THE *GOOD* COMPANY

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Mainstream economics, instructed by Smith's *Wealth of Nation*s (1976a) and strengthened by Friedman's *Capitalism and Freedom* (1961), represents the economic agent as *homo economicus*, a strictly individual human being, and the firm as a profit-making enterprise serving the needs of its shareholders only. Everyone else is excluded on grounds that the shareholders alone own the firm. From this perspective, all existence is individual existence.

Personalist economics, drawing upon Smith's *Moral Sentiments* (1976b) and inspired by Catholic social teaching, insists that community is inclusive of everyone with a stake in the company including managers, workers, and suppliers all of whom invest time, effort, skills and talents in the company's development. Also included are the customers of the company without whom it cannot exist as a viable enterprise and the communities where the company operates. Each one depends on the company and hopes for a secure long-term relationship. From this perspective, all existence is co-existence.

Waters (1952, 1988), Danner (1982, 2002), and O'Boyle (1998) have made important contributions to personalist economics which sees the *acting person* not the individual as the force driving economic affairs. The *acting person* carries out such activities as producing, distributing, exchanging, consuming, saving, investing, and innovating, thereby becoming more or less fully a human person. *Homo economicus*, on the other hand, is a passive economic agent whose behavior follows Jeremy Bentham's maximization of personal net advantage principle. The *acting person* changes as a human being and to some extent is unpredictable. *Homo economicus* does not change and by and large is predictable.

How do we argue that the inclusive, personalistic perspective is better than the exclusive, individualistic perspective? In part the answer is found in the shareholders' legal right to the company's profits and their use of the company for that purpose. Because the shareholders expect a profit and depend on it to justify maintaining that commitment, the company cannot survive without profits.

Even so, common sense tells us that shareholders have no *absolute* right to achieve their ends at the expense of others. That right is constrained by others who rely on the company to meet their needs. For its managers and workers, the company is a source of employment. For its suppliers, it is a demand for their products/services. For its customers, the company is a supply of goods and services. For the communities where it operates, it is a taxpayer and an environmental steward. Subject to the company's *ability* to support its stakeholders and still survive as a profitable enterprise, meeting the needs of others whose fortunes are tied to the company gives meaning to the *good* company.

We identify eight characteristics of the *good* company: (1) subsidiarity and decision-making in economic affairs; (2) justice and ill-gotten gain; (3) the duty of the firm in selling to the poor; (4) leisure; (5) worker rights, private property, and work as such; (6) labor's priority over capital; (7) personalist capital; and (8) sustainable development. These eight characteristics represent the application of the Catholic social teaching of John Paul II and

personalist economics to the problem of transforming the for-profit enterprise into the *good* company.

Based on terminology in Donaldson and Dunfee's five integrative social contracts theory, all but the seventh characteristic qualify as hypernorms which they define as

> **principles so fundamental to human existence that they serve as a guide to evaluating lower level norms … which should include the … core human rights, including those of personal freedom, physical security and well-being, political participation, informed consent, the ownership of property, the right to subsistence, and [t]he obligation to respect the dignity of each human being (Donaldson and Dunfee, 1994).**

We find two points of agreement with Donaldson and Dunfee. First, hypernorms --we use the simpler language "norms" -- evolve in that as we observe their impact on the company's performance we are better able to decide to keep or change them. Second, norms may be either positive or negative though we prefer the language actuating or limiting.

Our discussion of the first five characteristics extends O'Boyle's work on personalist economics. New ground in personalist economics is broken with the last two. There is nothing new regarding the sixth characteristic.

We rely on John Paul's writings and public statements for four reasons. First, he spoke to a range of issues central to economic affairs. Second, John Paul was instrumental in the collapse of the command economies of Soviet bloc which had profound effects on world economic affairs. Third, economic globalization spurred by the information-communication-technology revolution took place during his years in Rome which he used to great advantage in conveying the teachings of the Church across the world. Fourth, as a Christian existentialist he spoke often on person and personalism which we have applied to our own understanding of economic agency.

We argue that *homo economicus* and individualism no longer serve us well in understanding human nature and economic affairs because they are rooted in the 17-18th centuries -- in the script stage of human communication -- when human beings overwhelmingly were perceived as autonomous human individuals. We claim that *acting person* and personalism are more instructive regarding economic affairs today because they developed during the electronic stage of communication when humans are seen as individual beings acting alone and social beings acting together. The *acting person* matters importantly because the firm, whether it is a *good* company or not, is organized around various types of specialized economic agents.

EIGHT CHARACTERISTICS

Subsidiarity and Decision-making in Economic Affairs,

The principle of subsidiarity states that a "higher unit of society should not undertake to perform functions which can be handled as well by a lower unit but should offer help (subsidium) where necessary to enable the lower unit to function at full capacity" (Becker, 1959).

Subsidiarity reinforces the democratic principle by widening opportunities for smaller less powerful functional elements to participate in decision-making processes which bear upon their well-being, thereby (1) limiting the abuse of highly centralized decision-making which misconstrues the problem or the proper remedy and (2) identifying the remedy which works best.

By affirming private enterprise, the subsidiarity decentralizes ownership and control of economic activities which (1) leads to a greater diversity of goods and services because entrepreneurs have a freer hand; (2) a lower risk that large-scale mistakes will be made because private enterprises are smaller than public enterprises; and (3) private enterprises will be more responsive to their customers because they are driven by the need to turn a profit.

From time to time cooperation among business establishments which otherwise compete may be called for to address problems which cannot be handled by those firms operating independently. Three factors are critical for firms to set aside competition for cooperation. First, there must be common problem such as a shortage of properly trained labor which competition cannot resolve or cannot resolve as well as cooperation can. Second, there must be a willingness to embrace cooperation in the problem area for example by together setting up a training institute without stifling it in other operational areas such as product development. Third, there must be leaders to establish and maintain the cooperative agreement and to dissolve it when the problem no longer exists.

The cooperation vs. competition problem corresponds loosely to the prisoner's dilemma where the issue is whether to cooperate or defect (not cooperate). Axelrod (1984) concluded that a selfish individual tends to cooperate provided he/she is unwilling to be the first to defect even though he/she is willing to defect from time to time, willing to cooperate with an opponent who no longer defects, and does not want more than the others. There are two differences between our understanding of cooperation vs. competition and Axelrod's. For Axelrod, opponents either cooperate or defect. For us, enterprises cooperate in a specific problem area but otherwise continue to compete. For Axelrod, cooperation is an iterative process, there is no leadership role. For us, leadership is critically important to forging the cooperating agreement and making it work.

We refer to cooperation which results in a separate administrative organization as a supra-firm alliance. Such alliances are characterized by setting aside competition and deliberately

applying cooperation in a dynamic decision-making process which is neither zero-sum nor collusive in nature. They are positive-sum agreements which seek to achieve gains for everyone involved whether they are directly represented in the alliances or not. Two examples help make this point, reflect the diversity of such alliances, and drive home the lesson in subsidiarity that when private enterprise acting alone cannot manage certain problems it is not necessary to turn to government for assistance.

Abebooks (no date) is the world's largest online marketplace for used, rare, and out-of-print books. The exchange brings together 12,000 independent booksellers worldwide. Each seller decides which books to list, their general condition, price, and other information. Buyers can browse the books through a convenient search function. The on-line exchange allows buyers to comparison shop and sellers to reach a wider market.

LOOP (no date) offloads and stores foreign oil from tankers for transport by pipeline to Gulf Coast and Midwest refineries. LOOP was organized in 1972 and has four owners: Ashland Oil, Marathon Ashland Pipe Line, Marathon Oil, and Shell Oil. To assure the safe handling of oil from deep draft supertankers offload at a terminal 18 miles off the Louisiana coast in 110 feet of water. A pipeline transports the oil to onshore storage facilities and from there to the participating owners' refineries. LOOP was built and continues to operate only because the four owners understand that they can reduce the risks in offloading and transporting crude oil more effectively by working together than by operating independently (O'Boyle 1998).

Hands-on research by one of the authors regarding cooperative agreements in Louisiana and Missouri revealed that managers think in concrete problem-solving ways. Academic researchers may look upon what companies have accomplished in terms of an abstract, theoretical framework. But it was not any such framework that led to the solution but the need to address a pressing problem.

It is not that the decision to defect undermines cooperation as in the prisoner's dilemma. Rather it is that competition does not address the problem as well as cooperation. To accept this *possibility*, one must reject the bias in mainstream economics that all cooperation is collusion. Producer and consumer cooperatives are examples of enterprise structures which are not by definition collusive, zero-sum arrangements. Similarly, there is nothing necessarily collusive in the working relationship between wholesaler and retailer, between supplier and producer.

Subsidiarity takes on two other forms: inter-firm partnership and intra-firm cooperative agreement. An inter-firm partnership is like an alliance in that it sets up a formalized, positive-sum, organizational arrangement. It differs from a supra-firm alliance in that it involves only two parties, usually producer and supplier, in what is called a vendor partnership. An intra-firm cooperative agreement refers to the cooperative decentralization of decision-making *within* a business enterprise as, for example, when workers participate in decision-making through quality circles and large companies are

restructured to allow their subsidiaries more control over decisions. Making the principle of subsidiarity operational within an enterprise broadens the base of participation in its decision-making processes and gives employees greater opportunities to offer suggestions to improve quality and productivity.

The only way to know with certainty if an alliance or partnership is a positive-sum organization or a collusive zero-sum scheme is to gain access to its principals and observe how they operate. One of the authors was able to do just that and concluded that three organizations in St. Louis -- PRIDE, IMAGE, and the Leadership Council (O'Boyle, 1986) – and LOOP (O'Boyle, 1998) in Louisiana are positive-sum supra-firm alliances (see also O'Boyle, 1992).

Justice and Ill-gotten Gain.

Justice is one of the four virtues which according to Aristotelian tradition and the teachings of the Catholic Church characterize the *good* person.

In economic affairs, there are three principles of justice. The principle of equivalence examines the relationship between agents who are equals. Distributive justice focuses on the relationship between superiors and subordinates. Contributive justice centers attention on the relationship between members and the group to which they belong.

Every exchange in product and resource markets -- we do not address financial markets -- entails gain for the persons involved provided they are well-informed and free to act. What is gotten in the exchange (use value) is more highly valued than what is given up (exchange value). Thus, every exchange in the real economy is based on that positive-sum premise. Under competitive market conditions, exchange value should not vary from one person to the next. While exchange value is determined by market conditions, use value is determined by the value systems of the persons involved in the exchange.

Without that gain, exchange cannot be carried out. However, there must be limits to the amount of gain in order to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and not just those with the power and will to turn gain into excess. Those limits are grounded in the duties which human beings owe one another under the three principles of justice.

The principle of equivalence states that buyer and seller in the marketplace and worker and employer in the workplace have two duties: exchange things of equal value and impose equal burdens on one another. Gain is realized when use value > exchange value. Even so, justice is served only when equal value means equal exchange value.

When a market is competitive, exchange value normally does not fluctuate markedly from day to day and is the same or nearly the same for all buyers on the same day. Thus gain is justified when use value > exchange value restrained by competition.

Problems arise when the market does not impose this restraint, agents are free to act without restraint, and thereby realize an ill-gotten gain. Equivalence informs both parties that the only justifiable gain is one that does not deprive the other party of the gain which is rightfully his/hers. Thus gain is justified when use value > exchange value restrained by adherence to the principle of equivalence in situations such as price-gouging and loan sharking where competition alone provides no restraint.

Distributive justice requires the superior to distribute the benefits and burdens of the group among his/her subordinates in some equal fashion. Distributive justice limits ill-gotten gain because the fair-minded superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances.

Contributive justice defines the obligation of the member to the group as follows: insofar as a member receives benefits from the group, he/she has a duty to support the group. Belonging to a group means that every member has a duty to reject any ill-gotten gain which derives from taking advantage of others in the group through practices such as insider trading even when the others may be unaware that they have been exploited.

The Duty of the Firm in Selling to the Poor.

There are two schools of thought as to how the firm is to deal with its impoverished customers. One school argues that the poor should be free to make their own decisions with regard to their own consumption spending, and no one should intervene in such matters because the poor know what is best for them. And, if a specific consumer is wronged, it is a small price to pay for liberty.

The other school asserts that the firm has a set of duties originating in the three principles of justice. First, under the principle of equivalence, the firm is admonished not to impose an unequal burden on its poor customers which derives from its greater economic power. Second, in distributive justice the firm is instructed to treat all its customers as equals. A merchant with multiple locations including some in the suburbs and others in the inner city may not charge inner-city customers a higher price unless there are higher costs associated with operating in the inner city. Third, contributive justice informs the firm that it may not force additional assistance costs on taxpayers who may be required by law to come to the aid of a needy person even when that person's unmet need has been made even worse by a merchant whose only interest is profits.

The first school values liberty above all else. A person's free choices should not be preempted by another person. The second school, while respecting liberty, argues that no one has a right to make another person's unmet need even worse, whether through trickery or simply by taking advantage of their innocence. The three principles of justice apply to everyone including even the poor whose impoverishment originated with their own bad decision-making. Denying them their due in justice reinforces the argument that human beings are valued strictly instrumentally. Personalist economics asserts that even the poor

who have acted irresponsibly have a sacred dignity which no mortal being can take away because it comes from the hand of the Creator.

In selling to the poor the firm has a special duty under subsidiarity which it does not have in selling to others. Since customers who the poor may require help from the rest of society for their unmet needs, whereas other customers do not need such assistance, subsidiarity applies when the firm is selling to the poor but not to better-circumstanced customers. A firm which encourages the poor to buy things that are not needed, are beyond their means, imposes conditions which they do not fully understand, or worse yet that are harmful violates both subsidiarity and contributive justice and abuses not only the poor but the rest of society as well. The sub-prime mortgage debacle in the United States is an example of offering a product to persons and families unable to continue their monthly payments as their adjustable interest rates ratcheted upward and the value of their homes plummeted downward, leading finally to demands that the government rescue them from foreclosure.

The firm's duty in subsidiarity may be set forth by its mission statement, code of ethics, operating policies, behavior, attitudes, and personal values of the senior management, and advertising. To be effective, however, the firm must train its employees about the importance of this obligation and how each one is expected to carry out his/her part of that obligation. In addition, the firm must faithfully monitor its employees and put in place the necessary procedures to enforce compliance.

To become a *good* company the firm is admonished by the principle of equivalence not to impose unequal burden on buyers. In contributive justice, the firm is cautioned not to silently shift the true human cost of its activities to taxpayers who are not involved in the firm's operational decision-making. In distributive justice, the firm has a duty to treat its customers the same unless its costs are different for different customers.

Under the principle of subsidiarity and the preferential option for the poor the *good* company has a *special* duty to its poor customers not to induce them to spend their limited financial resources in satisfying a want thereby making it more difficult for them to meet their needs. By respecting these two principles in combination with the principle of contributive justice, the *good* company avoids injury not just to the poor but the rest of society as well.

If it involved nothing more than the three principles of justice, the duty of the firm clearly would be a special case of justice. However, because it engages as well subsidiarity and the preferential option for the poor, it is necessary to address this duty as a separate characteristic of the *good* company.

Leisure.

Leisure is an activity which helps a human being become more fully a human person. Humans are works of art in progress. They paint their own living portraits through leisure, becoming more nearly whole and complete, just as the artist creates a painting with brush

and colors. And just as the artist may abandon the canvas before it is finished, humans may leave their own development arrested.

A well-ordered human person knows the difference between the needs of the body and the needs of the spirit, and understands that the means which meet the one do not also meet the other. Leisure is necessary to acquiring that knowledge and understanding. The challenge is to value humans accordingly, to appreciate the full range of their needs, and to recognize that they are more than instruments of efficiency and profits. Humans are most especially ends in themselves who require leisure to become what they were meant to be: very nearly divine (John Paul, 1995). This is one of the central tasks of the *good* company which involves, for example, providing adequate time away from work for re-vitalizing leisure activities, and is set forth in the worker's right to a day of rest (John Paul, 1981).

Leisure is a requirement even for those with extended hours of work such as health care providers and emergency responders because even though some have greater physical endurance than others, every human being needs rest. Volunteer service, while it often has important benefits for the person who volunteers, is undertaken principally to provide for the needs and wants of others and following Grisez and Shaw (1974) is identified as second-level action. Leisure, on the other hand, is embraced expressly to provide for one's own needs and wants which neither work nor consumption can meet or satisfy and is identified as third-level action. There is more on second-level and third-level action in our discussion of personalist capital.

The *good* company sees leisure in terms of the human body and human spirit and as crucial to personal development. A good night's sleep allows the body to handle the demands of the following day. A week in the mountains can infuse the human spirit with the beauty of the natural environment. Leisure can be taken as the continuation into adulthood of the daily play activity which is so vital to the development of children. In the end, leisure means setting aside time to care for the human body and spirit in ways other than through work and consumption.

<u>Worker Rights, Private Property, and Work as Such.</u>

Catholic social teaching on worker rights and private property can be traced to *Rerum Novarum* (Leo XIII, 1891). More recently in *Centesimus Annus* (John Paul, 1991) John Paul affirmed Leo's statements, expanding on both, and in *Laborem Exercens* (John Paul, 1981) where he asserted the need for work as such.

The *good* company is committed to the following worker rights: right to just remuneration; right of women to fulfill their tasks as mothers without discrimination on the job; right to medical assistance and compensation for on-the-the injury; right to a day of rest; right to a pension and insurance for old age; right to a workplace free of hazards to physical health and moral integrity; right to justice in the workplace. These rights are necessary to protect the dignity of workers as human persons. To some extent, companies affirm these rights as *legal* rights flowing from the hand of government and therefore contingent. The *good*

company sees them as *natural* rights flowing from the hand of the Creator and therefore inalienable.

In a market economy the distribution of the world's material goods is determined by the contribution one makes toward the production of those goods. When this contribution derives from control of natural resources and human and physical capital which were acquired through one's own labor or the labor of others and transferred according to the demands of economic justice, such control rests on the principle of private property: the thing belongs to the one who created it. Respecting this principle as grounded in economic justice is the duty of the *good* company.

Even so, the right of private property is subordinate to the right of humankind to the material goods of this world because ownership is a means whereas human use of the goods produced is a first-order end. Ownership is justified by and can serve no other end, and while the private firm must earn a profit to remain economically viable, the *good* company exists for the purpose of meeting the needs of those who formed it, depend on it and make it prosper.

For economists work means having the income to buy the goods and services produced. Lack of work implies that basic human needs are not fully met. At the same time, humans have a twofold need for work as such: the need to belong which originates in human sociality and the need for opportunities to be creative which originates in human individuality. Further, work is the main means for humans to *have more* and to *be more*. The choices they make in this regard powerfully determine who they are, what they are, and to whom or to what they belong. Helping workers meet their need for work as such is a central characteristic of the *good* company.

The effect of work as such on the worker can be positive or negative. Discriminating in pay and promotion and assigning a person to work for which he/she is overqualified turn this effect negative. Designing and implementing a pay and promotion scheme based on performance and finding the best match between the work to be done and the skills of the worker turn it positive. This effect is linked to the human spirit and for that reason has an impact on the development of the worker as a person.

What work does to the worker is more important than what the worker does to produce goods and services. Further, human work is the continuation of God's Act of Creation which lasted six days and was followed by a day of rest (John Paul, 1981). In like fashion, humans require a day of rest to consider what they have done and what they ought to be doing. Humans require both work and leisure to become more fully the person they were meant to be.

Human beings are "embodied spirits" and as workers are resources to be applied to the production of goods and services. However, humans have worth not because they are useful toward some economic purpose though this kind of valuing has its own practical

application in wage and salary administration. Rather, each one has a dignity beyond human measure. Too often in modern economic affairs, a person's worth is determined by the value attached to his/her work. In the *good* company, this kind of valuing is superseded by the sacred dignity of every living, breathing human person.

<u>Labor's Priority over Capital.</u>

There is no essential difference between the accumulated material goods of this world and accumulated wealth. Both encourage and justify *having more* at the expense of *being more*, and both are condemned qualifiedly by the Holy Father (John Paul, 1987). Aware of the role of profit in the market economy, he (John Paul, 1987) nevertheless encourages investors to put the provision of work for others ahead of gain for one's self. The *good* company is to be measured more against the standard of sympathy, trust in providence, and love of virtue than financial gain.

In *Laborem Exercens* John Paul argues that over the years labor and capital were separated and set in opposition, as though both were impersonal forces, in an error that he calls "economism." This error in which labor is considered only according to its economic purpose is connected to the error of materialism. To remedy the consequences of the error of economism, John Paul re-affirms the principle of labor's priority over capital which means that the needs of workers are not to be compromised for the sake of maximum returns and profits (John Paul, 1981, 1991). This principle, along with opportunities for worker participation in the ownership and profits of the firm, defines the *good* company.

Humans are more important than things. They alone have rights because they are persons endowed with an intelligence and free will which differentiate them from other creatures. In the world of economic affairs humans often are reduced to things, objectified more and more in the workplace and the marketplace. Even when it may benefit from the practice, the *good* company never resorts to rendering precious human beings into mere disposable objects.

<u>Personalist Capital.</u>

Personalist capital refers to the human development process in which certain virtues are learned, practiced, and acquired and by which a human being achieves more nearly moral excellence and becomes more fully a human person. Similarly, personalist capital can depreciate and human development can be arrested and even reversed through the learning, practicing, and acquiring of certain vices by which a human being deteriorates as a human person. The virtuous person accumulates personalist capital in a way which parallels the accumulation of physical and human capital -- by investing in good habits. The wicked person destroys personalist capital by investing in bad habits. Put differently, it is third-level action that produces or destroys personalist capital.

The *acting person* refers to a human being who chooses to act either virtuously or viciously and whose acting has significance in terms of its effects (good or evil) on the person participating in the action. In economic affairs the *acting person* is the economic agent who

accumulates personalist capital by acting virtuously and who destroys it by acting viciously. The *innocent* person refers to one who has not yet begun to engage in third-level action and therefore has no stock of personalist capital (see Figure 1).

This emphasis on the role of virtue in economic affairs is not new. In *Moral Sentiments* Smith (1976b) calls attention to sympathy, generosity, and benevolence. Thrift and diligence are routinely accepted in mainstream economics.

Ratnapala (2006) uses "moral capital" in a way similar to our personalist capital in that he conceptualizes moral capital in terms of justice, temperance (moderation), and beneficence. However, Ratnapala excludes distributive justice and courage and does not connect moral capital to person as distinct from individual. Rather he uses "person" as a synonym for "individual."

Our personalist capital and Becker's (1996) "personal capital" are alike in that both incorporate good habits and bad habits. Becker, for example, extends economic analysis to include such good habits as honesty, sympathy, and caring, and bad habits such as lying, envying, and drinking or smoking excessively.

There are several differences between us. The most important is that Becker does not differentiate person from individual or personalism from individualism, and does not argue that good habits and bad habits make a human being more or less fully a human person and thereby more effective, more highly valued or alternatively less effective, less highly valued as an economic agent.

Malloch (2008) advocates "spiritual capital" which he defines as

> **The fund of beliefs, examples and commitments that are transmitted from generation to generation through a religious tradition, and which attach people to the transcendental source of human happiness.**

To Malloch, spiritual capital is the means by which virtue is acquired. To us, personalist capital is what a person acquires by acting virtuously and loses by acting viciously.

Malloch's "spiritual enterprise" is like our *good* company in that its success turns on the practice of the virtues. Malloch sees the corporation as an association of stockholders with a soul that is "shaped by the spiritual capital that has been invested" in it. We see the firm as a company of stakeholders who make it successful through their personalist capital which they freely contribute when they become a part of the company. Spiritual capital resides in what Malloch calls the "spiritual enterprise." Personalist capital resides in the *acting person*.

Mainstream economists assert that an economy functions best when it achieves Pareto optimality. *Personalist economics claims than an economy functions best when it maximizes*

***personalist capital thereby enhancing a human being as a human person and rendering that person more effective and more highly valued as an economic agent.* Maximizing personalist capital rests on the proposition that the good always inheres in *being* more.**

Personalist capital and person are constructed around the twin concepts of excess and limit. No employer wants a worker who cannot limit his drinking or one who steals. No one wants to work for an employer who sweats his labor or with others who shirk their responsibilities. No consumer respects a merchant who deliberately misrepresents the quality of the goods for sale or does not disclose interest charges on credit purchases. No merchant wants a customer who promises to pay the balance owed later but doesn't follow through or who insists on being served before everyone else.

As with physical and human capital, there is a distinct return to personalist capital. Employers prefer the diligent worker to the lazy worker. Buyers favor the merchant who is honest to one who is devious. These preferences are expressed and the personalist capital of a specific economic agent is rewarded through routine exchanges in the product market where price, quality, and terms of service after the sale are determined and in the resource market where wages, hours, and working conditions are determined.

By choosing to act virtuously one becomes more fully a human person with a strengthened disposition to act virtuously in the future. Conversely by choosing to act viciously one becomes less fully a human person with a weakened disposition to act virtuously in the future. Even so, a human being is not an automaton, is not programmed to act in a predetermined manner. Otherwise that person would not be truly free. The unjust person is free to act justly. The coward can choose to act courageously. This for sure is one of the profound mysteries of human nature and one of the reasons why predicting the behavior of economic agents is so weighed down with uncertainty.

Personalist capital with its emphasis on virtue is consistent with Catholic social teaching and represents a logical extension of that teaching tradition into economic affairs. Further, promoting personalist capital is the first-order objective of the *good* company whereas making a profit is a necessary condition for its continuation as a viable enterprise. Finally, personalist capital is a construct which emerged slowly from John Paul's numerous public statements on person and personalism and from his carefully drawn distinction between person and individual.

Sustainable Development.

Sustainable development depends on production and production, in turn, depends on the economic agent as its efficient cause. In that sense, sustainable development is properly considered contingent being and as with all contingent being is constituted by an actuating principle and a limiting principle (see Becker, 1961). Neo-classical economics identifies the actuating principle as human material wants, and the limiting principle as the resources available to satisfy those wants. The two converge in the market system.

Personalist economics identifies the actuating principle as the needs and wants of the human body and spirit, and the limiting principle as the resources available to meet those needs and satisfy those wants subject to the secondary limit that those resources are utilized in ways which minimize their depletion and any damage to the environment.

The actuating principle of sustainable development is defined by two positive norms: the needs of the present generation and the needs of future generations. To the extent possible, the *good* company is responsive to both of these needs understood as the needs of everyone with a stake in the company including shareholders, managers, workers, suppliers, and customers.

The limiting principle is set forth by three negative norms: the natural, political, and economic environments. As to the first, the *good* company constructs its activities on the foundation of moderation in the utilization of the world's natural resources. Regarding the second, the *good* company supports a limit on government intervention to those situations where the market and intermediate bodies such as supra-firm alliances do not provide adequately for the needs of current and future generations. As for the third negative norm, the *good* company accepts the responsibility to limit any negative impact on production and employment which derives from its own innovational activity undertaken as a part of meeting the need of the human spirit for creative opportunities.

The Vatican has not been in the forefront on sustainable development and other environmental issues. Paul VI addressed ecological degradation for the first time in his 1971 apostolic letter *Octogesima Adveniens.* John Paul did not speak out on this issue until 20 years later in his encyclical letter *Centesimus Annus* (Whittington, 2004).

The duty to set limits originates in the principle of contributive justice. As members of the human family, every human being has a duty in contributive justice to maintain and support a life-giving, life-sustaining environment. To dismiss this duty threatens all living things. Thus from the perspective of its own limiting principle sustainable economic development is an ethical issue.

CONCLUDING REMARKS

Strict individualists argue that making a profit is the firm's only purpose (Friedman, 1962). All other economic agents are effectively excluded. The *good* company is one that turns a profit.

The firm must make a profit in order to continue operating. But to Catholic social teaching making a profit is not the firm's only purpose. Rather, it is a necessary condition. Other economic agents – employees, suppliers, customers -- contribute to and depend on the firm's success as a profit-making enterprise. Excluding them in effect uses them as means to the profit-making end. Catholic social teaching instructs the firm that human beings are persons with a sacred dignity and as economic agents may not be reduced to the means by which the firm makes its profits.

Stakeholder needs and concerns are addressed in the eight characteristics and are embodied in a personalist economics which is still a work in progres. These eight characteristics allow the profit-making firm to examine its own practices to evaluate the extent and quality of its response to those needs and concerns. In the end we are hopeful that they will discover that the *good* company is able to compete successfully with its strictly profit-making rivals because its profits flow directly from economic agents acting virtuously.

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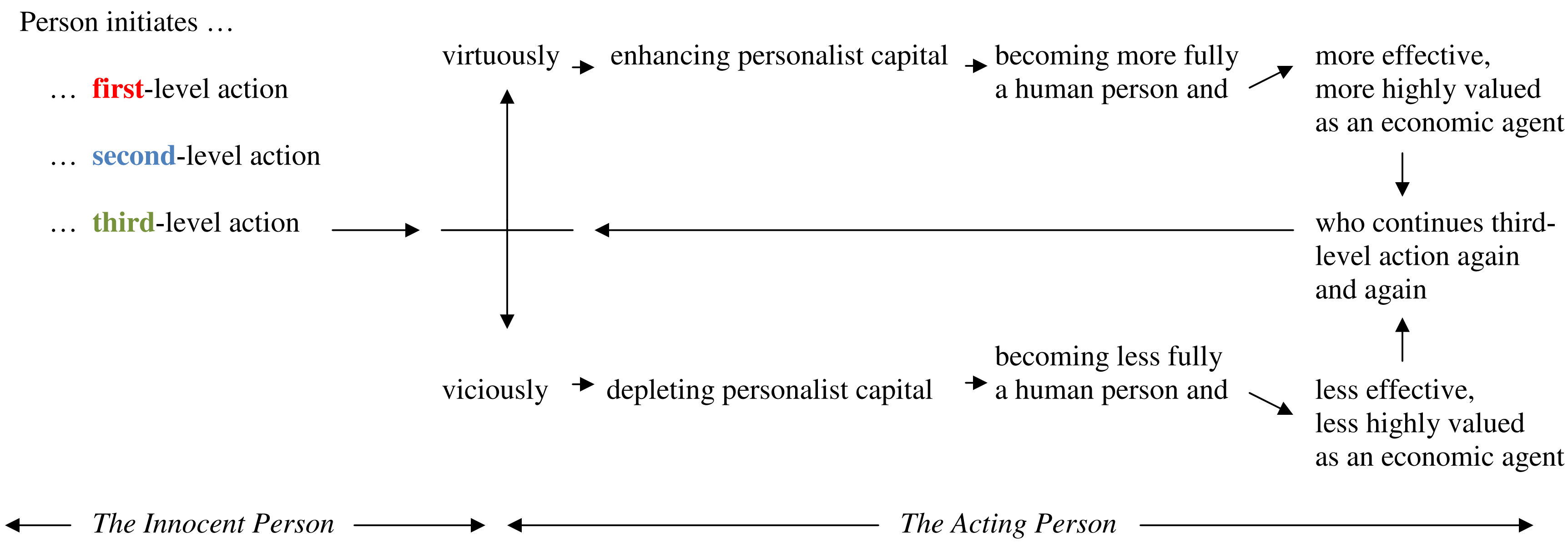
FIGURE 1. PERSONALIST CAPITAL: ACTING VIRTUOUSLY, ACTING VICIOUSLY



In terms of the four cardinal virtues, acting virtuously means *justly, prudently, courageously, moderately.*

In terms of the four cardinal vices, acting viciously means *unjustly, stupidly, faintheartedly, excessively.*

First-level action is associated with physical freedom and leads naturally to a specific outcome provided there is no physical constraint in place.
Second-level action is associated with freedom to do as one pleases and achieves a specific end provided the end is desired and the means are sufficient.
Third-level action is associated with self-determination in which the principal effect (good or evil) is upon the person participating in the action.