the dissipation)”²⁵.

Sturzo notices a quality leap of Italian statism of post-world war II with respect to that of post-unity and fascism, and he publicly intervenes in this regard, engaging in a heated debate also with the Christian Democratic leaders of the time: from Giorgio La Pira to Amintore Fanfani, from Enrico Mattei to future President Gronchi. This is how Sturzo expressed his views in favor of free economic initiative and against statism, a statism that was defended by his old friends in the party that he provocatively called “sinister Christian Democrats”: “The fundamental error of statism is that of entrusting the State with activities having a productive purpose, connected to an economic restrictionism stifling the freedom of private initiative”²⁶; “Transferring private capital to the State, and make it operate in the large industries [...] causes harm to the country, to its economy and to the working class itself”²⁷ and furthermore: “Blessed be private initiative that is not obliged to expect the benefits dispensed from above when the Gods of the state Olympus, - whether democratic or totalitarian -, manage to find a compromise between them, like at the time of Homer, and then deign to look at what happens in the small, low world of living reality!”²⁸; and moreover “The State is unable to run a simple cobbler’s workshop”. And speaking about school freedom he pointed out: “As long as school in Italy is not free, Italians themselves will not be free; they will be servants, servants of the State, of the Party, of private or public organizations of any sort [...]. The genuine school, free, joyful, full of youth enthusiasm, developed in a suitable environment, with teachers engaged in the noble function of educators, cannot thrive in the heavy climate created by the bureaucratic state monopoly”²⁹.

The foundation of the argument by Sturzo against state interventionism and the naïve equalization performed by many young Christian Democrats of the time between *solidarity*, *the active role of the state in the economy* and *the myth of opening to the left* would be a theoretical reason clear-sightedly outlined by Mario D’Addio in the following passage:

“[Sturzo’s argument against statism and partitocracy] was actually addressed against the conception, naïve in many regards, of the Welfare State as a safe solution for the social issues linked to the process of industrial economic development, and therefore as a “ground” where traditional forces of marxist and socialist left could meet with those of Christian and lay inspiration³⁰. In the wake of this theoretical argument, that in the ‘50s will result in the antistatist and antipartitocratic controversy, we can notice that Sturzo sort of drew inspiration from popularism in the light of the tradition of Anglo-American liberalism, having directly experienced two of the most ancient and established western democracies:

²⁵ L. Sturzo, “*Sociale*” *parola magica*, in “Il Giornale d’Italia”, August 26, 1958, toay in Id., *Politica di questi anni...*, cited quotation, vol. XIV, p. 303.

²⁶ L. Sturzo, *Sinistrismo economico*, in “Il Giornale d’Italia”, March 27 1955, now in Id., *Opere scelte*, vol. II, *Stato, Parlamento e partiti*, edited by M. D’Addio, p.126.

²⁷ *Ibid.*, pp.127-128.

²⁸ L. Sturzo, *A difesa della scuola libera*, edited by Dario Antiseri, Città Nuova, Rome 1995, p. 59.

²⁹ *Ibid.*, p. 60.

³⁰ Mario D’Addio, *Introduzione a Opere scelte di Luigi Sturzo. Stato, parlamento e partiti*, edited by Mario D’Addio, Laterza, Bari 1992, p. XXX.

the US and UK democracies³¹. No doubt the tough exile was also for our author a chance to open his mind and the encounter with the British and American political literature profoundly influenced his way of interpreting also the political economy and the political and cultural currents of the time.

4. STURZO AND THE SOCIAL MARKET ECONOMY

With specific reference to Sturzo's contribution to economy, we already had the chance to pinpoint the affinity of his view towards the German ordoliberal tradition and that of social market economy of Röpke, Erhard, Eucken, Adenauer, and others. During the debate with Giorgio La Pira, in his answer to the major of Florence on May 21, 1954, Sturzo suggests him to read up on "how Germany was able to recover after the war and achieve some competitive economic aspects that started to worry the so called winners".³²

In an article on December 29, 1957, titled *Paura della libertà*, he said. "Unfortunately, whether we like it or not, ours is a hybrid industrial enterprise, state-owned and private, the first one with monopolistic privileges, strong state support, easy means and lacking sense of risk. The second one with an old tradition of state favours, easy means and lacking sense of risk: even industry actors looking for specific favours lose sight of the value of economic freedom and real interests of domestic productivity"³³. These are not the words of a hopeless liberal, of an anarchical-capitalist, who rambles on a far-fetched privatization of the moon. They are the words of the father of the Italian and European political Catholicism, of one of the most renown interpreters of the modern social Christian thought and one of the most influential social scientists of the XX century

This article is noteworthy, it is interesting to see how Sturzo claims there is no form of "solidarism" actionable where "statism" and "market economy" coexist, whereas a solidarity-oriented policy can be achieved only where a "free market" coexists with a state policy of "cooperation" and "occasional" and "more or less agreed upon intervention". These are the circumstances that entitle a fair and sound policy, as well as the categories that describe a political economy in line with market order. Not by chance Sturzo makes the example of the German and U.S. economic-entrepreneurial reality and that Röpke, as well as Adenauer, chose Sturzo's works as an important source of inspiration. The social market economy developed by Sturzo considers three basic conceptual elements. First of all; liberty is unique and individual: "one loses political and cultural liberty when economic freedom is lost and vice-versa",³⁴ in contrast with Croce's distinction between liberism and liberalism and in tune with the unitarist perspective of Einaudi and Hayek- who in the social economic market were, respectively from the Higher

³¹ We shall use the definition "classic liberalism" as a synonym with "*Old Whigs*", in the meaning given to this expression by Nobel Prize Laureate in Economics Hayek: "In contrast with other very different thinkers, who more often live in Northern Europe, who are themselves called liberal, but who should be called "*Old Whigs*", among whom stand out thinkers such as Alexis de Tocqueville and Lord Acton"; F. A. v. Hayek, *La presunzione fatale. Gli errori del socialismo*, Rusconi, Milano 1988, p. 99.

³² L. Sturzo, *Risposta alla lettera del sindaco La Pira*, in "*Il Giornale d'Italia*", May 23, 1954, today in L. Sturzo, *Politica di questi anni – Consensi e critiche*, vol. XIV, Zanichelli, Bologna 1968, pp. 48-51.

³³ L. Sturzo, *Paura della libertà*, "*Il Giornale d'Italia*", December 29, 1957, in Id., *Politica di questi anni...*, cit., vol. XIV, cit., p. 158.

³⁴ *Ibid.*, p. 159.

Education Academy for Social Studies of Geneva and University of Freiburg, among the most relevant protagonists and scholars, as well as close to ordoliberalism during the war and post-war period.

Secondly, liberty is an expression of self-discipline, in addition to legislative regulations, “for the coexistence and respect of mutual rights and duties”. Thus, the state’s main task is to “guarantee and monitor collective and private rights”, keep public order, national defence, safeguard and monitor credit and monetary systems. And still, safeguard and monitor public finance and guarantee good administration. Only secondarily and subsidiarily the state intervenes, in an integrative way, in sectors of social and general interest where private initiative is poor, until it is able to resume its own role”. Sturzo, like other ordoliberals, does not deny that in cases of need the state can intervene, but confines them to “emergency” situations, for a “limited” period and “in a secondary and subsidiary way”.

Economic freedom, Sturzo himself points out, is not freedom from the fascist regime, the “agreed alliance” and “collision” among antifascist forces gathered in the Committee of National Liberation (CLN). Sturzo writes: “When a dictator is ousted (our case), an oligarchy is created; the liberation committee was an oligarchy; those who were excluded then were the outcasts, who later joined the banner of new parties”³⁵. Freedom according to Sturzo, he himself writes: “is the economic freedom that influences and facilitates the existence and development of political and moral liberties”. Thus, Sturzo rules out all the “corporatist illusion of pro-fascist Catholics of that period”. Corporatism, according to our author, did not have and can never have any relation besides the unsuccessful attempt of Mussolini to identify “State-party-corporation”, where there is a total lack of freedom and the complete fulfilment of the fascist motto: “all in the State, of the State for the State”³⁶.

Similarly, the identification of economic freedom with the existence and development of political and moral liberties – absolute and inseparable liberty- led also to the fall of “the Socialist and class State” illusion. The experience of the Soviet bloc and its satellite Countries, such as the “imitation of Belgrade and Beijing” are there to demonstrate that, where there is no economic freedom, “free capitalism” sooner or later replaces “state capitalism, thousands of times worse than the private one” and that proletarian dictatorship is nothing more than “military dictatorship with the apparatus of profiteering functionalism”.

Furthermore, in his considerations Sturzo claims that “Western countries, more or less individualistic and dynamic, with many differences in climate, productivity, economic development, customs, needs, history, culture and contrasting political conditions will never experience, except with the use of force, the imposition of fundamental rights, that deeply influence economy”.³⁷

In this setting, even if state intervention was generally more extended compared to the past, its impact would have been less and the productive force coming from the private sector would represent a remedy against state intervention specifically in those countries with the strongest political structure and soundest industry. Among these countries Sturzo does not identify Italy, inconsistent, lacking political maturity and with an extremely poor economic-production system constantly relieved from responsibility by state intervention.

³⁵ L. Sturzo, *Le profezie verità di don Luigi Sturzo*, a cura di F. Pasquariello, Edizioni Centro Sturzo, Turin, 1995. p. 42.

³⁶ L. Sturzo, *Paura della libertà...*, cited quotation, pp. 156-159.

³⁷ *Ibid.*, p. 158.

State intervention by ensuring monopolistic privileges, that is state guarantees, had ended up miseducating economic players on “educational risk”.

In highlighting evidence on how state intervention does not lead to solidarity policies or respect for personal liberties, but rather to override a free society in an authoritarian manner, Sturzo portrays a strongly realistic picture: thus his bitter criticism towards some of the political and intellectual Catholic groups that often referred to concepts such as “personalism” and “solidarism” as possible picklocks that could have disrupted – overridden- typical market economy institutions leading to the creation of some sort of “specific economy”³⁸; an illusive alternative to market economy that would safeguard political and cultural liberties. Misleading, since for Sturzo liberty is “individual”, thus it is “unique and inseparable”³⁹.

Also due to this, personalism and solidarism could have morally oriented market economy, they could have represented the moral numbers of a economic system based on free market economy, but they could never replace it at the expense of “falling into a classist statism (as State capitalism in Moscow and connected Countries)”. In an article published on January 23,1959, Sturzo provocatively wonders: “The currency? The hell with it. The stock market in undergoing a crisis? It’s a bourgeoisie problem. Production drops and workforce increases? Too bad. Today, all civil countries must choose between a market economy with all its entailed inconveniences and state economy with its noxious flaws. Go to Berlin to see the two economies: West Berlin: market and prosperity; East Berlin Socialism, communism and misery; we could say “community and sociality of misery”⁴⁰.

State intervention, for Sturzo, is necessary for civil life, that is *compatible*, using the “ordoliberal” terminology, when it dangerously falls into statism intervention: *non-compatible*, when it becomes “destructive of all forms of institutional order and every administrative moral”⁴¹. In another article he defines statism as follows: “Statism is the degeneration of state intervention in inappropriate sectors with actions that are harmful to citizen rights”.⁴². An intervention that is “illegitimate” or “harmful” to citizen rights” – Röpke and other ordoliberals would claim “incompatible to market economy”- when the state does not limit itself to neutralize hostile factors to the joint activities of entrepreneurs and workers; when, ultimately its intervention goes beyond its scope, of respecting individual, full and undividable liberties of human beings and from historical experience of its concrete enactment. Statism degeneration entails monopoly of national capital, with the consequent contraction of production, currency devaluation, generalized functionalism and totalitarian drift. These are the cases where the “State” is theorized as “source, and single source of Law”; the state as the supreme fulfilment of the idea; the ethical state. The pantheist state whose last definition was given by Mussolini: “All within the state, nothing outside, nothing against the State, all for the State.”⁴³ Furthermore, a similar view of the state, Sturzo pointed out, from the Christian perspective, is based on the mistaken and harmful

³⁸ Cfr. *ibid.*, pp. 158-159.

³⁹ Cfr. *ibid.*, p. 159.

⁴⁰ L. Sturzo, *Stato e statalismo*, “Il Giornale d’Italia”, January 23, 1958, today in Id., *Politica di questi anni...*, cited quotation, vol. XIV, p. 373. ..., cit., p. 373.

⁴¹ L. Sturzo, *In cerca di “statalisti”*, in “Il Giornale d’Italia”, today in Id., *Politica di questi anni...*, cited quotation, vol. XIV, p. 169.

⁴² L. Sturzo, *In cerca di “statalisti”*, in “Il Giornale d’Italia”, today in Id., *Politica di questi anni...*, cited quotation, vol. XIV, p. 169..

⁴³ L. Sturzo, *Nazionalismo e internazionalismo* (1946), Zanichelli, Bologna, 1971, p. 33.

anthropology on human beings' dignity, in its fundamental elements of freedom and responsibility.

In this case the Sicilian priest reiterates a doctrine consistent with "ordoliberalism", so clear but still often ignored; not only at the time of Sturzo: "The state cannot create ex nihilo an order since politics cannot create ethics; it is the state that acknowledges an ethical-social order that men process and express as rational subjects" ⁴⁴. As we can see, for Sturzo the state was, in its essence, the political form of civil society and not the substance sui generis under which to sacrifice people's reasons; ultimately, it was what ancient Romans considered *Res publica* and the *Administration* in Anglo-Saxon liberal literature; in the words of Sturzo the "power and administration of common good".

The reasons of economic social market in Sturzo's model are expressed by the priest himself when he claims that statism disrupts the intermediate order of society; ultimately, by centring state authorities and bureaucratizing civil society, the "State" would infringe one of the pillars of the Church's modern social doctrine: the principle of subsidiarity, both in its horizontal and its vertical one. It would end up weakening the individual ability to resist threats of invasion by bureaucratic bodies in the spontaneous life of social organizations.

Statism, for Sturzo, by undermining all the rights pertaining to human personality, disrupting the order that imperfect but perfectible men, ignorant and fallible, the only ones aware of the type of knowledge Hayek used to define "knowledge of specific situations in time and place" (nothing other than the logical base of the "principle of subsidiarity"), end up also disrupting administrative powers and functions. Furthermore, producing an imbalance, an economic chaos, both in production and distribution of goods and services due to irrational market initiatives, no longer dictated by free trends in commodity prices, as Ludwig von Mises⁴⁵ explained; it favours price increase due to the failure of the state as entrepreneur, insurer, gambler and artistic entrepreneur and thus increases management deficit that is added to all the previous causes, together with the desperate and depressive practice of political corruption.

CONCLUSION

For Sturzo, just like the market that according to the "primitive capitalism" perspective has not been able to carry out contemporarily the field-function and rules of the game, also the state was unsuccessful in playing the referee and player. The state can only carry out the referee tasks. The state should have distinguished itself from the economic system by overriding it both domestically and internationally. Therefore the need to trace the difference between the state as referee and the market as the playing field and the actors as players. Now, once every actor plays his role, we can see possible remedies against the risk that enormous economic private concentrations might degenerate into a system of public collectivism.

This was for Sturzo on top of the agenda of all the world's governments; a problem that associated the German "Ordoliberalism", in favour of social market economy and Sturzo's Popularism. For this reason, from the many "ordoliberal"

⁴⁴ L. Sturzo, *La società, sua natura e leggi. Sociologia storicista* (1935), Zanichelli, Bologna, 1956, p. 109.

⁴⁵ Cfr. Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth*, in Friedrich August von Hayek, *Collectivist Economic Planning, Critical Studies of the Possibilities of Socialism*, Routledge and Kegan Paul, 1935, pp. 87-130; ed and also: L. v. Mises, *Socialismo. Analisi economica e sociologica*, Rusconi, Milan 1990.

lessons, Francesco Forte claims, a free economy is compatible “only under certain types and planning measures (...) as far as its interventions are limited and, especially, focused mainly at strengthening the market.”⁴⁶ The appropriate amount of intervention, or rather its compatibility, Röpke said with a incredible analogy to Sturzo – very telling of the deep relation between the two intellectuals – is given by the intervention’s ability not much in raising walls that will not resist earthquakes that are about to strike the economic-productive reality or letting the quake destroy all that contrasts its destructive force, but to guide and mitigate the quake’s force, limiting possible damages. A sort of “initial injection” by the State that would enable the economic system to restart, by leveraging the forces of the same private market operators⁴⁷. In connection to this, here is an interesting article by Sturzo (1928) on globalization. An excerpt where Sturzo not only anticipates the “quake” problem raised by Röpke, and just mentioned above, but also the type of remedy given by Röpke and Rüstowian: “adequate intervention”, that makes the contribution of the German “ordoliberalism” special, compared to the Post-war liberal Continental and Anglo-Saxon archipelago and specifically qualifies social market economy compared to other hybrid forms of mixed market economies.⁴⁸ Sturzo writes: “Some fear the enormous power that international capitalism has and continues to gain by overriding state boundaries and geographical limits, becoming a State in the State itself. This fear resembles that of the rivers’ water; threatened by flooding, people make an effort to safeguard the city and countryside with channels, dams and other defence facilities: they also use them for navigation, irrigation, power and so on. A large river can be a great resource and a big threat: its up to men, largely, to avoid this danger. What does not depend on man is its existence. The same is true for the large international river of economy. Its modern importance dates back to the big industry of the previous century: its development, through outstanding scientific discoveries in the field of physics and chemistry, that become even more important with rational use of the forces of nature. Nobody can object to this perspective: everybody must contribute to push the big river towards common benefits, Against the enlargement of economic frontiers from single States to Continents, small and large national interests arise, but the movement cannot be stopped; the extension of economic boundaries will anticipate political ones, Those who do not perceive it are out of touch with reality”⁴⁹.

These were the problems that from the end of the Twenties to the mid-Seventies some intellectuals, from various parts of Europe, thought needed to be addressed. Starting from the clear theory of political and economic order, not wanting to surrender to autarchic populism, aggressive totalitarianism and liberticide protectionism, in their utmost love of their liberties and that of others more than

⁴⁶ Francesco Forte, *Introduzione alla politica economica. Il mercato e i piani*, Piccola Biblioteca Einaudi, Turin, 1964, p. 48.

⁴⁷ With reference to Röpke, Stefano Solari wrote: «he pinpointed the distinction between primary and secondary depression. His view on primary depression (light) does not derive from the Austrian standard perspective on cycles. In his view on secondary depression, without ruling out the liberal perspective, he studied the economic elements that can keep an economy in recession for a long time. In this, his analyses is close to Keynes, developing the concept of *Initialzündung*, a state intervention to restart economic processes a re-establish investors confidence” :S. Solari, *Röpke’s Economic Humanism and its Relavance to the Understanding of Industrial Districts*, in “Storia del Pensiero Economico”, 1, 2007, p. 47.

⁴⁸ F. Forte, *Come evitare di far pasticci sull’economia sociale di mercato*, in “Il Foglio”, August, 2008.

⁴⁹ L. Sturzo, *La comunità internazionale e il diritto di guerra* (1928), Zanichelli, Bologna 1954, p. 242-243.

anything else and love for other countries as if they were their own. Aware that no bureaucratic organization- either public or private- could avoid and neglect the fact that there is always something, as Röpke's spiritual testament claims, that goes "beyond supply and demand". This something is the transcendent dignity of human kind – that even more so today, needs to be addressed and understood with maximum urgency and depth to avoid risk of sacrificing economic dynamism to stagnation of collective agreements, of anarchism of individual interests, respectively derived from a neo-corporative logic of an optimistic lack of interest for the reasons of social order and *civitas humana*, and end up sacrificing free individual choices on the altar of the "fatal presumption" of the Great Planner.

Planning for freedom.

The repression and opposition of economists during the Nazi regime in Germany on the example of the Freiburg Circles¹

1. THE BEGINNING

Though the Freiburg Circles are now clearly recognized in the literature on the resistance against the Nazi regime, contrary to other opposition groups – and especially the conspirators of the July 20, 1944 plot – the 'Freiburgers' influence remained a marginal research subject for a long time. Many insights on the Freiburg Circles are the result of research efforts conducted during the past few years. In light of this, it is becoming increasingly obvious that the Freiburgers were not minor characters in the fight against the inhuman National Socialist regime. Rather, their actions and their writings were evidence of an active opposition and presaged a better and free order. Furthermore, and this certainly sets it apart, the Freiburg resistance cannot be grasped without consideration of its academic roots. It was an opposition movement made up of scientists, and at the same time a resistance that fed on science. The fact that the concept of 'Social Market Economy' derives in great part from the people who belonged to the Freiburg Circles might also serve as further evidence of the significance and academic character of these opposition groups.

It was the 'Reichskristallnacht' (*Night of Broken Glass*) that triggered the founding of the first Freiburg Circle, known as the Freiburg Council. As in many other parts of Germany, on the night of November 9-10, 1938, the Freiburg synagogue was set on fire by SS personnel dressed as civilians. This barbaric act, which occurred in the city centre, close to the university, exacerbated the revulsion of some Freiburg professors towards the regime. The historian Gerhard Ritter wrote to his mother on November 24, 1938: "What we have experienced in the past two weeks [...], have been the most shameful and horrible events in many years. What have we done!!! [...] This week of terror will not easily be forgotten. Oh, if one could only hope that this would lead those responsible for these acts to a change of heart and self-reflection! But can one seriously hope for that?" (cited in Schwabe and Reichardt (ed.) 1984: 339, my translation).

Beside Gerhard Ritter, the economists Constantin von Dietze and Adolf Lampe are to be credited for creating the circle known as the Freiburg Council, in reaction to the horrible pogrom. Constantin von Dietze (1891-1973), an agrarian economist, transferred from the Friedrich-Wilhelm University in Berlin to the University of Freiburg in 1937. Indeed, as a critic of the Nazi regime and

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¹ The following remarks generally summarize the current state of the debate in German-speaking literature on this issue and draw on my own preliminary work. The Freiburg Circles have hardly been considered at all in English-speaking literature. A major exception to this is Rieter and Schmolz (1993) who brushed a picture that is still useful today. Recently, Glossner (2010: 31–38) gave an updated overview. A different and in my opinion tendentious and untenable perspective is taken by Ptak (2009: esp. 112–119); see my early reply to his German PhD-thesis Ptak (2004): Goldschmidt (2005a).

an active member of the Confessing Church, Berlin University had become an unbearable place for him. In Freiburg, Dietze found among his peers an open academic disposition and friends who shared his religious and ethical beliefs. Scientific, and at the same time amicable, cooperation drew him closer to Walter Eucken (1891-1950), whom he knew from their common days in Berlin, and Adolf Lampe. Adolf Lampe (1897-1948), who studied under Adolf Weber in Munich, started teaching in Freiburg in 1926, at first as an associate professor. He quickly became opposed to the National Socialist doctrine, mainly because he rejected the economic theory and policy premises underlying it. He also found the concept of society according to the Nazis abhorrent, especially due to his own deep religious belief. In 1933/34, during the appointment procedure to make him a full professor, he became one of the adversaries of Martin Heidegger, University Rector at the time (see Ott 1983 and Martin 1991). This row is an illustration of the critical distance that Lampe and many fellow economists were keeping with the ideological trends of those days.

2. THE FREIBURG COUNCIL AND THE FREIBURG SCHOOL

Yet the origins of the Freiburg Council cannot be limited to its physical creation by those two founders. Instead, they can be traced to varied sources that are tied to the University as well as to the Confessing Church – a fact generally characteristic of the Freiburg opposition (Martin 2005). With regard to the university roots, the Law and Political Economics Department of Albert Ludwig University played an important role. In the mid-1930s, a research and teaching community formed, bringing together jurists and economists (Böhm 1957) and the economist Walter Eucken became the center of this circle. Walter Eucken, professor of economics in Freiburg since 1927, strove towards a free yet principled economic policy. Consequently, the concept of an independent regulatory policy is characteristic of this research and the teaching community around Eucken that was later to become known as the ‘Freiburg School’ or ‘Ordoliberalism,’ providing the theoretical background to the Social Market Economy. Ordoliberalism aims at the formation of a particular order framework which is conducive both to economic development as well as freedom while guarding against every form of concentration of economic power and rent seeking. The central element is thus the setting up of an economic constitution which is conceived as a deliberate collective decision regarding the economic life of a polity. This economic order, however, is not independent from other orders in society. Rather, there ensues an ‘interdependence of orders.’ The order formed in this way must definitely conform to an ideal *order*. It is interesting to note in passing that these ideas owe a lot to the reflections of the great Freiburg philosopher Edmund Husserl with whom Eucken was befriended (Gander, Goldschmidt, Dathe 2009). The jurists Hans Großmann-Doerth (1894-1944) and Franz Böhm (1895-1977) were also core members of the Freiburg School, with Böhm belonging to the Freiburg Circle as well.

The Freiburg School members’ antagonism towards Nazi ideology emerged soon after the change in government in 1933, especially in Walter Eucken’s case. Eucken increasingly took on the role of spokesman for the opposition within the University Senate, that of foil to the regime-friendly faculty members within the Department. Eucken openly rejected Heidegger’s claim to leadership. According to an entry made in his diary on May 13, 1933 (i.e. two weeks before Heidegger officially assumed his office) by Joseph Sauer, theologian and

member of the Senate, Walter Eucken complained that Heidegger “wanted to follow in the Führer’s footsteps. Apparently, Heidegger considers himself the born philosopher and the intellectual leader of the new movement, the only major and outstanding thinker since Heraclitus” (cited in Ott 1992: 133, my translation). The explosive nature of this comment by Eucken is not only due to the rather controversial characterization of Heidegger’s understanding of himself, but also to the fact that its jauntiness illustrates the liberty that Walter Eucken allowed himself when it came to the philosophical greatness of the new University leader. The boldness of Eucken’s thoughts can be explained in great part by his father’s legacy. Indeed, the ‘creative activism’ of Rudolf Eucken, neo-idealist philosopher from Jena and 1908 Literature Nobel prize laureate, enabled Walter Eucken to put his criticism of Nazi ideology on a robust philosophical basis. Eucken’s lecture entitled “The Battle of Science,” which the economist gave during the summer semester of 1936 for students from all departments, is the perfect example. With this lecture, Eucken wanted to impress on people the “strength, dignity and dynamics of real science,” as he wrote in a May 1936 letter to his friend Alexander Rüstow (1885-1963), the sociologist and economist who was already in exile at the time and teaching in Istanbul.

Eucken’s lectures were not only a meeting place for like-minded regime critics; eager advocates of the new state doctrine also gathered there to polemicize and oppose Eucken’s position. In spite of this quarrel and academic freedom being increasingly curtailed, the Freiburg School’s conviction that a societal order must also be a free order strengthened. Thus, the Freiburg School’s program for economic policy ultimately also became – as Eucken later described it – a “freedom program” (Eucken 1952/2004: 370, my translation). Looking at the opposition to Nazi ideology, it becomes clear as to why it could evolve into a freedom program. The threatening loss of freedom within the university, and also increasingly in everyday life, spurred the development of an economic and social order that could defy power and coercion.

3. THE ‘RESISTANCE’ OF THE FREIBURG CIRCLES

The Freiburg Council met for the first time in December 1938 at Lampe’s place. Among the Freiburg professors belonging to the initial circle, one finds the economic historian Clemens Bauer (at first the only Catholic participant), the jurist Freiherr Marschall von Biberstein, Dietze, Eucken, Lampe, the physicist Gustav Mie, Ritter and their wives. Whenever Franz Böhm, who was temporarily teaching at Jena, was in Freiburg, he would also attend the meetings. The Reverends Karl Dürr of Pauluskirche, Otto Hof of Christuskirche and Fritz Horch of Friedenskirche also belonged to the group, and, in addition to their wives and the widow of Reverend Hermann Weber, Reverend Arnold Hesselbacher from Melanchthonstift also became a member of the Council in 1943. The circle soon extended to include Catholic members, such as Constantin Noppel, a Jesuit Father, Robert Scherer, an associate at Herder publishing house, Wendelin Rauch, the director of the Collegium Borromaeum and Hermann Schäufele, the University priest. The latter two eventually became archbishops of Freiburg, but they only sporadically took part in the sessions.

The monthly discussions that were held in private homes until September 1944 centered on “the issues surrounding authority, the right to resist, the duty to resist, and the murder of tyrants” (Dietze 1980: 14, my translation). The

question as to whether public protest was wise remained a sensitive and controversial issue among Council members. Ultimately, “the main duty of the Freiburg Council” was understood as “talking about their most torturous personal distress, contributing to an inner clarification and collectively alleviating the difficulty of leading a Christian life during that period” (Blumenberg-Lampe 1991: 210, my translation).

The text “Kirche und Welt. Eine notwendige Besinnung auf die Aufgaben des Christen und der Kirche” (*The Church and the world. A necessary reflection on the duties of Christians and the Church*), drafted by Ritter and the Reverends Hof and Dürr soon after the burning of the Freiburg synagogue, played a significant role in the Council’s discussions (Martin 2005: 48). Its content was divided into two parts: “First part: the subordination of Christians to worldly authority and its limits. Second part: What are the duties that arise for the Christian word in the face of the contempt and violation of divine commandments within the community?” (my translation). Bernd Martin (2005: 50) has clearly shown that this paper picks up major fundamental ideas of the Altona pastoral denomination and calls for a cautious change of thinking in view of the duty to obey as formulated in Romans 13: 1-7. It is impossible to say today how widespread this essay was within the opposition, though Ritter described it later as the basis of discussion for other religious circles as well.

The Freiburg Bonhoeffer-Circle, the second Freiburg circle, was created at the request of the Berlin pastor Dietrich Bonhoeffer (1906-1945) on behalf of the so-called ‘interim administration of the Confessing Church’ in the late summer of 1942. The aim was, one, to draft a program on the principles of a foreign and domestic policy based on Christian foundations, which was ultimately intended as the basis for consultations during an assembly of world Churches that was to take place at the end of the war, but, second, also to provide the Allies with an insight of what protestant groups envisaged for Germany after the war. Gerhard Ritter later described the formation of this circle in the following way:

Our work was given new momentum in late summer, 1942. Back then, the Berlin pastor Dietrich Bonhoeffer advised us on behalf of the so-called ‘Interim administration of the Confessing Church’ that, for particular reasons, they attached great importance to the results of our work. It had emerged that a few Anglican bishops (the Bishop of Chichester, the Archbishop of Canterbury) were planning on calling a conference of world Churches as soon as the hostilities came to an end, including Germany’s Protestant Churches. [...] For this purpose, a timely agreement was required between the leaders of the German Church about the fundamental principles of a healthy, Christian-based, foreign and domestic policy [...]. It would be very much appreciated if our efforts could, as soon as possible, come to a concrete conclusion in the form of a program [...]. We were pleased to respond to the challenge. (Ritter 1979: 27f, my translation)

It has not yet been conclusively determined as to why Dietrich Bonhoeffer turned to the Freiburg Circle. However, Constantin von Dietze and Gerhard Ritter especially were well known to Bonhoeffer thanks to their work within the Confessing Church, and it is possible that the Interim administration was aware of the Council’s first paper, “The Church and the world.” Moreover, Carl Goerdeler, the former mayor of Leipzig and former Price Commissioner, who was foreseen to become Chancellor had the July 20 plot succeeded, was in contact with Dietze and Lampe, and was a friend of the Ritter family. In the past years, research has shown that the role of the Freiburg economists as the ‘creative minds’ behind Goerdeler’s economic and political views, as well as

those of other resistance groups, was far more significant than has been assumed until recently. Hence, it is not surprising that the Freiburg organization was chosen to develop mainly economic and social policy proposals for the post-war period (Rüther 2002).

A few members of the Freiburg Council set to work on this program, and once again Gerhard Ritter was in charge of drafting the main parts of the document. From November 17 to 19, a secret meeting was held in Freiburg, though Bonhoeffer himself did not attend. In addition to the Freiburg members (including Böhm), the following people gathered in Dietze's home: Carl Goerdeler, the general superintendent of the Kurmark, Otto Dibelius, the industrialist Walter Bauer, and the theologian Helmut Thielicke. The inclusion of the changes that were discussed as well as the final wording was subsequently left to the collaborative efforts of Dibelius, Bauer and Bonhoeffer, the two Lutheran theologians Hans Asmussen and Hans Böhm, as well as to the jurist Justus Perels. For this purpose, Dietze and Lampe took part in talks in Berlin several times. The work on the memorandum was completed in January of 1943.

The document drafted by the Freiburg members was entitled "Politische Gemeinschaftsordnung. Ein Versuch zur Selbstbesinnung des christlichen Gewissens in den politischen Nöten unserer Zeit" (*An order of the polity. An attempt at self-reflection for the Christian conscience in our difficult political times*). Given the grave consequences the contributors would face were they ever discovered by the Gestapo, only three copies were printed. One of the copies, which was used for the first reproduction of the work in 1945, was hidden by Ritter on Franz Brugger's farm in Saig, close to Titisee.

In addition to the main sections, a few appendixes were incorporated, including an essay by Dietze, Eucken and Lampe on "Wirtschafts- und Sozialordnung" (*Economic and social order*) to which we will come back in the following chapter. It is impossible not to mention appendix 5 here, "Vorschläge für eine Lösung der Judenfrage in Deutschland" (*Suggestions to address the Jewish issue in Germany*). This section, drafted by Constantin von Dietze, has captured a great deal of attention in the latest discussion of the Freiburg Bonhoeffer-Circle's paper (disproportionately so in relation to the entire work) (Blesgen 2005). The impression left by this appendix remains ambivalent. On the one hand the Holocaust atrocities are clearly described as such and criticized for their abomination in a forthright manner hardly imaginable in those days. On the other hand his thoughts on a possible coexistence of Jews and Christians after the war remain rather vague and seem to be characterized by a critical distance towards Judaism. It would, however, be a mistake to condemn Dietze in any far-reaching or personal manner – his personal integrity, not least, clearly speaks a different language. The decision made by the Freiburgers, and foremost among them Dietze, in November 1938, to convene within the Council in reaction to the Night of Broken Glass goes to show that there was no affinity whatsoever with any kind of Nazi Jewish policy. For the sake of appropriate interpretation, it is also indispensable to consider the text of appendix 5 and its sometimes unfortunate passages in its contemporary, sociohistorical and cultural context of genesis.

The memorandum did, in part, fulfill its initial purpose: it was included in the preparations for the 1948 World Council of Churches Assembly in Amsterdam. Dietze and Wolf took part in the Assembly, and Ritter and Clemens Bauer were present as substitutes.

The third Freiburg circle is known as the "Arbeitsgemeinschaft von Beckerath" (*Working Group von Beckerath*), though it was not founded in Freiburg. The origin of

this working group is “Klasse IV der Akademie für deutsches Recht” (*Class IV of the Academy for German Law*), which was presided over by the Berlin economist Jens Jessen (1895-1944). Several working groups were created within ‘Klasse IV,’ including the “Arbeitsgemeinschaft Volkswirtschaftslehre” (*Working Group on Economics*), which was led by the Bonn economist Erwin von Beckerath (1889-1964). The first meeting was held in November 1940, in Munich, during which Eucken’s recently published book “Die Grundlagen der Nationalökonomie” (*The Foundations of Economics*) was discussed. During their second meeting in May 1941, in Wiesbaden, additional subcommittees were created, one of which was made up of the Freiburgers Dietze, Eucken, Lampe, Clemens Bauer and the Jena economist Erich Preiser. The main working group, “Arbeitsgemeinschaft Volkswirtschaftslehre,” was disbanded at the beginning of March, 1943, after having been declared “not militarily strategic.” Nevertheless, discussions continued informally, and Freiburg became the center of this private group, which was chaired by Beckerath and met until June 1944. Eight meetings were held in Freiburg, one in Jena, and one in Bad Godesberg. Over forty of the compiled reports and minutes survive and were published, most of them being drafted by Adolf Lampe (Blumenberg-Lampe (ed.) 1986). The ideas of the working group played a significant role within the scientific advisory body of the federal ministry of economics under the first federal minister of economics for the young Federal Republic of Germany, Ludwig Erhard (Grossekettler 2005 and Klump 2005). Indeed, several members of the advisory body had belonged to the working group.

4. RESISTANCE AND SOCIAL MARKET ECONOMY

In 1942-43, Constantin von Dietze, Adolf Lampe and Walter Eucken, together, wrote an appendix to the Freiburg Bonhoeffer-Circle paper dealing with economic and social policy issues. It contains elements that are not generally consistent with a competition-based perspective and which are indicative of the authors’ different approaches (Peukert 2005). Nonetheless, the text does include many elements that have become characteristic of the Freiburg School (Goldschmidt 1998). The undisputed influence of the Freiburg thinkers during the initial phase of the Social Market Economy underscores the significance of this document, drafted in opposition to the Third Reich. The text is not only impressive because of its orientation towards freedom and economic policy, but particularly because of the profound gravity of its religious and social considerations. Some of the major propositions of this work are discussed in what follows.

In the preface to their essay, the three authors of the appendix “Wirtschafts- und Sozialordnung” describe the necessary foundations for the development of a future economic order: First, God’s word, second, objective economic needs, third, an actual and future economic climate. The economic order thus generated must guarantee, in addition to its material benefits, “the strongest resistance possible to the power of evil” (Dietze, Eucken, Lampe 1943: 100, my translation) and allow for a Christian life.

In the paper as a whole, the authors lay greater stress on the ethical, and especially religious, foundation of a future economic and social policy than they do in other writings by the Freiburg School. In this text, Christian faith is the decisive pillar and critical norm for all economic order. Man as a ‘moral being’ thus stands at the heart of the concept of order. It is not, however, the duty of the Church “to regularly offer authoritative solutions concerning details of the

economic order” (Dietze, Eucken, Lampe 1943: 101, my translation) – this task falls to the lay Christians who are more competent when it comes to concrete issues.

It is based on this ethical foundation and knowing that the economic situation following the war would mainly be characterized by impoverishment that the three Freiburg economists developed their central ideas for a future order. Many recommendations thus resemble the concepts developed by Walter Eucken in his posthumously published work “Grundsätze der Wirtschaftspolitik” (*Principles of economic policy*) (Eucken 1952/2004). The starting point for Dietze, Eucken and Lampe can be described as follows: given that after the war there would be no well-thought out order and that the collectivist-type of economic policy existing under the dictatorship would come to an end, a new order was needed, an order that would also satisfy the required moral aspirations. A fundamental prerequisite for this new order is a consistent concept. The primary goal is to set up a performance-based competition. This entails that economic actors can act as they see fit on the basis of a free market and non-controlled prices. Yet, this can only be provided if there are clear state regulations that are themselves secured by state authority. In this way, “concentration of power,” which especially threatens the middle-class, can be avoided. According to Dietze, Eucken and Lampe, an exception to the market principle is admissible in cases where no market competition emerges. In those instances, the state should either itself be the owner of the companies or play the role of a watchdog, in such way as to yield economic outcomes which would emerge under competition. According to the three Freiburgers, a sustainable order also requires a well thought-out financial policy, with the most urgent task being the reduction of the expected high state debt following the war. The authors believed that these principles so defined, based on fair prices and wages, provided the best protection against unemployment. Social policy was understood as follows: it is not simply the total sum of the different individual measures, rather, it must “bring individuals together to constitute real communities and an all-embracing *societas*” (Dietze, Eucken, Lampe 1943: 110, my translation). To achieve this, the state should create the appropriate conditions. The last central idea in the appendix is also clearly part of the Freiburg tradition: the economic order must be safeguarded by a reliable legal order. However, just a few basic measures are needed to achieve this, since “ultimately a bailiff is all it takes to have the basic principles of a competitive order enforced” (Dietze, Eucken, Lampe 1943: 113f, my translation).

Even though the different sections of this essay cannot be discussed here in detail, it should be stressed once again that the text, in many respects, doesn’t only coincide with the Freiburg School program. This essay, as published – and thanks to the influence the representatives of the Freiburg School had on the early years of economic policy in West Germany – can be viewed as the founding manifesto of the Social Market Economy: a founding manifesto for a liberal economic policy originating in opposition to a totalitarian system.

5. THE END OF THE RESISTANCE

After the assassination attempt on Adolf Hitler on July 20, 1944, the Gestapo came to know of the work by the Freiburg Circles, and as a result, some contributors to the paper were imprisoned – also because they knew about the plans to

overthrow Hitler. Among the Freiburg professors arrested were Dietze, Lampe, and later Ritter. Erik Wolf and Walter Eucken were subjected to severe interrogation.

Ursula Kienberger-Markwalder, one of Eucken's doctoral students, wrote about Dietze's arrest in September 1944 during her doctoral examination:

Suddenly, the secretary knocked and told Professor Dietze: 'There are two men from the Gestapo who want a word with you' Professor. Dietze's answer: 'Tell them to please come in.' Professor Dietze, sitting at his desk across from me, was gazing straight ahead. Whenever I think of a man in prayer, this image comes to mind. He was fully composed and absolutely calm, secure in the presence of the Lord, in the face of torture and death. Then he looked at me and said: 'You know what this means. Would you please inform my wife?' I had only answered: 'Of course, Professor' and the two Gestapo agents were already standing in the doorway. Professor Dietze stood up, welcomed them, like a Grand-Seigneur receiving guests. 'Here are the keys to all the cabinets, everything is at your disposal.' The two vile figures had certainly never experienced such a situation. They glanced at each other, visibly disconcerted. Professor Dietze: 'We have almost completed the examination, should the student wait?' The shorter one, having regained full possession of his powerful position: 'No, *she* doesn't need to wait!' I went to Professor Dietze, shook his hand and said, loud and clear: 'See you soon, Professor.' Thank God, after some hard times, this proved true (Kienberger-Markwalder 2005: 451, my translation)

Their contacts with the July 20 conspirators brought about Constantin von Dietze and Adolf Lampe's demise. Dietze and Lampe were carted off to a prison on Lehrte street, in Berlin, and were then sent to the Ravensbrück concentration camp. During their incarceration, they managed to maintain sporadic contacts with their colleagues – these contacts were not only essential for the afflicted families, but also for the other members of the Freiburg Circles.

Heinrich Kullmann, a member of the Freiburg University student (resistance) organization "KAKADU," played a very important role in this regard. This student group, until now, has been ignored in research, even though it had close ties to the Freiburg Circles.² The acronym KAKADU is derived from the expression "*Krüppelkorps der Universität*" (*The University Cripples' Corps*) and is a good illustration of the group's membership: it was made up mostly of young war invalids who joined the Law and Political Economics Department of Freiburg University in 1942 and 1943. Gottfried von Dietze, Constantin von Dietze's son, played an important role within the organization. Albert Kreuels, who was later to become a businessman and journalist, described the organization as a group of "like-minded friends" who used their student status to "reflect on the looming end" and think about "the period that will follow" (Kreuels 2005: 453). The economics professors Dietze, Eucken and Lampe, as well as the jurist Gustav Boehmer, served as "*leuchtende Vorbilder*" (*enlightening role models*) for the students (Gottfried von Dietze, cited in Rübsam 1991: 43). Of importance to the group were its discussion evenings, at which the professors sometimes gave lectures.

Heinrich Kullmann joined the Department in the 1942 summer semester and attended lectures by Constantin von Dietze, Walter Eucken and Adolf Lampe. In the spring of 1944, at the urging of Walter Eucken and of the jurist Erik Wolf (1902-

² The so far only academic investigation of this topic is Dagmar Rübsam's (1991) unpublished master's thesis. My own thoughts on KAKADU were presented at the XIX. Königwinter Conference (organized by the *Research Community July 20, 1944*) in February 2006. I am grateful to Gottfried v. Dietze for providing me, at this opportunity, with many leads.

1977), he became the leader of the Nazi student union. A highly distinguished war invalid, Kullmann did not appear suspicious to the Nazi student leadership.

After Lampe and Dietze were incarcerated, Walter Eucken approached Kullmann in order for him to establish contact with the prisoners – under the guise of needing them as diploma supervisors. After an unsuccessful attempt to visit both Freiburg professors in Berlin, it worked out in Ravensbrück. Here is his description of the encounter:

They had to present themselves in the room with their heads lowered, unshaven, with no belts, loose pants and no shoelaces, while I stood apart. Both were then asked whether they knew a certain student Kullmann, and only after that were they allowed to see me. Nothing more needs to be said about the feelings one experiences in such a situation. They were then seated at a table across from me, with some SS-corporal or staff sergeant on either side. I discussed my work, which I had brought with me as loose pages, with both of them, and placed page after page on the table. They made recommendations as to changes I needed to include. In the presence of the professors, I negotiated a further meeting with the SS-*Untersturmführer* Funke [*Untersturmführer* was the first commissioned SS officer rank, N.G.] that was to take place 8 days later. During that meeting, and the others that followed, both professors passed on highly critical secret messages to me when correcting my work and handing me back my loose sheets of paper. In this way, Professor Dietze, during my second visit, was able to slip me the stenographed bill of indictment with the charges which we (Professor Eucken and myself) upon my return immediately communicated to the suspected faculty members. This piece of information, which Professor Böhm confirmed, allowed the targeted professors to give statements to the Gestapo in such a way that they were not incarcerated – with the exception of Professor Ritter. (Kullmann 2005: 458, my translation)

Dietze, Lampe and Ritter were later freed from their detention by the Allies and could thus escape an otherwise certain death. Lampe, though, succumbed to his poor health in 1948, the direct result of health problems he developed during his incarceration in Ravensbrück, and later in a French internment camp.

6. CONCLUDING REMARKS

The Freiburg resistance is striking in many aspects: 1. It is clearly an opposition circle of German university professors who were able to influence part of the student body. 2. Professors and representatives of Christian faiths, especially of the Confessing Church, came together within the Freiburg Circles. 3. The Freiburg Circles have left us with a comparatively large quantity of written material. 4. It is indeed the only opposition group that was explicitly founded in reaction to the pogrom. 5. The group was generally of central significance to the ideas of the civil and middle-class opposition in terms of economic policy. 6. The concepts pertaining to economic order that were developed within the opposition were fundamental to the notion of Social Market Economy.

The integrity of certain well-known Freiburg professors during the Third Reich remains, to this day, as unassailable as ever. Their courage and commitment can still serve as a model for academics who do not hide behind feigned 'inevitable' in academia or politics, but who instead face up to their responsibility. This is probably best illustrated by an instance that occurred as early as the spring of 1936. During an extended faculty meeting of the Law and Political Economics Department, the main topic was the collaboration between the Department, the students' union and the student. The dismissal of the

students' union's leader, who was considered a man of confidence to dissident lecturers, had triggered this debate. This dismissal was significant in that, with a new leader at the head of the students' union, pressure mounted on the lecturers to rethink the way in which they worked together, which until then had been marked by trust. Faced with this situation, Walter Eucken pleaded for a new way of thinking, based on principles, in terms of individual responsibility, as the following lines of the minutes show:

The immediate consequence of this turnabout is that a series of solid principles underlying academic tradition and university education have been overthrown and put into question. Yet it is precisely this confusion that has created new opportunities as well; this holds true for the attacks against science [,] for those that overshoot the mark; for experience has shown that the mind is often more active precisely when threatened. There is actually no other way; academic life only exists through individual personalities: everything that is produced at that level has to be constructed by the mind. Our work together is also borne by individuals of equal status and cannot be schematized or even organized, forced or ordered from above. (cited in Goldschmidt 2005: 297)

This responsibility that each individual carries in the face of organizational coercion is one of the most crucial and enduring messages of the Freiburg Circle's resistance.

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A European Social Model of State-Market Relations: The ethics of competition from a “neo-liberal” perspective

1. INTRODUCTION: THE SPECTRE OF NEO-LIBERALISM

The Communist Manifesto, published in 1848, opens with these dramatic lines:

A spectre is haunting Europe – the spectre of Communism. All the Powers of old Europe have entered into a holy alliance to exorcise this spectre: Pope and Czar, Metternich and Guizot, French Radicals and German police-spies. Where is the party in opposition that has not been decried as Communistic by its opponents in power? Where the Opposition that has not hurled back the branding reproach of Communism, against the more advanced opposition parties, as well as against its reactionary adversaries? Two things result from this fact: I. Communism is already acknowledged by all European Powers to be itself a Power. II. It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Spectre of Communism with a Manifesto of the party itself. (Engels/Marx 1848/2005: 1).

150 years later, the spectre of Communism has been mostly dispelled. In its place a new spectre is today haunting “old Europe”: Neo-liberalism. If one replaces the word “Communism” with “Neo-liberalism”, Marx’s quote offers a rather accurate description of today’s political and intellectual climate. Today, neo-liberalism serves as a “branding reproach” that helps enormously in discrediting political adversaries of all sides. The effect of this branding is that no one today wants to be “neo-liberal” and that there is in fact no 21st century neo-liberal “Manifesto of the party itself”.

In this paper, I offer no such Manifesto either, but rather an account of well established historical ordo- or neo-liberal views concerning state-market relations with special emphasis on the role of competition and the ethical value that has been, and still can be, attached to it. I start with a short account of the history of ideas of original neo-liberalism and the perhaps surprisingly active role self-declared neo-liberals attached to the state (parts 2 and 3). Part 4 presents several ethical vindications of open, competitive markets stressed by neo-liberals: equal liberty, procedural justice, reduction of private (and state) power and the unintended, but effective, “altruism” of consequences. Part 5 describes a few central legal-institutional implications of this view and part 6 offers a rough assessment of neo-liberal elements to be found on a European Union level. Part 7 concludes with a plea for an equally open and rules-based competition amongst social models in Europe.

2. A SHORT HISTORY OF NEO-LIBERALISM

Many commentators see neo-liberalism as a right-wing Anglo-Saxon capitalist conspiracy that somehow invented globalisation, privatisation and unfettered

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markets, thus implying that neo-liberalism was an ideology of the 1980s, fostered by a few powerful politicians such as Margret Thatcher or Ronald Reagan who were instructed by a few spin-professors such as Milton Friedman or Friedrich von Hayek¹. The actual history of neo-liberalism is, however, dramatically different.

Neo-liberalism was invented in Paris, France, Europe. And the year was 1938. At that time, the spectre of totalitarianism was, in fact, haunting our continent. Liberalism was dead; fascism and communism were the dominant beliefs in politics and, even more so, amongst intellectuals and clerks in Europe at that time. Both a sense of failed and misconceived “old”, “classical” or “laissez-faire” liberalism and the imminent threat that totalitarianism posed to European civilisation led to a first (and for many years, last) meeting of some 25 intellectuals who still believed in the virtue of individual liberty. These intellectuals took it upon themselves to re-assess liberalism as a political programme for a most troubling future. Historians of ideas know the event as the “Colloque Lippmann”. Jacques Rueff invited scholars from Europe (German and Austrian participants had to come from exile) to discuss the need for a “rénovation du libéralisme”, beginning with challenging ideas just published by Walter Lippmann in his book *The Good Society* (Lippmann 1938). Among those attending who are still known today were: Raymond Aron, Friedrich von Hayek, Ludwig von Mises, Michael Polanyi, Wilhelm Röpke, Louis Rougier, and Alexander Rüstow.

Walter Lippmann, in his opening address, defined the purpose of the meeting to be the need to find a common intellectual basis for anti-totalitarianism. In his view, it would be useless to try to “reaffirm and resurrect the formulas of 19th century liberalism”, since the old doctrine and/or its political realisation had laid the causes for its own decline. The old doctrine had allowed “monopoly capitalism” to discredit the market economy and to thus distort a “synthesis of order and liberty”. Hence, according to Lippmann, liberalism would have to be rebuilt, not merely renovated². During the ensuing discussion, only Mises defended “liberalism” without any qualifications – or, as he put it, concessions to the totalitarian fashions of the time³. Most other discussants seemed more than ready to be rid of any allegiance to “old”, “laissez-faire” or “Manchester” -liberalism, and rallied around the flag of “néo-libéralisme”⁴.

The Colloque went on to discuss the following issues: (1) the endogenous reasons for the decline of liberalism (with Wilhelm Röpke giving the opening statement and identifying market concentration and limited liability as such endogenous reasons), (2) liberalism and economic nationalism (with, again, Röpke setting the agenda by refuting all economic justifications of imperialism), (3) liberalism and the social question (with Jacques Rueff identifying price-fixing and market interventions as major causes of social misery), and (4) exogenous (psychological) reasons for liberalism’s decline (with Alexander Rüstow blaming capitalism and industrialisation for alienating the people and leading to soulless mass-societies). During the Paris discussions only one year before the outbreak of World War II, the brave rest of liberals was surely united in its rejection of totalitarianism. But

¹ See e.g. Klein (2007) or Chomsky (1999).

² Colloque Lippmann (1938): 20 and 27. All following quotes from the discussions of the “Colloque” are translated from the French publication that the author intends to soon publish in English. See also Plickert (2008) for an account of the Colloque and the ensuing development of various strands of neo-liberalism until today.

³ Colloque Lippmann (1938): 31.

⁴ Colloque Lippmann (1938): 7.

what is more noteworthy from today's perspective is that most participants held old economic liberalism accountable for its own decline. The task, as they saw it, was to safeguard ethical values such as individual dignity, liberty and responsibility, inter-individual justice and global peace. To defend these "old" classical liberal values, a "new" political programme and economic order – a new definition of state-market-relations – was deemed necessary.

I will try to sketch some basic aspects of this "new order" in due course. To end my account of the historical roots of "neo-liberalism" and to highlight the irony of history displayed in today's attacks on neo-liberalism from proponents of both left and right let me quote from the final session of the Colloque. The term "neo-liberalism" was not undisputed. Some participants wanted to make more explicit exactly what it was that was "neo". Proposals ranged from "libéralisme positif" (since "old" liberalism would too readily content itself with "negative" denotations of individual rights) to "libéralisme sociale" (since the benefits of a free society would far better serve social goals than those of socialist planning). Jacques Rueff offered his view by naming it "liberal politics of the left, because it tends to give the least advantaged classes the most well-being possible!"⁵ So much about the historical, profoundly European, roots of neo-liberalism.

3. OPEN MARKET, STRONG STATE: THE NEO- / ORDO-LIBERAL VIEW

The "Colloque" did, in the end, produce something like a neo-liberal agenda, which however, as a consensus-longing paper (written by Walter Lippmann), clearly had to be less controversial and substantial than the discourse that preceded it⁶. A much more concise neo-liberal programme was meanwhile being developed, as a more or less openly anti-totalitarian plot, in Germany.

Members of the Freiburg School of Law and Economics had begun in the earlier 1930s and even more so during the Nazi regime (in various resistance circles⁷) to develop principles of a "workable and humane order" (Eucken 1952/90: 14) of society that later became known as "*ordo-liberalism*" – an economic, legal and moral programme that would, after the collapse of Nazi-Germany, provide major inspirations for the German "economic miracle" based on an economic constitution labelled "social market economy"⁸. The two exiled German attendants of the "Colloque" – Röpke and Rüstow, who during their life-times had no problem to call themselves "neo-liberals" – had a comparable impact on the policies of Ludwig Erhard, the political entrepreneur who pushed through free prices and competition at a time when such policies were deemed extremely daring. Röpke, Rüstow and Erhard shared views very similar to those of Walter Eucken and Franz Böhm, founders of the Freiburg School. From a history of ideas perspective, it is certainly fascinating to mark and highlight methodological and

⁵ Colloque Lippmann (1938): 101. In response to Rueff's proposal, one participant (Louis Marlio) argued that the party-political dimensions of "right" or "left" were of no use in locating (neo-) liberal positions (ibid.: 102). Collectivism vs. individualism would be much more adequate criteria. Hayek's contributions to the Colloque were only rarely kept due to the fact that only French and German interventions were recorded by dactylography and Hayek's English statements had to be reconstructed from memory. One can image, however, that he would have sided with Marlio. His famous "Road to Serfdom" (Hayek 1944) was, after all, dedicated "To the socialists in all parties".

⁶ Colloque Lippmann (1938): 99-101.

⁷ See Goldschmidt (Ed. 2005) for more details.

⁸ See Goldschmidt/Wohlgemuth (2008) on the theoretical sources of the German concept of a "Social Market Economy".

political differences among different authors. But regarding fundamental ideas, and compared with the general trend of thinking at the time, the neo-liberalism of Röpke and Rüstow and the ordo-liberalism of the Freiburg School can reasonably be viewed as ventures of a common cause.⁹

Their common cause was to establish order – an economic and legal order that serves in the first instance not economic efficiency but rather individual liberty and social inclusion. Eucken and Böhm identified the “new social question” as that of unequal market power based on privileges of powerful economic groups with special access to state power. The old laissez-faire liberalism, they argued, had created a situation where cartels and monopolies (tolerated or even supported by state agencies) were exercising unwarranted and unjust power over consumers and potential competitors. A new liberalism would have to be one in which such power-relations based on privileges had to be dismantled. In other words, and as echoed in the Colloque’s session on the endogenous reasons for the decline of liberalism¹⁰, a free market economy cannot in and of itself create its own ethical and institutional preconditions; it tends to become a closed circle for the powerful privileged instead of an open opportunity for the industrious individual.

Hence the call for a “strong state” (Eucken 1932: 319). Its strength was not to be derived from interventionist powers or a paternalistic, all-embracing care for the economy and society at large. Quite to the contrary, the “strong state” envisioned by the Freiburg “neo-liberals” gains its strength rather through self-restraint, through its ability to say “no” to the demands of special interest groups, its ability to credibly commit itself to universal moral principles of the rule of law enshrined in a privilege-free economic constitution. I shall come back to the role of the state which according to neo-liberals was mainly to enforce fair and equal rules of just behaviour which in the economic realm meant rules that allow open competition to unfold. But why was competition so important? What is its virtue?

4. THE ETHICS OF COMPETITION

It is very clear that for the ordo-liberals of the Freiburg School (as well as their neo-liberal friends such as Röpke, Müller-Armack or Erhard), competition was an essential tool to be used for social and ethical purposes, namely the benefit of the large masses of consumers via the emasculation of private power of producers. In order to discuss the ethics of competition in a more systematic and broader, but still rather rough, framework it might for the present purpose be useful to distinguish three to four dimensions of ethical judgements: Ethical praise as

⁹ See Peacock/Willgerodt (Eds, 1989) or Goldschmidt/Wohlgemuth (Eds., 2008) for collections and interpretations of original texts of the authors just mentioned. Indeed, their common cause is not identical in all details of defining a “just” order nor is the argument put forward with identical methodological means. One can distinguish rather romantic-conservative humanistic ideals developed within a broad sociological framework by Rüstow and Röpke from the rather pragmatic political demands that Eucken or Böhm based on economic systems analysis combined with the interdependent legal and political orders needed to ensure a workable and just social order (see Renner 2002). Differences between Hayek’s more Humeian evolutionary approach and Eucken’s more Kantian constructivistic approach can only be hinted at in this paper (see Streit/Wohlgemuth 2000 for more). Mises, as already the documentation of the Colloque reveals, differs from all other protagonists mentioned here (including his student Hayek) by basing an uncompromising anti-statist view on an aprioristic logic. Mises clearly is the “odd man out” and thus shall not be counted amongst the original “neo-liberal” views presented here.

¹⁰ Colloque Lippmann (1938): 35-45.

attributed to (1a) good intentions (deontological ethics), (1b) virtuous behaviour (virtue ethics), (2) just, law-abiding behaviour according to universalisable rules of just conduct or (3) desirable results (consequentialism). Good will, virtue, justice, and welfare may be categories roughly corresponding to these dimensions. I am certainly oversimplifying moral philosophy and ethics to a degree that reflects the limits of both my competence and the purpose of this paper (which is to broadly illustrate some ethical standpoints of some neo-liberal thinkers). Since I am here mainly concerned with social institutions and practices, differences between deontological and virtue ethics do not seem to me as relevant here. The point I try to make here is that a neo-liberal view of the “ethics of competition” relates to all ethical dimensions mentioned above, but it stresses an “institutional ethics” or “rights-egalitarianism” that relies on commonly acceptable rules that tend, overall, to enable and reward virtuous behavior and produce desirable social consequences.¹¹

4.1 COMPETITION AND VIRTUE, JUSTICE OR WELFARE

What made economics (and the classical liberalism that developed along with it) to be commonly regarded as a somewhat “immoral”, “dismal” science¹² was its reluctance to put much faith in and emphasis on the first criteria named above: good intentions or benevolence¹³. To be sure, economics as a social science started with Adam Smith (1759/1982) and thus with “moral sentiments” both as empirical facts to be taken into account in positive analysis and as praiseworthy demands in a normative context. But, as economists discovered then and would in principle maintain until today, good intentions, benevolence or virtue alone could neither guarantee justice nor welfare in an extensive order of coordination within large groups composed mainly of unknown, invisible, strangers. Here, it could only be an “invisible hand”, the incentive structure of competitive selection led by abstract rules of procedural justice (the second criterion), which made it possible that no recourse to benevolence was needed for an open market economy to yield desirable results or welfare (the third criterion) for multitudes of unknown others.

This general logic was expressed in the immortal quote of Adam Smith (1776/1976: 26f):

[E]very individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. [...B]y directing [his] industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. [...] By pursuing his own interest he

¹¹ This view has also been labelled “Ordnungsethik” (e.g. Homann/Kirchner 1995). For a political-philosophical way to lay a foundation of liberalism in “egalitarian human rights” and their expression in universalisable rules of just conduct, see Kersting (2004, 2006). For a defence of “individual ethics” based on internalized moral values or self chosen internal norms (1a and 1b above) and a critique of (purely) incentive-oriented “institutional ethics” (2 above), see e.g. Weise (2000).

¹² Another irony of intellectual history is that the branding of economics as the „dismal science“ originated from Thomas Carlyle, who, in a text on the “Negro question” published in 1849, attacked classical liberal economists for their anti-slavery standpoints and for a market egalitarianism that denied common notions of superior races or classes in society. Also Charles Dickens contributed to the bad image of economics and capitalism derived from a similar paternalistic and elitist standpoint (see Levy 2001).

¹³ As in the case of Mandeville (1732/1998), even commonly proclaimed virtues were not necessarily endorsed if it could be shown that private vices could lead to public benefits.

frequently promotes that of the society more effectually than when he really intends to promote it.

It is well known that, already in Smith's system the desirable social *results* of self-regarding *intentions* depended, especially in a large society, on the invisible hand's being held by a visible arm of the rule of law, i.e. on market behaviour framed by commonly accepted *rules* of just behaviour (e.g. Homann 2006: 6f). The latter aspect has indeed been disregarded within economics for too long.

Neo-classical economists in the early 20th century tried hard to (dis-)prove what they took for Smith's claim of the invisible but beneficial hand. However, with the tools of modern price theory and welfare-economics, it could only be shown that only under impossible assumptions could insuperable collective welfare results be derived from "perfect competition". This ideal-type affords, amongst other technicalities, that there are countless, and still representative, omniscient actors both on the demand side and the supply side of a market for homogenous goods. Perhaps some of the disgust many intellectuals today feel towards "neo-liberalism" can be attributed to their having been exposed only to the most rudimentary – and rudest – textbook-versions of "neo-classical" economics and the perfectly unreal model of perfect competition. But most original neo-liberals' views on the virtue of competition were developed either before or in explicit opposition to the neo-classical construct of "perfect" competition as a paradigmatic benchmark of social welfare (see e.g. Kirzner 1994).

By discarding the fact of individual ignorance and by abstracting from social institutions, economics offered a scapegoat that was all too easy to either discard as useless or to use as an alibi for interventionist corrections of all too obvious real market failure (if compared to the economists' Nirvana). By disregarding both human condition and socially devised constraints to human actions, orthodox neo-classical economics also bid farewell to any useful discourse on practical ethics. The game of utilitarian calculus played amongst armchair economists who would move representative actors equipped with given knowledge, goods and preferences on an imaginary drilling ground of welfare functions is of neither practical nor moral significance¹⁴.

Already for the "classical-liberal" Adam Smith, and then again for the "neo-liberal" thinkers of the 1930s, it was not the "unfettered market" or "competition" as such that miraculously transformed even wicked intentions into socially beneficial outcomes. Rather, it was the second ethical criterion – justice of behaviour according to universal rules – that was a necessary condition for competition to provide commonly desirable results. And justice of behaviour towards unknown others had to become a matter of equality before the law. "*Liberté, Égalité, Fraternité*": the battle-cry of the French Revolution demarks a magic triangle of ethics to which liberalism (old or new) offers no simplistic catch-all answer – for good reasons.

¹⁴ See Zelizer (2007: 11): "views of the economy as an autonomous, distinctive sphere of human activity organized around rationality and efficiency have impeded the serious consideration of morality's place in economic life". See also Kersting (2006: 39ff) on the limited (but still useful) value of using "homo oeconomicus" as a "worst-case scenario" for a prudent constitutional calculus, but as an impossible candidate for a justification of morality as such. Kersting argues that the morals of just cooperation only work within a context of moral understandings that, in cases of conflict, value morality higher than instrumental rationality. Even if an interest in reciprocal morality can be assumed, morality itself cannot be based in interest: "Wir können Moral nicht in Interesse fundieren, wir können aber ein Interesse an der Moral nehmen" (ibid.: 43).

Only within the natural bonds of the small group (brothers and sisters, family and friends) can “fraternity” (or benevolence, or virtue) be exerted by oneself and expected from others¹⁵. In order to remain “virtuous”, benevolence or solidarity must be voluntary. As Adam Smith (1759/1982: 78f) notes in his work on “moral sentiments”: “beneficence is always free, it cannot be extorted by force”; and: “[t]here is, however, another virtue ... which may be extorted by force ... This virtue is justice”. And it is here that equality has its proper place and can be extended to anonymous societies. Equality is a necessary attribute of justice (and the law) only if it means equal demands on just behaviour of everyone. This includes “equal rights” and precludes “equal results” (equal distribution of income or of power) as criteria of justice (Hayek 1976: 67ff). “Liberty” thus means both the prerequisite of unforced (thus virtuous) fraternity and the consequence of legally enforceable (thus just) equality before the law. And competition according to rules of just behaviour would become a morally justified demand of intended equality (before the law) with unintended results of benevolence (after the fact).

In order to substantiate this claim in a more structured way, I now discuss three possible ethical vindications of competition, all of which are interlinked and overlapping for good reasons in most “neo-liberal” arguments: Competition as a result and expression of individual liberty and private autonomy (*liberté*), competition as a result and a cause of the emasculation of privileged (market) power (*égalité*), and competition as a source of unintended good works for unknown others (*fraternité*).

4.2 COMPETITION AS A RESULT OF EQUAL LIBERTY

In a most fundamental liberal, even natural-liberty-based, justification, competition can be based on equal liberty. Frédéric Bastiat, in his essay on “Economic Harmonies” (Bastiat 1850/1996: ch. 10.8) claims that although competition “is often harsh in its operation, there is no law that is richer in social harmonies”. To identify competition with harmony is certainly a challenging statement that not many of Bastiat’s contemporary compatriots would dare to make. But for him competition is simply a result of “the absence of oppression” and hence the most natural expression of freedom, of the “possibility of choosing, of judging, of comparing” (Bastiat 1850/1996: ch. 10.4). This shows that the framing of academic discourse or, for that matter, public opinion polls on the merits of competition is crucial. Answers critically depend on the alternative that is being offered or insinuated: competition vs. oppression/monopoly/ privilege or competition vs. cooperation/solidarity. I guess that the same people who would in abstract terms prefer cooperation to rivalry would also prefer competition to monopoly, open calls for papers and invitations for tenders to nepotism, competitive sports to “fixed” games or, for that matter, democracy to autocracy.

Competition in the Bastiat-frame would not only be the most natural consequence of scarce resources and rewards (see Mises 1949/66: 273ff), it could also be regarded a most natural expression of freedom (which I would count amongst ethical social values) – and freedom more for those who are able to choose and

¹⁵ There are some famous exceptions to this rule of an inverse relation between effective fraternity, solidarity or love (*caritas*) and the size and anonymity of those to which these noble feelings are intended to apply. Mahatma Ghandi, e.g., did succeed in implementing an ethical approach among many people for some time. A really effective relief from poverty for the masses in India and the growing chances to determine their own way of pursuing happiness, however, might have more to do with the unintended emergence of “globalisation” or with the mutually beneficial “business model” of granting micro-credits to the poor.

compare than for those who are, by command of the choosers, “forced” to produce at profit. Competition serves the needs of consumers much more than the interests of producers. This has been the battle-cry already of 18th and 19th centuries’ liberals: Get rid of the feudal and mercantilist privileges! Oppression of competition means barred market entry, cartels, monopoly (often enough created or protected by the state). Oppression of competition means oppression of individuals’ equal freedom to exercise their talents and pursue their own goals by using their own, personal, knowledge.

Other than Bastiat, but also Hayek (1960) or Friedman (1981), Amartya Sen has never been content with an exclusively “negative” definition of freedom from coercion or freedom to choose. He endorses a much wider notion of “freedoms” that would also include positive, material, notions of capability to act and “freedom to achieve” (Sen 1994: 125). This is not the place to go into the details of Sen’s various definitions of “positive liberties” as “capabilities” (e.g. Sen 1993). But his claim that “we have to go well beyond the space of utilities – and beyond ‘efficiency’ in that space – to assess the market-mechanism” (Sen 1994: 124) is quite in line with the (historically correct) “neo-liberal” or “ordo-liberal” attitude and it is similarly distanced from Chicago-style or Misesian, economic or a-priori, foundations of most forms of “neo”-libertarianism. But note that Sen’s own assessment of market-competition leads him to claim that it is at least “weakly efficient in terms of achievement-freedoms” (Sen 1994: 130).

Indeed, any kind of “strong efficiency proof” in terms of achieved welfare can only be provided by ways of all-too-strong assumptions that are never “reality-proof”. Some aspects of the model of “perfect competition” have already been rejected above as obsolete for a neo-liberal argument and they were, in fact, fiercely rejected by original neo-liberals. Especially the assumption of “given” and “complete” information of market actors contradicts the later developed neo-liberal vindication of competition as a “discovery procedure” (Hayek 1968/78) which only makes sense under conditions of imperfect and scattered information that can be made socially beneficial only under conditions of free price-formation in a competitive market-process.

However, as soon as the neoclassical assumption of “representative actors” is also rightfully dropped, one of the things to be discovered by competition is that under rules of equal negative freedom to choose unequal results for unequally lucky and able market participants necessarily and drastically emerge. Thus, competition as such provides little comfort for the fact that “the disabled, the old, or the handicapped may have, on the one hand, more difficulty in being able to get a good job and to earn a decent income, and on the other, also to face greater difficulties in converting incomes into capabilities to live well” (Sen 1994: 131). Indeed, free competition only relies on equal chances in the sense of equal (negative) freedom for all to try and transform their efforts into personal well-being. It thus also tends to transform unequal capabilities into unequal chances to succeed in the sense of “positive freedoms” to achieve nearly as much as the more capable or lucky others.

The “weak efficiency” of a competitive order thus cannot in any way provide equally positive freedom and well-being for all. This is its primary weakness, but also its strength; since without free competition, there should be less available remedies for unfortunate distress, as the following two chapters try to show. The comparatively strong inefficiency (and often injustice) of monopolies and cartels

should even be worse for the handicapped poor¹⁶. This is why neo-liberals seek to find solutions to obvious hardships not through interfering with the price-mechanism or curtailing competition. Rather, the causes of social distress had to be addressed by ways of unprivileged access to primary basic goods such as education, health care and entrepreneurial activity (similar opportunities)¹⁷. And the effects of remaining inabilities to earn market incomes and enjoy a humane standard of living had to be addressed by direct transfers of services and/or money to those in need instead of measures aimed at distorting the competitive price-mechanism.¹⁸ No serious qualification of equal (negative) freedom to compete has to arise from social insurance schemes equally applicable to all.

4.3 COMPETITION AND THE EMASCULATION OF UNSOCIAL POWER

“Equal freedom” or the “denial of all privilege”¹⁹ can be seen as primary ethical demands – with competition, the equal opportunity to access markets, being a most natural consequence. At the same time, competition can be ethically valuable not only as a consequence of ethical standards and rules of procedural justice, but also by virtue of its (unintended) consequences. The two aspects – moral/ethical “input” and moral/ethical “output” – are often hard to distinguish. This is especially true for the neo- / ordo-liberal view of competition as an answer to the “social question”. Neo- or ordo-liberals considered (not only: but all too often state-protected) cartels and monopolies to be the major source of the “new social question” (Eucken 1951: 56 ff.), because such artificial prevention of open competition tended to deprive not only potential rival producers, but also consumers and workers of viable alternatives to the conditions dictated by the privileged and powerful few.

Thus, if Eucken (1951: 40) claims that the “problem of power is the obverse aspect of the problem of freedom” and that the “*Wettbewerbsordnung*” (order of rules enforcing open competition) is the key to solving both problems simultaneously, he has in mind several interrelations between competition, power and freedom: (a) Unlimited freedom does not lead to open competition, but becomes a major source of power and privilege²⁰. (b) Legal privilege breeds economic power and

¹⁶ See Eucken (1951: 63) who notes that “distribution can be particularly unequal and unjust where economic power is concentrated and, besides, bound up with administrative power”.

¹⁷ The Rawlsian tone is quite intended. One of the many interpretations of his famous “Theory of Justice” (Rawls 1971) could also be somewhat “neo-liberal” (see, e.g. Karsten 1985). Even Hayek (1976: xiii) argues that “we agree on what is to me the essential point”, and refers to the following quote by Rawls (1963: 102): “the principles of justice define the crucial constraints which institutions and joint activities must satisfy ... If these constraints are satisfied, the resulting distribution, whatever it is, may be accepted as just (or at least not unjust)”.

¹⁸ This is not the place to discuss the major contractarian justifications of even compulsory social insurance schemes as proposed e.g. by Hayek (1960: ch. 19), Vanberg (2005/08) or Rawls (1971). In all these concepts, equal freedom to compete is seen as a necessary condition for promoting the wealth of the greatest numbers, but not a sufficient condition for avoiding social hardships of the handicapped or very unlucky. Thus, a liberal society is well-advised to insure all of its members against the risks of severe hardships and to provide a minimum income and maximum dignity for the least advantaged.

¹⁹ See Hayek (1972: ix): “The essence of the liberal position ... is the denial of all privilege, if privilege is understood in its proper and original meaning of the State granting and protecting rights to some which are not available on equal terms to others”.

²⁰ The standard example used by the ordo-liberals was the vindication of cartel-arrangements based on the principle of “freedom to contract” which historically were even given legal

economic power breeds political privilege; both tend to violate equal freedom as well as open competition. (c) Competitive market entry and rivalry tends to contest and reduce socially harmful positions of market power; thus: (d) Universalisable rules that define fair and equal rights of market-behaviour tend to simultaneously ease the problem of self-destructive freedom and the problem of self-preserving power positions.

In short: the main moral “output” the ordo-liberals were focussing on was the increase of individual autonomy and liberty as a result of the “emasculating of power” created by competition enforced by the rule of law. In this sense, Böhm (1971/2008: 306, my translation) argued: “the great importance of competition is by no means just that of an incentive-mechanism, but rather that of an instrument to abolish power. ... [N]ot only the level of performance and growth, ... but also the substance of freedom, equilibrium and justice of the market system depends on competition.” In Böhm’s quote as well as in views commonly held amongst intellectuals or politicians “performance and growth” seem rather secondary candidates for ethical praise compared to “freedom and justice”. Behind these economic “incentive mechanisms” and the material goods they help create, one can, however, in a system based on market competition, discover one very peculiar moral good: unintended altruism.

4.4 COMPETITION AND UNINTENDED ALTRUISM

The beneficial material consequences of a market economy based on both open market access and universalisable rules of just conduct have already been alluded to. And indeed, they are not only a recurrent finding of the latest empirical cross-country findings over time.²¹ They have already been the essential part of Scottish moral philosophy informed by basic economics in the 18th century. *Neo-liberals* such as most of those assembled at the Colloque Lippmann did not attack classical liberalism because of its claim that competitive markets would indeed lead to the best possible provision of consumer goods – from essential nutrition needed to feed an enormously growing population to things that first were luxury goods for a fanciful few and soon became objects of mass-production catering for popular demand. Neo-liberals and all other sorts of intellectuals rather became disillusioned about 19th and 20th century forms of what also Marxians decried as “state-monopoly capitalism” in which privileges were granted by the state to powerful captains of industry and in which cartel-arrangements were given legal licence and political support.

As soon as such state protection of powerful industrialists and interest-groups would be abandoned, most neo-liberals might have been ready to re-embrace the “old”, classical-liberal view as has been vigorously expressed, e.g., by Hayek²² in his refined consequentialist argument: “The morals of the market do lead us to benefit others, not by our intending to do so, but by making us act in a manner which will, nevertheless have just that effect. Our ‘altruism’, in this new sense, is very different from instinctual altruism. No longer the end pursued but the rules

protection by German courts. Such contracts to the detriment of third parties create market power and infringe on the freedom of others to compete (see Eucken 1951: 31f).

²¹ See, e.g. the data-series in “Economic Freedom in the World” (Heritage Foundation (Ed., 2008)).

²² Even more vigorous were, of course, the rather libertarian views of Ludwig von Mises (1927/2005) and his followers such as Rothbard (1970). By regarding the state not as a potential facilitator, but as a natural enemy of freedom and justice, they should not (and would not have wanted to) be counted amongst the proponents of a neo- or ordo-liberal agenda.

observed make the action good or bad" (Hayek 1988: 81). This unintended altruism triggered by rules and incentives is both a cause and an effect of the growth of society once it turned from the naturally closed society of hunter-gatherer tribes (or the artificially closed society of central planning) to the "extended order" (Hayek 1988: 38ff.) or "open society" (Popper 1945/66): "It did become the ethos of the Open Society that it was better to invest one's fortune ... to cater for the needs of thousands of unknown people rather than to provide for the needs of a few known neighbours" (Hayek 1976: 145).

This is not a minor social achievement. At the same time, it has always been a source of moral indignation. After all, intrinsically moral aspects of the particular needs themselves are no essential part of the "catering". In a competitive market economy, Adam Smith (1776/1976: 660) found, "it is perfectly self-evident" that "consumption is the sole end and purpose of production". What is being consumed for what reasons by whom is of little concern for competing producers. Their "altruism", thus, is not only unintended, it is also un-paternalistic as it does not judge the ethical value of the wants that are satisfied. This has led Frank Knight (1922: 580) to argue that, from an ethical standpoint, "we cannot accept want-satisfaction as a final criterion of value" and we cannot evade an ethical evaluation based on a "desire for wants of the 'right' kind". Knight's deontological standard of ethics based on the "character of the motive which led to the action" (ibid.: 621) or the "Christian ideal of spiritual friendship" (ibid.: 622) does indeed provide no ethical justification of competition, narrowly defined as an anonymous mechanism of non-discriminating want-satisfaction. Competition in that regard is at best ethically neutral; although it is derived from the same liberal principles which leave self-directed individuals free to choose amongst alternatives lives, without which, according to Knight, "there is no such thing as ethics".²³

The individual ethics of having the "right" wants has to be created and promoted "beyond the realm of supply and demand", as forcefully argued also by the neo-liberal Wilhelm Röpke (1958). In a similar vein, and rightly distinguishing levels of appropriate supply of different kinds of morals, H.B. Acton (1993: 12) states: "Competitive capitalism, then, gives scope for self-directed individuals to set up and keep production going. What is produced depends upon what the consumers want. What they want depends upon how well they have been brought up. If they have been well brought up, their patterns of demand will be morally acceptable. If they have been badly brought up, their patterns of demand will be morally unacceptable". In short, the market is no substitute for moral education. But competitive capitalism, if justly framed by adequate rules, provides strong incentives to learn at least that one can best benefit oneself by benefiting others (see e.g. Baurmann 1996).

5. THE "COMPETITIVE ORDER" AND THE STATE

As argued above, a neo-liberal "ethos" of competition with its consequences of unintended but enormous benefits was primarily based on general rules of just behaviour. Without such common rules neither commonly accepted behaviour nor commonly desired results of competition can be expected to emerge spontaneously. This is the core conviction of "classical neo-liberals". However,

²³ See Knight (1922: 618): "Ethics deals with the problem of choosing between different kinds of life, and assumes that there is real choice between different kinds, or else there is no such thing as ethics. The ethical character of competition is not decided by the fact that it stimulates a greater amount of activity; this merely raises the question of the ethical quality of what is done or of the motive itself".

with the transition towards the “Open Society”, the standards of justice had to become more abstract and, in a sense, more loose in order to reflect the increasing numbers of those who would be able and willing to adhere to these rules – and in order to produce the ever more unlimited effect of unintended altruism granted to strangers: “the new morals of the Open Society ... not only indefinitely extended the circle of other people in relation to whom one had to obey moral rules, but ... this expansion of the scope of the moral code necessarily brought with itself a reduction of its content” (Hayek 1976: 146).

The “Open Society” has never been regarded as a natural, anarchic phenomenon. Its very existence and its beneficial social consequences depend on clearly defined property rights (including obligations such as liability) and institutions, that is: commonly shared rules and procedures enforced by a credible threat of sanctions for those who expect an advantage by breaking the rules. As an enforcement-mechanism the nation-state with its almost “natural monopoly” (Wohlgemuth 2000) of ideally legitimate coercion has for a few centuries been the strongest candidate if the “Open Society” was to be defended against its “enemies” (Popper 1945/66). But at the same time, historically, “the role of the state was at best ambiguous, because the state was as often in increasing source of insecurity and higher transaction costs as it was protector and enforcer of property rights” (North 1990: 35).

Thus, when it comes to state-market (or more broadly: state-society) relations, the common “neo-liberal” view is that the state would and should be able to enforce exactly those rules that a private-law-society might, in principle, be able to “culturally” develop on its own, but that could be more efficiently and equitably enforced by a third party with enough strength (based on increasing returns to scale) and enough distance (based on its not being a market actor itself) to do the job.²⁴ The whole question of state-market relations thus depends on the trust that one can have in the state’s ability to enforce universalisable rules of just behaviour. The answer, in turn, depends on how politicians administering the natural monopoly of coercion can credibly commit *themselves* to rules governing their *own* behaviour. Such rules are manifold and may be crudely summarised under two headings: democracy and the rule of law. Modern neo-liberals believe in both as long as they serve, in combination, to lead political authorities to act as agents of their principals (the citizens) in their (the citizens’) pursuit of realising “gains from joint commitment” (Vanberg 2005: 27) which private initiatives would often fail to realise.

Both democracy and the rule of law – and the combination of the two – seem to be the most particular “cultural” achievements that Europe, during many centuries of disastrously testing the opposites, has produced. Markets (and thus consumers and entrepreneurs) have prospered mostly in times when leaders of the state were able to live up to their credible commitment to the rule of law protecting private property and free competition – quite often against their own short-term political

²⁴ It would unduly prolong this paper if I were to discuss all neo-liberal or classical liberal assertions of this claim. On the relation between a “private law society” and a protective state, see e.g. Böhm (1966/89). Between traditional ordo-liberalism and the later rejuvenation of the “Freiburg School” after Hayek brought less static and statist ideas to Freiburg, Böhm’s work provides a very useful link (see Streit/Wohlgemuth 2000). Böhm had two advantages: he lived much longer than, e.g., Eucken; and he was a legal scholar, not an economist. Thus, he was able to develop a broad view of neo-liberal legal philosophy without being distracted by ephemeral fashions of neo-classical economic modeling.

self-interest. The very incentive for such socially beneficial commitment was itself the product of political – competition! Such political competition can, again, take two civilised forms: democracy or federalism (within nation states) and/or inter-jurisdictional competition (between nation states). Historically, it has been the latter – competition between jurisdictions trying to offer more hospitable conditions for private enterprise – that has been a major source of economic wealth – especially on the European continent. In addition, this competition amongst innumerable European principalities also rewarded jurisdictions that were able to credibly commit themselves to constitutional provisions providing both democracy and the rule of law²⁵.

6. NEO-LIBERALISM AND THE CONSTRUCTION OF EUROPE

The idea that the *nation*-state was to be the sole best guardian of a neo-liberal “*Wettbewerbsordnung*” was challenged very soon after WW II and with the first attempts to create a European Economic Community (EEC). Influential neo-liberals were at that time – the mid 1950s – mostly Germans. An EEC of only six states from the free “West”, and inspired, as it must have seemed at the time, by French desires for comprehensive (supra-) state-interventionism, was for neo-liberals (such as the German Minister of Economic Affairs, Ludwig Erhard, and his most outspoken advisor, Wilhelm Röpke) an imminent threat to their aspirations both nationally and internationally. This is not the place to retrace the delicate situation and the ardent debates of that time²⁶. But little over 50 years after the Treaty of Rome was signed, some preliminary conclusions of the effect of neo-liberalism (in the historical and not in the polemic sense) on the construction of Europe seem possible.

Germany has not only been the European “export champion” in terms of goods and services (for most of the last 50 years). Her most precious institutional “goods and services” of older, neo-liberal days, have meanwhile been “Europeanised” to a stunning degree: stable currency, free trade, and “unfettered competition”. All these policy-fields have, meanwhile, been completely or largely “outsourced” to the European Central Bank, the European Commission or European Court of Justice. By being more effectively protected from the demands of national special interests and the logic of pleasing minority-coalitions in order to overcome re-election constraints, these agencies have often been able to defend “neo-liberal” principles more effectively than national governments would have been able to.

At the same time, however, especially by ways of in-transparent log-rolling within the European Council and bureaucratic ambitions within the European Commission, European Courts, European Committees and the European Parliament, the EU has been a major producer of an “*acquis communautaire*” of interventions and regulations that often cannot be argued to be universally “just” or preferable by taking the increasing heterogeneity of individual opinions or interests into account (see Wohlgemuth/Brandi 2007, Alesina et. al 2001). When speculating about the political- economic “conditions of inter-state federalism” in Europe, Hayek (1939/48) was remarkably enthusiastic about such a project, at a time when such hopes were certainly doomed. But, theoretically he had a point, and with the benefit of historical hindsight, he was partly proven right. Hayek

²⁵ On the intellectual legacy of and empirical advocacy for “institutional competition” in which citizens can satisfy their political preferences by ways of “exit”, see the manifold sources in Vaubel (2008).

²⁶ See Wohlgemuth (2008a) for a more detailed account of the early stages of European integration and the partly frustrated hopes and partly refuted fears of neo-liberals.

argued that democratically organized nation states would find their mutual benefits of joint commitment mostly in the area of negative liberties: “securing peace” (ibid.: 255), the “free movement of men and capital” (ibid.: 258), reduced privileges and state-interventionism (ibid.: 262 f.). In short: “in the international sphere, democratic government should only be possible if the tasks of the international government are limited to an essentially liberal program” (ibid.: 271).²⁷

7. OUTLOOK: COMPETING INSTITUTIONAL VARIETY AS EUROPE’S “SOCIAL MODEL”

In this paper, I have tried to neither reproduce nor comment on the well known and heavily publicized discussion on “European Social Models”²⁸. Instead, I wanted to outline just one candidate for a truly “European” model of state-market relations. The ironic twist is that the label which can with historical correctness be attached to it is also the momentarily most contested and even detested one in Europe: “neo-liberalism”. What I presented was neo-liberalism as “invented” 1938 in Paris during a conference of mostly European thinkers trying to prevent the fatal demise of European culture and liberty which occurred only one year later. And it was this neo- or ordo-liberalism which after 1948 started as a “German Social Model” which produced the so-called “*Wirtschaftswunder*” that became envied all over Europe. And it is this neo-liberalism that found its way into the core of the Roman Treaties in 1957 (apart, obviously, from certain parts such as agricultural policy).

Thus in a certain, but limited sense, one could argue that neo-liberalism actually *was* a “European Social Model”. The universal rules of just conduct that guarantee free movement and open competition and prevent discriminatory state intervention have to some degree been successfully “Europeanised”. However, the European Union and its member states go far beyond the neo-liberal definitions of core state responsibilities. And those seeking to define a “European Social Model” mostly want the EU to go well beyond the completion of the internal market. They want labour market policies, welfare policies or tax policies to be further “harmonised” within the EU. In this way, “old Europe” may be trying to protect its paternalistic welfare-states which have come under stress from global competition.

Collectivist “social models” such as socialism and fascism were originally invented and tested in the very heart of Europe (and mostly in Germany) not too long ago. At the same time, Europe can historically claim to have been the often shaken cradle of a very fruitful offspring called “Western” civilisation – a legacy of Greek democracy and philosophy, Roman law and citizenship, Christian ethics, British Rule of Law, French and German enlightenment – however debatable such exclusive attributions may be from a historical perspective²⁹. But such “shaking”, exploring, testing, adopting and rejecting, has, over many centuries, also shaped Europe and made it strong, innovative and exciting. It has been the competition

²⁷ As argued in more detail elsewhere (Wohlgemuth 2008a), Hayek’s idealist neo-liberal reasoning might have been conceptually right; but he was quite naive concerning political tactics and the logic of log-rolling that produced some 90 000 pages of European legal provisions that involve quite a lot of mutually traded privileges.

²⁸ See Esping-Andersen (1990) for the most quoted trigger of the academic and political debate.

²⁹ See Nemo (2005) for a forcefully “Euro-centric” definition of Western civilization and Nemo/Petitot (Eds., 2007) for a comprehensive overview of the history of European liberalism.

amongst principalities, states, religions, schools of thought, and thus of laws, institutions, policies, social practices, that produced the “European miracle” (Jones 2003).

This “institutional competition” can work very much like market competition as a socially beneficial “discovery procedure” and learning process (Wohlgemuth 2008b). It is a most useful procedure once we acknowledge politicians’ and citizens’ constitutional lack of knowledge concerning present and future social problems and adequate political responses. In addition, decentralisation and inter-jurisdictional competition are the only ways to account for the fact that citizens have different and changing preferences also concerning the “social models” that they will have to finance and endure. Institutional competition is no equaliser or “ex post harmoniser”. It is a permanent process of creating, comparing and adopting different responses to different needs, capabilities, and preferences. Just like competition described here, also peaceful rivalry for best solutions amongst jurisdictions is the expression of equal liberty, it reduces (political) power, and is another beneficial source of progress and wealth (see also Rosenberg/Birdzell (1986).

The “ethics of competition” may historically have been a unique European “invention” – successfully exported some time ago to Northern America and increasingly adopted today in many parts of the globalised world. The irony of history may be that we Europeans are now trying to fend off global competition, our own invention that made us grow and develop our own civilisation. The neo-liberal economist Wilhelm Röpke (1958: 365, my translation) was early aware of this danger:

If we wanted to try to organise Europe in a centralist way ... and forge it into a more or less closed block, this would mean nothing less than to betray Europe and the European patrimony. It would be an all the more malicious betrayal since it is committed in the name of Europe by ways of a disdainful abuse of its name.

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5. CATHOLIC SOCIAL THOUGHT

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Matteo Liberatore's *Principii di Economia Politica*: a soft assimilation of Classical Political Economy into Catholic Social Thought?

INTRODUCTION: TWO VANTAGE POINTS ON LIBERATORE'S PRINCIPII

I first came across Liberatore's *Principii di Economia Politica* (from now on, "*Principii*")¹ while working on my two essays on *Rerum Novarum* (from now on, "RN"). Since Liberatore had been without any doubt one of the main contributors, and very probably the main contributor, to the Enciclical, his treatise on Political Economy, which preceded the publication of RN by just two years, was an obvious source for whoever wished to gain a deeper understanding of the Enciclical's characteristic doctrines –and attempt to throw some light on its many obscurities and apparent incongruities. In spite of these two forays of mine², this is still a largely unbeaten path, well worth a continuing exploration.

The nexus *Principii* -RN is not however the only instructive perspective on the *Principii*. The very existence and the nature of this work deserves consideration. Some Catholic thinkers objected in principle to a study of human conduct based on some sort of utilitarian assumptions. Either these assumptions do not hold, they argued, or they ought not to hold. In the former case the outcome of these studies is false, in the latter, wicked. One needs only refer to Antonio Rosmini. More broadly, Italian idealism rejected the very idea of a social science, be it Political Economy or Sociology. For the human spirit, unlike inanimate matter, is free, and therefore not subject to any empirical law. The possibility of a social science from a strictly Neo-Thomistic position – such as Liberatore held- is again highly problematic: for it seems to maintain a pre-modern concept of science, according to which the task of science is to ascend to the ultimate causes of things –a project that not many economists would feel germane to their field and method of research. What is much more important, many practical people –businessmen, politicians, lawyers, clerics, or scholars in the humanities- while perhaps dimly aware of the existence of the discipline of Political Economy –nowadays Economics- are their own economists, in the sense that they have their own ideas as to how the economy works, and see no reason to waste their time with misleading or pointless abstract niceties good at most for some classroom

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¹ The proper quotation is Matteredo Liberatore, *Principii di economia politica*, Tipografia A. Befani, Roma, 1889. The book was quickly translated into several languages, including English and Spanish. The American edition has been re-issued in 2009. All the passages I quote have however been translated afresh by me.

² They will be quoted separately in the sequel.

exercises.³ It is true that they rarely manage to keep separate statements of fact, or theoretical conjectures, from their moral or political preferences. But this precisely another reason why they hate the intellectual discipline provided by Political Economy. For all these reasons, it is both surprising and –at least at first sight– encouraging to discover that the eminent Matteo Liberatore, one of Leo XIII most influential advisers, took Political Economy so seriously as to set out to writing a treatise on it!

My first task, then, is to have a second glance at Liberatore’s treatise: does he really manage to discard the various layers of prejudice just recalled? Does he appreciate the discipline’s specific outlook on society? Unfortunately, it turns out that the answer is no. In section 1 I will consider his attitude on the nature and purpose on Political Economy as a science. In section 2 and 3 I will briefly examine two samples of his discussion: his treatment of rent and profit. In section 4 I will try to see if his beliefs on these issues of Political Economy can be found reflected in some of the many puzzling aspects of RN. In section 5 I conclude with some observations on the attitude on Economics currently held by the Church’s highest authorities.

1. LIBERATORE’S CONCEPTION OF POLITICAL ECONOMY AS A SCIENCE

In the Preface (pp. 5-6), Liberatore tells the reader what moved him to writing an introductory presentation of Political Economy: on the one hand, a knowledge of the subject is required in almost all matters of social life; on the other, the subject needs a thorough cleansing of the sensistic philosophy which attended its beginning and of the Liberal ideas by which it is still plagued. The work plan is therefore far more ambitious than an introduction: it aims at providing a “compendium of healthy principles sufficient to set the young on the right course, so that afterwards they may be able to keep to it by themselves”. Thus Liberatore envisages a Catholic Political Economy, obtained by an ideological purging of the existing subject. This is somewhat reminiscent of the earlier attempt to reconstruct modern jusnaturalistic theories –largely of Protestant origins– carried out by Liberatore’s fellow Jesuit and teacher, Luigi Taparelli D’Azeglio, in his famous *Saggio teoretico di diritto naturale appoggiato sul fatto* (1843).

Before proceeding with the exposition, we should pause to take note of a surprising and perhaps disappointing fact. All the main authors of the second half the XIX century –belonging to what we now call the three branches of the Neo-Classical School, Menger, Jevons, and Walras, as well as their almost as famous predecessors in the first half, such as Cournot, von Thünen, Gossen, Dupuit, are unknown to Liberatore. His main source appears to be J.B. Say, whose treatise dates back to 1803. Other writers of the Classical School, such as Adam Smith and David Ricardo, are also sometimes quoted.

Thus, it is not surprising that Liberatore should conceive of Political Economy as the science of wealth. A science, not merely an art. The latter is usually “a collection of rational rules on how to make something”. These rules, however, are drawn merely from experience, or from their proximate causes, without any further concern with the ultimate, or highest, causes. *Cognitio rei per causas ultimas* is instead the purpose of science (p. 9). Political Economy fulfils this description by concerning itself with wealth, not in some particular instance or other, but in its very nature. It is from the true general nature of wealth that Political Economy

³ See the perceptive account, clearly based on many sad experiences, of this outlook given in Paul Krugman, *The accidental theorist, and other dispatches from the dismal science*, W.W. Norton, New York, 1998.

derives its universal laws concerning the production, distribution and consumption of wealth. This might appear to us highly dubious, based on an untenable essentialistic doctrine, even merely verbal ⁴. To be true, it was from a careful reflection on the meanings of the fated word "wealth" that Adam Smith set off on his attack of the Mercantilistic doctrine -and on his gigantic inquiry. His reflections quickly led him to considering the key problems of Political Economy. It is because he went beyond the mere concern with the concept of wealth that Adam Smith can still be considered one of the greatest economists ever.

If we said that Political Economy derives its main hypotheses not from the nature of wealth, nor from the nature of man, but from the artificial construct of homo economicus, an abstract individual whose sole concern is material gain, subject only to two inner constraints, the increasing harshness of labor and of abstinence, the gap between Liberatore's and the standard Classical definition would be bridged.⁵ However, Liberatore is adamant in refusing it (p.18): "A treatment of wealth abstracting from Morals, considering Political Economy as a science almost independent and autonomous, leads to very pernicious consequences." Therefore, Economics should be from its inception subordinated to Ethics. Therefore, Economics should be conceived not as a theoretical ("speculative") subject, but as a practical science.

All efforts to compose a treatise on Political Economy would appear to be thwarted by these decisions. How can Liberatore claim to have written a treatise on Political Economy rather than an attempt at discarding the whole subject? We should perhaps remind the reader that the Classical System of Political Economy, like any other economic system, includes (at least) three aspects: (a) a descriptive one, (b) a determinative one, and (c) a normative one. The description is an illustration of the individuals, groups, and institutions that make up the economy under study; the determination shows how, given certain assumptions on individual behavior and on the social environment, the main magnitudes of social interest (relative prices, the rate of profit, the rate of accumulation , etc.) are established, or determined; the normative aspect derives the policy conclusions with respect to certain values or objectives; its prescriptions are therefore always relative, not absolute. Now in Liberatore's survey of Classical Political economy some space is devoted (a); (b) is practically non existent and, to the extent to which it does exist, it is rather fiercely denied. (c) becomes therefore impossible, and is substituted by some absolute moral and legal teachings of Liberatore's own liking.

His survey of Classical Political Economy is carried out in the form of an interminable, unrelentless quibbling about definitions. This is perhaps the logical consequence of the author's essentialistic position: in any field, knowledge is amassed and codified in the form of definitions and improvement on earlier

⁴ From K. R. Popper, *Unended Quest, an intellectual autobiography*, Fontana/Collins, Glasgow, 1982, p. 17: "I must have been about fifteen. My father had suggested that I should read some of the volumes of Strindberg's autobiography. I do not remember which of the passages prompted me, in a conversation with my father, to criticize what I felt was an obscurantist attitude of Strindberg's, his attempt to extract something important from the "true" meaning of certain words. But I remember that when I tried to press my objections I was disturbed, indeed shocked, to find that my father did not see my point...The attitude that I later called 'essentialism' is still widespread, and the sense of failure which I felt as a schoolboy has often come back to me in later years."

⁵ See John Stuart Mill, *Essays on Some Unsettled Questions of Political Economy*, Series of Reprints of Scarce Works in Political Economy, The London School of Economics and Political Science, London, 1948, pp.137-8

definitions. No more is possible, no more is desired, or indeed desirable. But we will see that it has other functions: it helps Liberatore to get rid of whatever remnants of (b) are left in his exposition.

3. RENT: A BATTLE OF DEFINITIONS?

Although in common parlance the word “rent” means whatever annual income the owner draws from his belongings, says Liberatore (p.216), the economists assign to it a somewhat more specialized meaning, i.e., the reward for the use of a piece of land. He then proceeds to summarize the Ricardian theory of differential rent, the upshot of which, as is well known, is that on the marginal land there is no rent. Its owner cannot claim a reward from whoever wished to...rent it. Or, if he were to cultivate it himself, he should impute the value zero to the contribution made by “original and indestructible powers of the soil”. This does not please Liberatore. He objects (p. 220) that the theory would purport to explain the historical, not the legal origin of rent. But it is only with the latter, argues Liberatore, that science is concerned. And the legal origin of rent cannot but be found in the right of property, of which rent is a consequence. “If the natural forces of a given land concur really, as indeed they do and they do primarily, to production, although jointly with capital and labor; a share of the products is by nature due to the legitimate owner of the land.”

But owning an article does not guarantee that it will command a positive price. Somebody must be willing to offer such price for a specimen of the article. Whether and under what circumstances it ought to command a positive price according to some ethical theory, is a different question. Nor does Classical theory purport to explain the historical origin of rent. It explains its economic origin, taking as given the fact that the various pieces of land are appropriated. The owner of the marginal land will get nothing for its use, even his title of property is unobjectionable and even if his land is obviously not unfertile. This is perhaps a paradox, one of the many discovered by Economics precisely because it has its own methods of investigation and is not content with confirming common sense beliefs.

Liberatore however thinks he can marshal an even more formidable argument (pp. 221-2). The Classical conclusion has been reached under a particular definition of rent. “The principal defect of the theory is to rely on a definition not only arbitrary, but fallacious. It confuses rent, i.e., what the land yields, with the rental, i.e., the price the owner gets from a man from the leasing of his ground.” Under Liberatore’s definition, “land, whatever its quality, always gives a rent, i.e. a yield: a high one, if fertile, a low one, if otherwise. A piece of land, wholly sterile and useless, would not be appropriated. Such rent may, if one wants, be turned into a rental, by leasing the land from which it comes; and such rental is also usually called rent by metonymy...The Ricardian theory, therefore, in my opinion does not hold, and is a source of confusion and errors.”

We notice again Liberatore’s essentialism: there are true and false definitions! Even so, one cannot attack an argument by just opposing a definition to another. One can either question the argument leading from the hypotheses to the conclusion, or cast doubt on the appropriateness of the hypotheses. Liberatore does neither. He baulks at the conclusion that on the marginal land, its owner, as owner, can claim nothing. This statement is independent on the definition of “rent”. By suggesting a different definition, at most Liberatore could argue that on the marginal land rent is null according to one definition, and positive according to the other. But it is dubious that he achieves even that. For he suggests that the

residual yield may be turned into a rental! So he seems to be working with both definitions, not just one (his). Perhaps Liberatore's instinct is to affirm that on equity grounds, the owners of all appropriated lands (cultivated and perhaps even uncultivated) ought to receive a remuneration purely as owners. This would be a highly dubious statement in itself: one might well argue that by merely owning something, one deserves nothing. This would be akin the dreaded Socialist contention, always lurking in Liberatore's mind. On one occasion (p. 220) he cannot repress his fear any longer and blurts out: "A Socialist could argue that, if rent arose from an increase in population that made it necessary to extend cultivation to lands of lower fertility, it should be turned to the benefit not of the owners, but of the increased population." Plausible enough, one should say. But the Classical theory makes no such statement. It says what would happen under competition among landowners, capitalist farmers and workers, not what is fair and just.

The issue of the price of natural resources reappears in a slightly different guise when it comes to distinguishing between profit and rent (p. 224): "There are economists who believe that rent is only legitimate inasmuch as it be merely profit: arguing with Carey and Bastiat that the utility contributed by natural agents is always free... The general rule is that owners do not enjoy but the return of the labor, either current or accumulated, with which they cooperate to the production process, by acting on the free forces of nature. Therefore the price fetched by a given specimen of wealth decomposes into two parts; one of which, the wage, provides the remuneration for labor; the other, profit, goes to reward capital." "The sophism", argues Liberatore (p.225), "which the above mentioned economists revert to, is that Nature gives freely useful things. No doubt she gives them freely; but this no reason why their possessors should do so, unless one should suspect them of not being the legitimate owners. The sophism is a special instance of the mistake of denying the right of property."

Liberatore does not see, or perhaps refuses to see, that property of an object is no guarantee that it have a positive exchange value. As long as the natural resource are not scarce, even if appropriated they are free, as Carey and Bastiat maintained or implied. It would be otherwise, of course, if their owner, or someone else, had alternative uses (other than cultivation) for those natural resources. Then they would command a positive price.

4. THE GENEALOGY OF PROFIT

"Profit corresponds to the capital employed so that the worker may with his labor turn the natural agents to give the desired product. If one were to look for its primeval origin, this cannot be found but in rent. Indeed, profit results from capital; capital from savings; and savings presuppose rent, for they are made out of what initially the natural agents produced and afterwards was increased by labor."

This would, presumably, be an instance of "searching for ultimate causes". It would seem to purport to provide an ethical or legal justification for the pure income from capital, i.e., interest. It won't do. Savings presuppose income, not rent. And income is made of wages, profits, and rents. So "profits" may "come from profits" as well as from the other two forms of income. This circularity is of the essence of the economic process. On the other hand, there is a way to break through the circle, and compute the total (direct and indirect) labor and land content of a commodity. But this requires holding the productive technique constant, and, while perhaps relevant to the problem of valuation, has nothing to

do with the legal nature of the right of the capitalist to his profit, as Liberatore, quoting approvingly Minghetti, would have it (p. 224): the complete argument being that since, ultimately, “profit results from rent”, land being (according to Liberatore, not Minghetti) an even more primary factor than labor, profit draws its legitimacy from rent, hence, according to Liberatore, from the right of property of the land.

Is there in these key pages at least an inkling of the problem of determination, as distinct from that of ethical or legal justification, of profits? “If the Capitalist did not obtain a net profit, instead of applying his resources to industry he would invest them in titles of banking debt”, argues Liberatore (p. 226). Does he think that the rate of profit is determined by the money rate of interest? And what determines the latter then? We will never know, for he continues: “That such a profit should be justly required [by the Capitalist] is evident: for capital although not, strictly speaking, a factor of production, nonetheless is a requisite to and a means of it, and is therefore worthy of remuneration.”

Thus he produces two distinct arguments in favor of the legitimacy of a net return on capital, i.e., interest!

5. LIBERATORE’S *PRINCIPII* AND RN

A full study of the nexus *Principii*-RN is obviously beyond the scope of the present paper.⁶ What can be attempted here are some sketchy and conjectural remarks drawing on the portions of *Principii* that we have analyzed in the two earlier sections, on rent and profit. These are indeed connected to some of the most glaring anomalies of the Enciclical, to wit, (1) its concentration on and impassioned defense of the individual property of land, while the novel feature of the industrial economy which was purportedly the subject of the Enciclical was capital, and (2) the lack of any theory – positive or even just normative- of interest, to the great disappointment of the faithful who were anxiously waiting for a definite –and hopefully definitive- Papal teaching on the subject.⁷

As to (1), we have seen the fear –almost obsession- of Liberatore for the possible socialistic implications of the Classical theory of rent. His ideology made it impossible for him to distinguish between the validity of the theory and the ethical aspects of distribution. On the other hand, his fanciful genealogy of profit might be taken to signify the unimportance of capital. The transformation of property into abstract titles to shares in the profits of industrial firms, and the socialists plans to turn these into public property, are of no concern to either *Principii* or RN. It might be that this is due to Liberatore’s conviction that capital, not being an original, a primeval factor of production, is by its essence secondary, a mere epiphenomenon, and therefore not socially important. He may have thought that whatever battle the Church should wage against Socialism was to be fought on what was really important, i.e., original and primary, land.

As to (2), we have noted that Liberatore is not concern with the determination, but rather with the justification of economic variables. He is convinced of the complete legitimacy of the Capitalist’ net profit (net of the reward of

⁶ In G. Costa *Rerum Novarum and Locke: un incontro riuscito?* in “Filosofia Politica” 2010, n. 2, pp. 235-62, I study this nexus for the very important problem of the relationship between the doctrine of the

right of property worked out by Liberatore in the *Principii* and that put forward in RN. They are by no means the same, it turns out.

⁷ See for a discussion of the anomalies of RN, G. Costa, *La Rerum Novarum dalla fine del XIX all’inizio del XXI secolo*, in “Studi Economici” n. 100, 2010/1, pp. 41-63.

enterprenerial services), i.e., of net interest, and he also albeit fleetingly hints at the idea of a connection between this net rate of profit and the banking rate of interest. Yet he has nothing explicit to say on interest, in spite of long standing concern of the Church with usury. This is so staggering that it bears restating: nowhere in his treatise does he attempt to connect his exposition to the millenarian theories of usury. Although there is no explicit pronouncement by Liberatore on the matter, it is very likely that he would not have objected to earning a positive interest on public or private titles of debt. This might explain why nowhere in RN can one find that much awaited strong condemnation of interest as a manifestation of the new evil capitalistic society.⁸

6. LIBERATORE' *PRINCIPII* AND THE EVOLUTION OF THE CHURCH'S DOCTRINE

The treatise on Political Economy by Libertore is really a sort of anti-treatise. It expresses the author's deep aversion to the methods, assumptions and contents of Classical Political Economy. In the light of the discussion of the last two sections the conclusion seems inevitable that Liberatore falls prey to – or perhaps, consciously, willingly espouses – all layers of prejudice listed in section 1, and possibly some other as well.

With RN a new approach by the Roman Church to economic and social problems began, the so called Catholic Social Doctrine. This is far more removed from Political Economy – or Economics- than Liberatore's *Principii*. In the social encyclicals the Popes are truly – even sublimely- their own economists: to such an extent that one may sometimes regret Liberatore, who at least was informed of the economists' approach and had some respect for it, even if his information did not go beyond the economists of a much earlier period than that of his writing and even if he could not stand their conclusions.

One may ask if there have been any changes to this situation recently. One may perhaps dismiss Benedict XVI' famously barbed comment of the economists' inability to forecast and forestall the 2008-2009 world economic crisis as merely a *boutade* –although it is well known that only seldom do Papal comments fall outside a frame of careful deliberation. More relevant and revealing then we might find the comment made by John Paul II, as it is told with full approval by the noted Father Jean-Yves Calvez (a new Liberatore?) in the following passage⁹:

Careful economists know that there are some elements of the economic situation that we may define "scientific" (statistical and behavioral parameters, etc.) When, however, we take up the fundamental aspects of the economy, the problem changes. We now have to consider economic policies and therefore their human impact. I remember, some years ago, a meeting between John Paul II and some Mexican businessmen, in a moment when there was a strong enthusiasm for neo-liberal economics, all scientific. In Monterrey the Pope said clearly that there was undoubtedly something scientific in Economics, but it is not the most important thing. What counts is whether there is enough food for everybody, or not. This is the thing that matters in the economy.

On the one hand, the concessions made in this passage to Economics are unnecessary and go in the wrong direction: it is not because it is liable to a statistical treatment that human behavior may escape moral evaluation and

⁸ See G. Costa *Usura*, in *Dizionario di Dottrina Sociale della Chiesa*, Vita e Pensiero, Milano, 2004, pp.638-41, for a discussion of the treatment of usury in RN.

⁹ See Giorgio Pilastro (ed.) *Per un cristianesimo adulto: testimonianze di itinerario possibile*, abiblio, Trieste, 2009, pp. 291-2.

judgment. It should not and it will never escape it. The role of abstraction in Economics is not that of guaranteeing an impunity to actual economic agents. Only a deep, inextricable misunderstanding may have motivated this statement. On the other hand, Jean-Yves and John Paul flatly deny one of the proper roles of Economics: how else if not by referring to it could one evaluate the effectiveness in achieving whatever specified end of alternative economic policies? John Paul seems to think of Economics as another form of constrictive ideology. Indeed his last remark is but an echo of the post-Maoist Chinese leader Deng Tsiao Ping, when he remarked that it was not the cat's color that mattered, but its ability to catch mice.

And this might well be the end of the story –and of this article. But it is not, quite. There is a rather ironic turn that I should like to report. Indeed in 1994, in the same decade in which the Monterrey meeting was held, the very same John Paul II founded, with an impressive *motu proprio* of his, the Pontifical Academy of Social Sciences, and gave it a delightful Renaissance little palace (“la Casina Pio IV”) in the Vatican Gardens as its seat. And there is another little turn. M. Edmond Malinvaud, its first President and an economist of world's renown, in one of his first lectures at the Academy¹⁰ thought it proper to engage his audience in a preliminary explanation and defense of the economists' use of *homo economicus*, and of the distinction between positive and normative statements in Economics. *Pace Liberatore*.

¹⁰ E. Malinvaud, *Work and the new challenges of economic reality*, a lecture given on June the 30th, 2005, at the Symposium of university teachers on “Ora et labora” held at the Academy. For a discussion of *homo economicus* in general, and of Malinvaud's exposition in particular, see Giacomo Costa *Guglielmo Rhedy, homo economicus?* Quaderno n. 33 del Ciclo di conferenze e seminari “L'Uomo e il denaro”, Milano, 2009.

6. BOOK REVIEW

Jude P. Dougherty

Posner, Richard A. *The Crisis of Capitalist Democracy*. Cambridge: Harvard University Press, 2010, pp. 402.

Richard Posner, a federal appellate judge, a respected economist, and a University of Chicago lecturer, makes the case in the latest of two recent works on capitalism that the economic collapse of 2009 is undoubtedly the greatest economic crisis since the Great Depression of 1929. He doesn't mince words; he calls it a Depression, not a "downturn" or a "recession." Posner is convinced that it was the low interest rates in the early 2000s, favored by the Federal Reserve under Greenspan and later by Bernanke, that caused the housing, stock market, and credit bubbles of 2008. And when those bubbles burst, a combination of the Fed's unsound monetary policy and culpable regulatory inattention brought on the Depression.

Publishing in quick succession two books in support of his thesis, *A Failure of Capitalism* in 2009 and *The Crisis of Democratic Capitalism* in 2010, he is convincing when he argues that the government's response to the financial crisis by greatly increasing the national debt, not only exacerbated the situation but may have contributed to the long-term deterioration of the American economy. The astronomical debt incurred by successive stimulus packages defies resolution, given certain structural defects in the American political system. Given those defects, it may be impossible to pay down the debt by any means other than inflation or devaluation. As a consequence of ill-formed monetary policy the role of the United States in the world economy has been altered, undoubtedly for the worse, and probably for a very long time.

"I believe in capitalism," he proclaims, "but capitalism is not a synonym for free markets." It is a name given to a complex economic system with many moving parts, e.g., buying and selling and investing and borrowing and other activities carried on in the private markets, including systems of laws for protecting private property and facilitating private transactions.

Regulation of financial markets is necessary for competition will not permit businessmen altruistically to subordinate profit maximization to concern for the welfare of society. Ethics cannot take the place of regulation. A capitalist system cannot consist just of free markets. A central bank has a key role to play.

Posner believes that the economic challenges faced by the United States are not insurmountable provided we devise the necessary governmental structures and somehow create a political culture required to meet those challenges. Low interest rates in the early 2000s may have set the stage for the economic collapse, but it was primarily the failure of, or lax administration of, regulation, compounded by unsound monetary policy, that, in fact, brought it about.

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Time and again as his analysis of the economy proceeds, Posner is led to ask whether America is governable, whether its political institutions are capable of meeting the challenge posed by the present or any other economic collapse. The economic downturn that began in 2007 and turned critical in 2008 has brought into focus the inherent fragility of our banking system and the danger of slack regulation. It is unclear at this writing whether the congressional accords reach on June 25, 2010 create the federal authority desired by Posner to curb risky Wall Street practices.

In an interesting aside, Posner provides a discussion of the role that confidence and optimism play in shaping economic behavior. He acknowledges the present loss of public confidence in the nation's economic leadership. "The morality of public officials," he writes, "is not that of private persons. Officials lie, dissemble, flatter, traduce, and pander to a degree that would be regarded as monstrous in private life." But there are costs to such dishonesty: He cites the current loss of confidence in the Obama administration as a case in point.

Aristotle recognized the importance of political community, but he also recognized that absent morality in the people, absent a common faith that transcends the mere political, a people, a *polis*, may indeed be ungovernable. Posner's narrow focus on the economic order may have blinded him to the larger moral and cultural issues that affect the nation as a whole, of which monetary principles are only a part. Moral principles hang together and have a lot to do with our concept of human nature, a concept missing in most of Posner's discourse. A moral vacuum on Wall Street may be a symptom of a much larger decline in the moral culture of the American republic.

