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Is there a Vatican school for competition policy?

1. Introduction

I usually spend a significant amount of time with my students discussing what constitutes competition. Despite teaching competition law, applying competition law, and explaining to business people how they can best comply with competition rules we have no universal definition for this universal social and economic phenomenon. Competition is a state of play when two or more players seek to achieve more or less the same objectives. Usually, only one player can succeed and it results in a win-lose situation. That is true for our love affairs, provided that neither party cheats, and for most sport competitions, although draws are possible in most team games. Competing players or teams of players are rivals. Rivalry has its written and non-written rules. We have these rules so that best participant should get the first prize or gold medal and so the stakeholders, the audience should enjoy the game. The same holds true for competition in the marketplace. The most important rules of the game are competition rules, or at least this is what most competition lawyers believe.¹

Antitrust, or as we Europeans call it, competition law is a body of law designed to protect competition. We assume that competition is not only an integral part of our life, but if working properly, it will result in advantages both for business and consumers. In contrast to sport competitions, consumers are interested in a never ending process of economic competition where none of the winners called a monopolist. Less expensive prices, better quality, and a wider range of products top the wish lists of competition believers. Innovation is a more delicate issue in the relationship between the intensity of competition and product development, deeply dividing theorists and, to a lesser extent, practitioners. As a rule of thumb, I would at least side with those who say that a competitive environment leads to more innovation, whereas monopolies or dominant companies have less incentive to spend on risky development projects even if they have more resources.

Competition policy is part of overall economic policy and both can be seen in the government’s view about how markets should best work. Or and, in a narrow sense, it may refer to the set of principles and aims pursued by competition law enforcers about how broadly phrased competition rules should be applied to the real state of affairs.

Competition schools (theories) can influence competition policy, law enforcement and also law creating by formulating concepts and ideas about the notion of competition and the disadvantages of monopolies, for example. Competition schools are connected, almost by definition, to universities or academics. Vienna, Freiburg, Harvard and Chicago schools of economics were shaped by economists and lawyers teaching and researching at these

¹ Actually, there are far more important rules that go beyond the scope of competition law, like tax, labor, environmental and other rules governing the actions of the market players.
institutions. The Vatican is obviously not the place where academics do the competition law and economics research. Nevertheless, the encyclical letters and other documents discussing the social teaching of the church have always benefited from discussions among catholic academics and practitioners. They are more than dogmatic declarations heralded by the reigning pope. The common belief, the same approach to challenges in our lives provides a common platform for academics all over the world, regardless of the place of their activity.\(^2\) Fans of various competition schools differ in their views about the role of free market forces, the ideal role of the state, and whether market power is an evil or unavoidable component of market economies. This paper shows that the Vatican has its own view about these issues.

This paper is not focused on the morality of anticompetitive behavior.\(^3\) Indirectly, however, I acknowledge that there should be some moral content behind the cartel and abuse of dominance/monopolization prohibitions. An important statement of the Vatican school is that although economics and morality are different sciences with different rules, it is nevertheless important for business activities to be conscientious of moral rules. A conduct that may be economically rational but immoral at the same time should not be advocated.

2. The sources of the Vatican competition school

It is not easy to give a list of those documents that should be used as a basis of our search for competition related statements of the Catholic Church. Even before encyclical letters reflecting to social issues became fashionable, catholic philosophers had their view about what is right or wrong in business related activities. Late scholastics in Spain (Salamanca school) and Italy (Coimbra school) between the 10\(^{th}\) and 15\(^{th}\) Century, and Saint Thomas of Aquinas understood the basic rules of microeconomics, the functions of demand and supply, and the role of money.\(^4\)

My research could have started with the textual analysis of the New Testament. These are the books where the original rules can be found. Papal encyclicals apply these rules to the challenges of the presence. I will thus inevitably have to rely on some quotes from the Old and the New Testament. However, I will also focus on evaluating some of the more recent documents issued by Popes Jean-Paul II., Benedict and Francis.

Modern catholic social teaching began with the encyclical Rerum Novarum, ‘Of New Things’ in 1891. It continued until the present with Caritas in Veritate, ‘Charity in Truth’ in 2009 and the pastoral program of Pope Francis that made him a well-known proponent of social justice in 2013. Drawing inspiration from the Bible, its traditions and its experience with social problems around the world, the Church has produced a set of principles by which business activity can be judged. The Compendium of the Social Doctrine of the Church is a

\(^2\) The same applies of course to the followers of the traditional competition schools, ‘Chicago school’ is the expression of a certain lifestyle, general thinking about the role of competition that is shared by academics, practitioners and law enforcers not only in Chicago, but also in Washington, Brussels, Budapest, etc.

\(^3\) Maurice E. Stucke gives a thorough overview of the morality issue with special regard to cartels in his Morality and Antitrust, Columbia Business Law Review, Vol. 2006, p. 443, 2006. He concludes that although antitrust scholars, policymakers, enforcers and courts have divorced morality from antitrust, given the escalation of criminal penalties for antitrust offenses it is high time to bring morality into the debate.

\(^4\) San Bernardino of Siena (1380-1444) was the first theologian to write an entire work systematically devoted to scholastic economics. See: Murray N. Rothbard: Economic Thought Before Adam Smith; Mises Institute 1995. A See also Joseph Schumpeter: History of Economic Analysis (1954, New York: Oxford University Press) rediscovering scholastic philosophers’ concepts on economics.
helpful resource to study these issues since it summarizes the main aspects of catholic social
teaching by arranging them by theme, rather than by document.\textsuperscript{5} Among the main sources of
the ‘modern social teaching’ that include worthy statements about markets and competition
are the following: \textit{Rerum novarum} (1891) by Leo XIII.; \textit{Quadragesimo anno}\textsuperscript{6} (1931) by Pius
XI.; \textit{Mater et magistra} (1961) by XXIII. John; \textit{Gaudium et spes} the Pastoral constitution on
the Church in the modern world (1965) adopted by the II. Vatican Synod when Paul VI. was
the pope; the \textit{Populorum Progressio} (967) by VI. Paul; \textit{Octogesima adveniens} (1971) by VI.
Paul; the \textit{Solicitudo rei socialis} (1987) by John Paul II.; \textit{Centesimus annus} (1991), by John
Paul II; and \textit{Caritas in veritate} (2009) by XVI. Benedict.

I will discuss to what extent competition policy issues are raised in the series of encyclical
letters and what sort of orientation they provide for businessmen and persons shaping
competition law and policy. An interesting issue is how far increasing efficiencies promoted
by various economic schools can be reconciled with the Vatican’s approach of focusing on
not only the material but the spiritual desires of the whole Man. The aims of increasing social
or consumer welfare and promoting the common good and the well-being of mankind are not
necessarily contradictory and incompatible.

\textbf{3. The issue of competence}

When pontiffs issue documents elaborating on social problems going beyond the safe
territory of theology, they often feel compelled to explain the basis on which they base their
thoughts. A quote from the encyclical letter celebrating the 40\textsuperscript{th} anniversary of \textit{Rerum
novarum} explains:

\begin{quote}
Even though economics and moral science employs each its own principles in its own
sphere, it is, nevertheless, an error to say that the economic and moral orders are so
distinct from and alien to each other that the former depends in no way on the latter.
Certainly the laws of economics…determine the limits of what productive human
effort cannot, and of what it can attain in the economic field and by what means. But
it is only the moral law which…commands us to seek directly in each kind of activity
those purposes which…God the Author of nature, established for that kind of action,
and in orderly relationship to subordinate such immediate purposes to our supreme
and last end.\textsuperscript{7}
\end{quote}

Or to take a more recent argument from Jean-Paul II:

\begin{quote}
The Church has no models to present; models that are real and truly effective can only
arise within the framework of different historical situations, through the efforts of all
those who responsibly confront concrete problems in all their social, economic,
political and cultural aspects, as these interact with one another. For such a task the
Church offers her social teaching as an indispensable and ideal orientation, a teaching
\end{quote}

\textsuperscript{5} We will quote often from this document that was produced by the Pontifical Council for Justice and Peace in 2004.
\textsuperscript{6} Encycles are titled by their starting words in Latin. Some of them establish a direct connection with \textit{Rerum
novarum} by referring to the relevant anniversary of celebrating and building on the first catholic document of
social teaching.
\textsuperscript{7} Quadragesimo anno, 42-43.
which, … recognizes the positive value of the market and of enterprise, but which at the same time points out that these need to be oriented towards the common good.\textsuperscript{8}

This wise statement makes it clear that the Church wants its voice to be heard in economic matters. I am not certain though that the Church has ever intended to present models. As I argue in this paper, the contours of a Vatican model of competition emerge from Vatican texts, even if the model needs further refinement. It is concrete solutions to concrete problems that should not be expected from encyclical letters. The letters nevertheless call our attention to some principles that lay the foundation for more concrete actions to be taken by businessmen, politicians and other stakeholders of competition.

The last sentence of the John-Paul II quote emphasizes that enterprise and markets do have positive values. Where the Catholic Church represents an anti-market socialist idea, our paper about Vatican and competition policy would end somewhere here.

4. Vatican and free markets

4.1. The liberal philosophy of John Paul II.

The papal encyclical letters usually condemn socialism and state controlled economies, but they are more sophisticated, taking a stance in relation to capitalism and market economies. This is no surprise though, since capitalism itself changes periodically from country to country. As John Paul II stated in 1992,

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy"….But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.\textsuperscript{9}

The same text stresses that free markets need control as the laissez fare model of capitalism is not advocated from the Vatican. The control exercised by the society and the State can guarantee that the basic needs of the whole of society are satisfied.\textsuperscript{10}

Pope Pius XI recognized the ‘dark side’ of unregulated competition in the era between the two World Wars with strong words,

Just as the unity of human society cannot be founded on an opposition of classes, so also the right ordering of economic life cannot be left to a free competition of forces. (...) But free competition, while justified and certainly useful provided it is kept within certain

\textsuperscript{8} Centesimus annus, 43.
\textsuperscript{9} Centesimus annus 42.
\textsuperscript{10} Centesimus annus, 35.
limits, clearly cannot direct economic life. (...) competition can still less perform, since it is a headstrong power and a violent energy that, to benefit people, needs to be strongly curbed and wisely ruled. But it cannot curb and rule itself.\textsuperscript{11}

Though these sentences may be relied on by the opponents of the free markets, I prefer to interpret them as the foundation of competition law and regulation. Competition is regarded neither as an evil nor divine energy. The process of rivalry is justified and useful if the limits, the rules of the game are stated. Competition can indeed be seen as a source of energy that fuels the economy. Just like energy, competition can be dangerous. The encyclical letters do not elaborate on these dangers of competition. They do not expressly refer to the downsides of competition in economic terms i.e., that less efficient firms are forced to leave the market, and fire employees. Rather, it is a statement that markets can destroy human values if markets and competition function without moral control.

The cautious pro-market approach can be witnessed in pro and con type of observations in John-Paul II’s encyclical letter. On the one hand, free market \textit{is} regarded as the most efficient instrument for utilizing resources and effectively responding to needs. But then the text adds that this is only true for needs which are “solvent” and for resources which are “marketable.” But, humans have other needs as well that find no place on the market.\textsuperscript{12} The economy is only one dimension of the whole of human activity. Therefore, its significance should not be overemphasized.

Free markets and free competition is praised as constituting one element of human freedom. Without competition there is no real economic freedom that in turn threatens human freedom and humanity as such. Just to recall, \textit{Centesimus annus} was written in historical years when Central and Eastern European countries left the communist block and were striving to establish Western-like market economies creating wealth for all. The pope warns not only these countries searching for new values, but also Western countries that,

When economic freedom becomes autonomous, when man is seen more as a producer or consumer of goods than as a subject who produces and consumes in order to live, then economic freedom loses its necessary relationship to the human person and ends up by alienating and oppressing him.\textsuperscript{13}

The pros and cons attitude can also be observed with profits. The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. Then it also adds that profit is not the sole regulator of the life of a business, other human and moral factors must also be considered. Companies are more than the collection of capital and other economic resources, they form a central part of society:

In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to

\textsuperscript{11} Quadragesimo anno, 88.

\textsuperscript{12} Centesimus annus, 34.

\textsuperscript{13} Centesimus annus, 39.
satisfy their basic needs, and who form a particular group at the service of the whole of society.\footnote{Centesimus annus, 35.}

To quote from a seminal document of the mid-sixties highlighting the relationship between economics and morality:

‘The fundamental finality of this production is not the mere increase of products nor profit or control but rather the service of man, and indeed of the whole man with regard for the full range of his material needs and the demands of his intellectual, moral, spiritual, and religious life... Consequently, economic activity is to be carried on according to its own methods and laws within the limits of the moral order.’\footnote{Gaudium et spes, 64.}

Benedict welcomed the emergence of a broad intermediate area between the for-profit and non-profit enterprise. It consists of traditional companies subscribing to social aid agreements in support of underdeveloped countries, charitable foundations associated with individual companies, groups of companies oriented towards social welfare, and the diversified world of the so-called “civil economy” and the “economy of communion”. These formations bridging the private and public spheres do not exclude profit, but instead considers it a means for achieving human and social ends.\footnote{Caritas in veritate, 46.}

The Catholic Church’s social teaching is aware that competition is a dynamic process that leads to development. There is however, a level of development that is not necessarily desirable, given its by-products:

This super-development, which consists in an excessive availability of every kind of material goods for the benefit of certain social groups, easily makes people slaves of "possession" and of immediate gratification, with no other horizon than the multiplication or continual replacement of the things already owned with others still better. This is the so-called civilization of "consumption" or "consumerism" which involves so much "throwing-away" and "waste.”\footnote{Solicituod rei Socialis, 28.}

4.2. Post-crisis encyclical letters and the market: a changing attitude?

The great financial and subsequent economic crisis that started in 2008 did not increase the free market supporters in the Vatican. Benedict’s \textit{Caritas in veritate} calls for a market where charity also plays an organic rule. Pope Francis uses even stronger criticism highlighting social injustice in our global village.

Benedict explains that in a bipolar world of market corrected by State institutions much is lost including, solidarity in relations between citizens, and actions of gratuitousness, ‘all of which stand in contrast with giving in order to acquire (the logic of exchange) and giving through duty (the logic of public obligation, imposed by State law).’ Benedict calls upon business managers that they should not concern themselves solely with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute

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14 Centesimus annus, 35.
15 Gaudium et spes, 64.
16 Caritas in veritate, 46.
17 Solicituod rei Socialis, 28.
\end{flushleft}
to the life of the business including: the workers, the clients, the suppliers of various elements of production, and the community of reference.\textsuperscript{18}

What is needed, therefore, is a market that permits the free operation, in conditions of equal opportunity, of enterprises in pursuit of different institutional ends. Alongside profit-oriented private enterprise and the various types of public enterprise, there must be room for commercial entities based on mutualist principles and pursuing social ends to take root and express themselves. It is from their reciprocal encounter in the marketplace that one may expect hybrid forms of commercial behaviour to emerge, and hence an attentiveness to ways of \textit{civilizing the economy}. Charity in truth, in this case, requires that shape and structure be given to those types of economic initiative which, without rejecting profit, aim at a higher goal than the mere logic of the exchange of equivalents, of profit as an end in itself.\textsuperscript{19}

One of Pope Francis’s priorities is to speak and work for the poor. He thus shouts “no to an economy of exclusion an inequality.” He notes that,

\textit{[T]oday everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape.}\textsuperscript{20}

I agree that markets function best if they are open, if no one is excluded. Equality is a more complicated phenomenon. Assuring equality of opportunity is a central aim of competition policy. However, due to our different skills, capabilities, backgrounds, and motivations the success of our action will be different. There will always be rich and poor. In business, the “survival of the fittest” is an optimal source of motivation to perform better. If there are many unemployed people facing marginalization, who will give them work and possibilities? The state or business?

Harsh words,

\textit{[S]ome people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naive trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system. Meanwhile, the excluded are still waiting.}

These sentences can easily be interpreted as an anti-market, pro-state credo. Let me construe these differently. Free, unregulated markets will not operate perfectly. Justice requires conscious human action, both on the entrepreneurial and the consumer side. Most competition lawyers also subscribe to the statement that economic power needs public control. Economists could challenge Pope Francis’s factual figures that market systems have perform better in so far as the number of the poor is concerned. South American countries

\textsuperscript{18} Caritas in veritate 39-40.
\textsuperscript{19} Id. at 38.
\textsuperscript{20} Id. at 53.
where the pope may have significant and valuable personal experience have never achieved
the market economy that could deliver the material and human values.

Badly regulated markets corrupted with rent-seeking monopolies and public officials seeking
individual aims over the public good do produce unjust outcomes. However, this is not the
failure of the free market as such. As Pope Benedict observed carefully,

It must be remembered that the market does not exist in the pure state. It is shaped by
the cultural configurations which define it and give it direction. Economy and finance,
as instruments, can be used badly when those at the helm are motivated by purely
selfish ends. Instruments that are good in themselves can thereby be transformed into
harmful ones. But it is man's darkened reason that produces these consequences, not
the instrument per se. Therefore it is not the instrument that must be called to account,
but individuals, their moral conscience and their personal and social responsibility.21

5. The Vatican school's vision on competition

5.1. The Christian lifestyle and business

For those who are not entirely familiar with the essence of the Christian teaching, it is worth
summarizing a concept that is often mentioned in papal encyclicals.

It is not wrong to want to live better; what is wrong is a style of life which is presumed to
be better when it is directed towards "having" rather than "being", and which wants to
have more, not in order to be more but in order to spend life in enjoyment as an end in
itself.

The Catholic social doctrine applicable to markets and competition has a holistic approach,

The fundamental finality of this production is not the mere increase of products nor
profit or control but rather the service of man, and indeed of the whole man with
regard for the full range of his material needs and the demands of his intellectual,
moral, spiritual, and religious life;...Consequently, economic activity is to be carried
on according to its own methods and laws within the limits of the moral order…22

John Paul II calls for the creation of lifestyles with the quest for truth, beauty, goodness and
communion with others for the sake of common growth.23 The best way for capitalists to
contribute to social progress is to create new options for their workers,

In this regard, it is not a matter of the duty of charity alone…in order to provide what is
essential for the life of a poor person…even the decision to invest in one place rather than
another, in one productive sector rather than another, is always a moral and cultural
choice.24

21 Caritas in veritate, 36.
22 Gaudium et spes, 64.
23 Centesimus annus, 36.
24 Centesimus annus, 36.
Christian lifestyles determine not only companies’ decisions, but also consumer choices involving savings and investments. In other words, competition, this ‘violent source of energy,’ is not only controlled by the state. Consumers have an important role to play as well. If consumers chose not to buy products that were produced through abusive work conditions for workers, abusive companies would lose markets and would be self-interested to provide better conditions for their workers. Similarly, if consumers did not buy goods that were produced with techniques destroying the environment, damaging profit-seeking companies would be compelled to change their production technologies.

Recently, Pope Francis warned that our lifestyle should not exclude others,

> Almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor, weeping for other people’s pain, and feeling a need to help them, as though all this were someone else’s responsibility and not our own. The culture of prosperity deadens us; we are thrilled if the market offers us something new to purchase. In the meantime all those lives stunted for lack of opportunity seem a mere spectacle; they fail to move us.\(^{25}\)

Next, I will try to present how two different forms of Christian lifestyle may have an impact on how we evaluate competition, markets and other economic issues.

### 5.2. The model if you want to be perfect …

Christian religion in its extreme or, better say ‘pure’ version would prefer a company/consumer attitude anachronistic to the logic of market. This is not to say that it would be an impossible mission to lead such a life. We had several known, and even more unknown, persons in history who understood Jesus’s message and surrendered their life in the world we know for the world that we hope to be part of.\(^{26}\)

The parable of the young rich man presents a model for discussing the proper role of wealth that is ultimately created by well-functioning free markets.\(^{27}\) As Jesus started on his way, a man ran up to him and fell on his knees before him. “Good teacher,” he asked, “what must I do to inherit eternal life?” To rephrase the honest question of the rich young man, “Good teacher, how shall I compete to inherit eternal life?” That would be the right question. However, what we usually look for is not the eternal life, but more profit, wealth, and power. Should we pose the right question, we were much closer to getting the right answer.

Jesus tells the rich young man the basics, ”You know the commandments: You shall not murder, you shall not commit adultery, you shall not steal, you shall not give false testimony, you shall not defraud, honor your father and mother.”

Most of these commandments are relevant in business as well. Antitrust rules prohibit cartels from charging high prices thereby stealing money from consumers. Competition rules on advertising prohibit false product claims. Other rules prohibit defrauding individuals. One may even argue that eliminating a competitor with unfair methods is something like murder.

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\(^{25}\) Evangelii gaudium, 54.

\(^{26}\) To be clear on this point, I am not praising extremist medieval approaches that treated every earthly possession evil. Neither do I say that wealth on earth is the obvious sign of a God pleasing life.

\(^{27}\) Mark 10:17-22.
If we continue with the rephrasing, we might find ourselves in dangerous territory, “Teacher,” he declared, “all these I have kept since I started my business.” Jesus looked at him and loved him. “One thing you lack,” he said. “Go, sell everything you have and give to the poor, and you will have treasure in heaven. Then come, follow me.” At this, the man’s face fell. He went away sad, because he had great wealth.

One interpretation may be that this is the higher standard of business conduct that we can read in Pope Benedict and Francis recent documents. It is not sufficient to keep the basic laws of competition. These are, after all, the product of the State, a kind of coercion. Our conduct should be determined rather by internal motives. We should strive to act consistent with virtues.

Another interpretation would suggest that Christian teaching does not have much to offer when we delve into the details of economic or competition policy. Jesus has never condemned monopolies or cartels among traders. At the end of the day, competition is about the generation of more and more wealth, while Jesus’s teaching is about eternal life. According to traditional Jewish wisdom of that time, wealth was a sign that one lives a life in accordance with the rules of God. Jesus did make fine adjustments to this thinking. To lead an easy life on earth and yet earn eternal life are contradictory objectives, so Jesus warns his disciples following the short meeting with the rich young man. It is not impossible for wealthy people to receive the heavenly prize, yet it is very difficult for them to lead a life in accordance with Christian values.

Jesus’s response seems to be irrational, demanding super-human capabilities. We should recognize that this is at the core of Christian religion. Most of the rules challenge ordinary human rationale. How can we ever love our enemies? How can God be present in the Eucharist? To explain the unique logic offered by Jesus to his followers, ‘If anyone would come after me, let him deny himself and take up his cross daily and follow me. For whoever would save his life will lose it, but whoever loses his life for my sake will save it. For what does it profit a man if he gains the whole world and loses or forfeits himself?’

Pope Francis invites us all to ask the Lord to ‘help us understand the law of love … How much good it does us to love one another, in spite of everything.’ He quotes Saint Paul, “Do pray for our dislikes, for a person with whom we are irritated. Although we feel that it would be right to do so, the logic of love seems to be contrary to our human nature.” That is also true for our business relations. Beyond company structures there are humans on both sides. Business relations should be subject to normal moral rules that govern human-to-human relations.

And one more note as to the perfect Christian way of life, even if we did our utmost to follow Jesus and live a life like he did, we cannot earn or buy eternal happiness and peace. However saint one believes oneself to be, one always needs the Holy Spirit’s grace. Jesus explained to his disciples, ‘Children, how difficult it is to enter the kingdom of God! It is easier for a camel to go through the eye of a needle than for a rich person to enter the kingdom of God….With man it is impossible, but not with God. For all things are possible with God.’

5.3. The model for us who are not perfect: virtuous competition

28 Lk: 9,22-25.
29 Evangelii Gaudi, 101.
The path suggested to the rich young man cannot be followed by most of us. From an economic point of view, it would not work as a rule organizing production and consumption. If everyone who is above the average, in terms of wealth, decided to give his wealth to the poor, the poor would no longer be poor. The poor would become the rich and now they would be obliged to share their recently gained wealth with others. We can hardly imagine a world based on such a rule. Perhaps that is why Jesus did not demand this as a rule. It was something extra, offered to a young man who expressly demanded something more, believing that he needs to do something more than just to obey the rules. Giving your wealth to the poor is thus not a moral obligation for Christians, so I would not translate it into the rule book for Christian businessmen either. It is an option one can choose if she or he decides to become perfect in this world. The point of the discussion is nevertheless obvious, one should not confuse eternal goods with earthly wealth, ‘[f]or where your treasure is, there your heart will be also.’

The ‘second best,’, more realistic approach that better suits our imperfect human nature, advocates a Christian lifestyle correcting the fierce nature of competition. My view is that this way of doing business should be based on the Ten Commandments (first part of Jesus’s answer to the rich young) and the so-called bourgeois virtues. That is essentially a fine compromise between collecting treasure in heaven and doing so on earth. There is nothing wrong with the latter as long as it does not endanger our wealth in heaven. Some economists might say that this thinking can be described as focusing on the long term benefits instead of the short term effects.

To find solid grounds for this interpretation, we may recall that several parables rely on trade and business examples to explain the essence of Jesus’s teaching to the Jewish audience. Were profit-based business something evil, Jesus would not have used examples like this. This is not to say the he was entirely satisfied with the business life of that age, but was suggesting reforms instead of deleting this market order to replace it with some community-based system.

We can also recall the earlier quote on Christian lifestyle acknowledging that there is nothing wrong if one wants to live better.

This more realistic way of life and way of doing business lies on the foundations of the Ten Commandments. As such, it goes well beyond the territory of the Catholic Church’s social teaching. These common roots bundle all Christians and Jews. Going even further, the respect of the Ten Commandments governing human-to-human relations have a universal validity. But, it goes without saying that at least our European and American cultures are based on these principles at least those of the “human-to-God” rules of the Ten Commandments. These rules that were the law for Jews, and which became the basis of the moral rules for Christians and commercial virtues formed the firm basis of the success of capitalism. Business and competition policy following the minimum required by Jesus and thus also by the Catholic Church should therefore build on the Ten Commandments, ‘Do not steal. Do not lie. Do not deceive one another. Do not swear falsely … Do not defraud or rob your neighbor.’ Also the subsequent rules of the Torah should be respected by an honest businessman: ‘Do not hold

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30 Luke 12:34.
back the wages of a hired worker overnight...Do not use dishonest standards when measuring length, weight or quantity.  

It is also essential to recollect and emphasize the importance of virtues that make businessman both successful and a useful member of a society based on free markets. Taken in its widest sense, virtue means the excellence of perfection of a thing, while vice, its contrary, denotes a defect or absence of perfection due to a thing. Saint Thomas defined virtue as "habitus operativus bonus." Moral virtues regulate man in his dealings with others and also with regard to his inner passions. The Catholic Church lists seven virtues, three theological and four cardinal virtues. Cardinal virtues are temperance, courage, prudence and justice. Temperance and courage make one act bravely in the face of difficulties (i.e., in a global economic crisis). Justice regulates man in relations with his fellow-men. Its essence is to give each man his due. There are also so-called theological virtues that help us achieve happiness: faith, hope and charity. Charity is a key principle invoked by Pope Benedict in his encyclical letter, *Caritas in veritate*, also applied to economic problems.

Wells and Graafland rediscovered Adam Smith’s moral philosophy and argued forcefully that process of competition is compatible with the development of bourgeois virtues and it can also undermine them. Competition supports such virtues as prudence, temperance, civility, industriousness, punctuality and honesty. Unregulated competition can have deleterious effects on these institutions. I believe that the social teaching of the Church echoes this statement. Consequently, market conduct that undermines these and other business virtues should be prohibited, not necessarily by the State but also business associations and chambers should have a strong role to play consistent with the idea of subsidiarity.

Smith argued that ‘every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man.” And also, “the interest of the dealers, however, in any particular branch of trade or manufacture, is always in some respects different from, and even opposite to, that of the public. To widen the market and narrow the competition, is always the interest of the dealers. …to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens.’ This is what we call competition paradox.

We need to have institutions in place to reconcile the interests of businessmen for high profits with those of consumers for low prices. These instruments need to involve legal rules and sanctions, but also paralegal institutions, like strong moral foundations. A respect for the public interest over and above private interests is also essential. Also, favorable market

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32 Catholic Encyclopedia, definition of virtues.
33 Thomas Wells and Johan Graafland: Adam Smith’s bourgeois virtues in competition; Business Ethics Quarterly 2012., pp. 319-350.
34 These bourgeois virtues are not only compatible with but also encouraged by modern industrial and commercial society. Albert Hirschmann identified philosophers like Smith, Hume and Montesquieu as the ‘Doux Commerce’ literature. Hirschman, A. O.: Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble; in: Journal of Economic Literature 20(4): 1463-1484.
structures are a prerequisite. Smith’s conditions for market competition to be fair and sustaining social welfare were freedom to entry (i.e., no guilds, restrictions on labor), a considerable number of rivals (no monopolies), market transparency, and fair and equivalent rules of the game. These principles are consistent with the papal encyclical letters, even though they do not refer to Smith’s moral philosophy.

Of the commercial virtues discussed by Wells and Graafland, I would pick prudence to demonstrate how that is a ‘must have’ element of sustainable and ‘human’ competition. For Smith, the union of superior reason, combined with understanding and self-command, consists of the virtue of prudence, ‘of all virtues that which is most useful to the individuals’. As individuals, we have a natural tendency to look only after ourselves. As members of the society we also have a natural empathy for others. Our behavior can thus be constrained by the possible effects it may have on others. No one likes to laugh while others are crying. The virtue of prudence is about the command and discipline of one’s self interest. Prudence requires a critical self-reflection. To help its proper understanding, we should imagine its vice: selfishness. We could tell examples how intense competition may lead to market players taking overly confident decisions that do not have a strong relation with their talents, capabilities and the feasibility of their goals. Business success can itself eliminate prudence with arrogance and recklessness taking its place.

Wells and Graafland emphasize, ‘in contrast to economic rationality, self-interest is not limited to one’s own welfare; its operation is not restricted to rigorous maximization … this requires a degree of critical self-reflection about the kind of person one wants to be and the kind of life one wants to lead’. This attitude is absent from mainstream economic and competition policy. On the other hand, this may help understand Benedict’s ‘market and solidarity’ idea confronted with the bipolar model of selfish market plus solidarity enforced by the State.

The lack of this invisible moral foundation is one of the causes why free markets and capitalism do and will not perform optimally in some countries. Human market problems like this cannot be corrected by strict competition rules either. We have had this experience in post-communist countries with our peaceful ‘revolutions’ in the early ‘90s. The four decades of socialism eroded the traditional moral basis that was present both among farmers and citizens in Western European democracies. Post-communist societies will prosper only if moral foundations are re-established. It takes just a couple of weeks to adopt perfectly worded pieces of legislation. To rebuild the moral foundations of a society curbing selfish motivations will take decades.

6. Implications of the Catholic social teaching for competition policy

6.1. Peaceful vs. predatory rivalry

At first sight, Catholic social teaching could weaken the enforcement of competition law by shifting the emphasis from earthly wealth creation to heavenly treasures. A wrong interpretation of love could lead to emphasizing the importance of cooperation and ‘amicable’ rivalry that would be rather close to operation of a cartel. Opponents of vicious,
‘destroying’ competition usually advocate a stronger role for industry associations, a sort of modern guild.

The ultimate commandment of love and charity are useful drivers of the relations among employees and employers, sellers and customers or consumers. However, competitive relations are more complex. Competitors falling in love with each other come close to a formation that we call: a cartel. Competition policy is based on the premise that markets function better and consumers benefit if companies compete hard and individually. Selling more of your product or sometimes even maintaining your market shares may hurt your competitors. A ‘win-win game’ in markets is often suspicious for competition policy makers.

Encyclical letters do not tell us much about how fierce competition should be to fulfil its allocated effectiveness function and yet preserve its human nature. What may help are principles, like competition needs to be regulated for the benefit of humans. There are other important aims for a business like profit and that the economy that should not become dispatched from morality.

The bourgeois virtues presented above and the Golden Rule may help, ‘So in everything, do to others what you would have them do to you, for this sums up the Law and the Prophets.’ The virtue of civility, including tolerance, could help avoid such ‘cut-throat competition’. Free markets were the starting point, but the economy needed

6.2. A moderate role for the State

The role of the State in a free market system is an important question for competition schools. Rerum novarum is opposed to State control of the means of production, which would reduce every citizen to being a "cog" in the wheel of a State machine. According to various encyclical letters, there is certainly a legitimate sphere of autonomy in economic life which the State should not enter. The German ordoliberal school also relies on the concept of ‘economic constitutionalism’. Free markets were the starting point, but the economy needed

Matthew 7:7-12.
Matthew 25:14-30.
to be embedded in firm constitution-like rule of law, in contrast to making ad hoc, discretionary economic policy decisions.43

On the other hand, the State has to maintain a juridical framework for economic affairs:

Economic activity, especially the activity of a market economy, cannot be conducted in an institutional, juridical or political vacuum. On the contrary, it presupposes sure guarantees of individual freedom and private property, as well as a stable currency and efficient public services. Hence the principle task of the State is to guarantee this security…Another task of the State is that of overseeing and directing the exercise of human rights in the economic sector…the State has a duty to sustain business activities by creating conditions which will ensure job opportunities, by stimulating those activities where they are lacking or by supporting them in moments of crisis.44

It is only in exceptional circumstances that the State can also exercise a substitute function. This should be justified by urgent reasons of the common good and must be as brief as possible,

[S]o as to avoid removing permanently from society and business systems the functions which are properly theirs, and so as to avoid enlarging excessively the sphere of State intervention to the detriment of both economic and civil freedom.45

The Catholic social teaching is navigating between too much market and too much state:

[F]ollowing upon the overthrow and near extinction of that rich social life which was once highly developed through associations of various kinds, there remain virtually only individuals and the State. This is to the great harm of the State itself; for, with a structure of social governance lost, and with the taking over of all the burdens which the wrecked associations once bore, the State has been overwhelmed and crushed by almost infinite tasks and duties.46

To sum up this point, the Church is not in favor of an overly interventionist welfare State. Solidarity without subsidiarity, in fact, can easily degenerate into this type of malfunction. Benedict emphasized that ‘subsidiarity is the most effective antidote against any form of all-encompassing welfare state.’47 Jean Paul II also gave a central role to subsidiarity:

[A] community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good.48

A key concept in Benedict’s Caritas in veritate is to break with the binary model of ‘market-plus-State.’ A more human economy should not simply rely on free markets functioning

43 See for example: David Gerber: Constitutionalizing the Economy: German Neo-Liberalism, Competition Law and the 'New Europe'; American Journal of Comparative Law, 42. 25-84.
44 Centesimus annus, 48.
45 Centesimus annus, 48
46 Quadragesimo anno, 78.
47 Caritas in veritate, 57.
48 Centesimus annus, 48.
along their selfish motives and corrected by more State intervention. The traditional approach is to allow markets to do their best based on business logics and then intervene to realize social justice relying on concepts like solidarity and redistribution.

6.3. The need to control market power

Many representatives of the Late Scholastics studied the problem of lack of competition in the form of monopolies. Lessio identified and criticized four types of monopolies: market power formed through conspiracy; privileges enacted by the State (‘the prince’); those accomplished by cornering the market; and, finally, those that were the result of import restrictions. 49

The Vatican teaching is also suspicious of economic power just like with any other uncontrolled power, ‘Economic development must remain under man's determination and must not be left to the judgment of a few men or groups possessing too much economic power or of the political community alone or of certain more powerful nations.’ 50

Harms caused by monopolies are mentioned when discussing the optimal role of the state, its substitute function: the need of intervention arises if particular monopolies create delays or obstacles to development. 51 Furthermore, the fundamental task of the state is to determine an appropriate juridical framework for regulating economic affairs, in order to safeguard ‘the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience.’ 52

Yet, the encyclical letters do not interfere too much with the dangers of monopoly, at least not more than with the downsides of competition as such. These texts do not directly condemn monopoly as an evil thing, but emphasize from another perspective that a certain equality of parties is desired and thus must be protected by the state. This attitude may help understand the tricky question, whether we should apply different rules for ‘big’ companies dominating a certain market. The European Union’s approach that puts dominant companies under a special responsibility not to impair the relaxed competition on their markets seems to have such a moral element and can be explained with encyclical texts like those quoted before.

This idea is also a central part of the German ordoliberal school that, for me at least, lies closest to the Vatican teaching and had a great influence on the evolution of European competition policy. Franz Böhm put it this way in 1955, ‘…the one who has power has no right to be free and the one who wants to be free should have no power.’ 53 The ultimate goal of competition policy is the protection of individual economic freedom of action as a value in itself, through the controlling economic power, be it in the form of a cartel or a monopoly. Economic efficiencies are certainly important, but these are just the result or an indirect goal


50 Gaudium et spes 65.

51 Centesimus Annus, 48.

52 Centesimus Annus, 15.

but not the aim itself. Ordoliberals do not trust the long term self-healing capability of markets as representatives of the Chicago School do, but protect freedom of competition also in the short run.

6.4. Just price

It is perhaps surprising that the Catholic Church’s social teaching does not tell us anything about the central instrument of the market economy, the optimal price level. In contrast, this was a subject that was of great interest to medieval scholastics. Some of their explanations sound extremely liberal nowadays and their thesis was basically that a price that is the outcome of free interplay between supply and demand is a just price.

The encyclical letter does deal with labor issues, such as the appropriate level of wages. If we accept that our human activity is a kind of service and the wage is the price paid for that activity, we can glean some insight into the Church’s price theory.

Just wages have always been a central point in social teaching. Wages are usually the result of free negotiations between the employer and the employee. However, this alone does not necessarily result in justice. Leo XIII already declared in his Rerum novarum that many factors must be taken into account to judge the just amount of wages. XI Pius explains this in more detail, mentioning three factors. First, the worker must be paid a wage sufficient to support him and his family. Second, the condition of a business must also be taken into account. It would be unjust to demand excessive wages which a business cannot handle without its ruin. Lastly, the amount of the pay must be adjusted to the public economic good. An excessive lowering of wages, or their increase beyond due measure, causes ‘evil’ unemployment.

The Compendium summarizes that kind of work and wage that is in line with the dignity of human work,

work that makes it possible for families to meet their needs and provide schooling for their children, without the children themselves being forced into labour; work that permits the workers to organize themselves freely, and to make their voices heard; work that leaves enough room for rediscovering one’s roots at a personal, familial and spiritual level; work that guarantees those who have retired a decent standard of living.

6.5. The common good and competition

55 Rothbard recalls that St. Thomas of Aquinas in his Summa Theologica explained that the value of economic goods is that which comes into human use and is measured by a monetary price, for which purpose money was invented. He made no remarks as to cost-of-production view of the just price. Ibid, at page 53. Also, De Roover: The concept of Just Price: Theory and Economic Policy, p. 421, noting that one exception is when there is a collusion or emergency when the State retains the right to interfere and impose a fair price.
56 Rerum novarum, 31.
57 “It is an intolerable abuse, and to be abolished at all cost, for mothers on account of the father's low wage to be forced to engage in gainful occupations outside the home to the neglect of their proper cares and duties, especially the training of children.” Quadrogesimo anno, 71.
58 The Compendium, 63.
The common good is a key principle of the Catholic Church’s social teaching. It is the complete development of all the people of the world. John XXIII describes it as ‘the sum total of conditions of social living, whereby persons are enabled more fully and readily to achieve their own perfection.’

It is also linked to the ideas of human dignity and authentic and integral human development, making them central aims of all societies. The common good cannot be reconciled with too strong individualism. It emphasizes the social aspect of the human person.

Competition policy is based on the premise that well-functioning markets increase social welfare. Is this equal to common good? Can we say that the ideal form of competition is that which maximizes the common good? If so, can it be transformed into an operational principle that can be applied by law enforcers?

Markets work through voluntary exchanges between individuals. Buyers purchase products or services at the best affordable price or price/quality rate. Sellers try to sell their products and services at a profitable price. How much that profit should be may vary depending upon market characteristics and personal expectations. But, one thing is for sure, no one is prepared to produce and sell at a loss for a considerable period. The logic of the market is selfish, I give you if you give me.

Neoclassicals believe that is an individual's entrepreneurial action in the pursuit of one’s own selfish goals that creates wealth. Driven by their profit expectations, the entrepreneurs act to satisfy the needs of other individuals as well and working towards the common good. There is no need for a strong state to care for the common good, since free and competitive markets can do it better.

The Catholic Church’s social teaching does not believe that market forces reach just outcomes. Benedict asserts that the market becomes a negative force if it is guided by selfish ends. The logic of the market cannot guarantee wealth for all. Market forces need to be curbed. Not only the state but also intermediate social organs have a role to play here. John Paul II drew attention to this question, in *Centesimus Annus*, when he spoke of the need for a system with three subjects: the market, the State and civil society.

Pope Benedict emphasizes the responsibility of the individual over and above these institutions and the state. ‘Without internal forms of solidarity and mutual trust, the market cannot completely fulfil its proper economic function.’

The Church's social doctrine holds that authentically human social relationships of friendship, solidarity and reciprocity can also be conducted within economic activity, and not only outside it, or “after” it.


60 See, for example: Gabriel E. Vidal: Caritas in Iustitia Distributiva, praising Benedict’s philosophical arguments about markets but criticizing his vision on the role of a strong world regulator. He argues that motivated by profit, the entrepreneur plans and then acts to satisfy the needs of other individuals. The common good is the unintended, but logically necessary by-product of the entrepreneurial process. There exists no other rational mechanism to achieve the common good. http://mises.org/daily/3594 (posted on July 31, 2009).

61 Caritas in veritate, 36.

62 Caritas in veritate, 35.
7. Conclusion

If one is reading papal encyclicals it is not expected to find the answer to questions like whether total or consumer welfare should be pursued, whether conglomerate mergers could ever be anti-competitive, or if information exchange among competitors should be treated as a naked cartel or judged based upon the effects. The Vatican School of competition policy is certainly different from other, more traditional schools of competition theorists. We are talking about two different dimensions. That is not to say that the Church’s social teaching has nothing to do with markets and competition. To the contrary. The aim of this humble paper was to reveal that this teaching does include some principles and broad arguments that can be considered by businessmen and competition policy makers. The principles derived from the Bible and the social teaching include the respect of human dignity, virtues, and applying a holistic view of the whole man incorporating, but also going beyond, market efficiencies. Christian lifestyle involves neither too much individualism, nor excessive reliance on active State intervention. Competition is a useful institution, yet markets need oversight by the State to operate effectively. The Catholic Church’s social teaching advocates free markets and competition as long as they help fulfill the human mission. Christian human anthropology has an important role to play here, it is stressed that mankind has not only material but also spiritual needs. Echoing the title of Wilhelm Röpke’s book: we need a ‘Humane Economy.’ As pope Benedict observed,

The economy needs ethics in order to function correctly — not any ethics whatsoever, but an ethics which is people-centred. The economic sphere is neither ethically neutral, nor inherently inhuman and opposed to society. It is part of human activity and precisely because it is human, it must be governed in an ethical manner.

The Vatican School explains that economic efficiency and the promotion of human development in solidarity are not two separate aims but form one indivisible goal. Morality is a necessary part of economic life. The production of goods is a duty to be undertaken in an efficient manner, otherwise resources are wasted. On the other hand, it would not be acceptable to achieve economic growth at the expense of human beings or groups. The practice of business virtues can only help to combat, in a spirit of justice and charity, those “structures of sin” that are the results of acts of human selfishness. Free competition within the framework of overall human development, solidarity is a key concept to understand the message of the Vatican School.

The Vatican’s competition policy related message is broad enough to accommodate most competition policy approaches. The two extremes, the no market socialists and the all market libertarians are the exceptions. Their followers will often criticize the Vatican thoughts as misunderstanding the rules of the economy. The Vatican message about the role of the markets and the State come close to the Freiburg (ordoliberal) school upon which European competition policy was originally based. For the Catholic Church, economic freedom and property rights are regarded and protected as elements of human dignity. Ordoliberals treat

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64 Caritas in veritate, 45. and 36.
65 Id. at 36.
66 See also: The Compendium, 332.
67 A phrase use by John Paul II in Sollicitudo Rei Socialis, 36.
individuals as ends in themselves and not as the means of increasing another’s welfare. Möschel notes, referring to the ‘only wealth maximizing’ Chicago philosophy, that ‘soulless economic determinism’ is far removed from the ordoliberal concept of value that can be found ‘beyond supply and demand’.\textsuperscript{68}

In sum, I do not think that the Catholic Church’s social teaching would require competition rules that are different from those existing today. A next step should be to analyze a couple real life cases from the Vatican School’s perspective and investigate whether legislation in force can lead to results in conformity with the Church’s social doctrine. My assumption is that the answer will be affirmative in most cases. The first message of the Vatican School is that free competition can be preserved and able to fulfill its functions only if it is regulated. Competition laws are therefore not regarded as anti-competitive. Market conduct that runs against the Commandments should be prohibited. These activities could fall either under traditional antitrust or unfair competition rules that exist in most countries.\textsuperscript{69} Business conduct that aims at foreclosing the market opportunities of other entrepreneurs and does not directly focus on providing a better service to consumers should be unlawful, regardless of the market power of the company. On the other hand, the Vatican School is neutral with conduct that may harm some sort of efficiency and yet do not have a moral dimension. Yet, the dictum of economic freedom as part of human dignity would require business restraints to be explained why they are needed and how they benefit the public.

I believe that the Vatican school can accommodate many different types of competition doctrines. The Church does not admire free markets so much that they would bring about not only more wealth but also more justice. Civil communities, and ultimately, the state have an important corrective function, but this is rather the territory of the broader economic policy than of competition policy.

\textsuperscript{68} Ibid, at page 7, quoting the title of Wilhelm Röpke’s famous book: Jenseits von Angebot und Nachfrage, 1958, Eugen Rentsch (Zürich-Stuttgart).

\textsuperscript{69} In Hungary unfair competition rules are included in the same competition act that covers antitrust. The enforcement of these provisions is entrusted to civil courts instead of the competition authority.