ECONOMIC GAIN
AND
INTEGRAL HUMAN DEVELOPMENT

by

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At first glance, economic gain and integral human development seem unrelated. The one has to do with how markets work, the other with what it takes for humans to grow and develop. Our intent in the following is to establish how in fact the two are connected. Indeed one cannot fully appreciate how markets impact integral human development without understanding the role of economic gain in a market economy.

This article addresses economic gain and integral human development in four main sections. In the first section we examine justice and gratuitous behavior as originating in and reflecting the Christian virtue of charity and the secular virtue of caring. Section two examines justice and gratuitous gain in lending and borrowing. Forgiveness – the virtue of mercy in action – is explored in the third section. The final main section deals with the role of integral human development in human affairs. Our thinking in this matter has been shaped and formed by the encyclicals of Leo XIII, Pius XI, John Paul II, and Benedict XVI.

JUSTICE, CHARITY, AND GRATUITOUS GAIN

Markets function on the basis of the economic gain available to the parties engaged in exchange. Every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up. Simply put, *no gain, no exchange.*

But economic gain alone does not control exchange. Trust is required and trust demands that the terms of the exchange must be fair to all of the parties engaged in that exchange. Fairness in economic affairs is defined in terms of three principles of economic justice. Commutative justice defines fairness between equals in exchange such as between

buyer and seller. Distributive justice sets down the conditions for fairness between superior and subordinate. Contributive justice specifies the conditions that produce fairness for a person who is a member of a group. The faithful practice of these three principles is necessary to limit the ill-gotten gain that comes from one economic agent taking advantage of another.

Pius XI in *Quadragesimo Anno* insists that justice alone is insufficient, that charity is required for a union of hearts and minds (Pius XI 1931, § 13). Later in *Divini Redemptoris* he states that charity is to be practiced after justice has been taken into account because the "wage-earner is not to receive in the form of alms what he is owed in justice" (Pius XI 1937, § 49). Jesuit economist Heinrich Pesch refers to charity as the guardian of justice and both virtues together as the bulwark of human welfare (Mulcahy 1951, 68).

In *Divini Redemptoris*, Pius XI refers to Christian charity as "… this divine precept, this precious mark of the identification left by Christ to His true disciples, ... which teaches us to see in those who suffer Christ Himself, and would have us love our brothers as Our Divine Savior has loved us, that is, even at the sacrifice of ourselves and, if need be, of our very life" (Pius XI 1937, § 47).[1]

Leo XIII, in *Rerum Novarum*, teaches that self-interest is not condemned under Christian charity: "… no one, is commanded to distribute to others that which is required for his own needs and those of his household; nor even to give away what is reasonably required to keep up becomingly his condition in life ... But, when what necessity demands has

been supplied, and one's standing fairly taken care of, it becomes a duty to give to the indigent out of what remains over" (Leo XIII 1891, §22).

Even though Christ Himself is the ultimate model of self-sacrifice, Christian charity does not demand that Christians uproot all self-interest and replace it with self-sacrifice. Rather, Christians are obliged to temper self-interest with generosity, to give to the poor from their abundance. In this regard, Leo XIII provides the following insight: "Whoever has received from the divine bounty a large share of temporal blessings, whether they be external and material, or gifts of the mind, has received them for the purpose of using them for *perfecting his own nature*, and, at the same time, that he may employ them, as the steward of God's providence, for the benefit of others" (Leo XIII 1891, §22; emphasis added).

The origins of charity in the Holy Scriptures are many. A widely cited passage is: "As long as you did it for one of My least brethren you did it for Me." While justice can be and frequently is enforced by law, Leo XIII insists that Christian charity cannot by enforced by those means (Leo XIII 1891, §22).

The problem with fairness or justice in exchange is that, as John Paul cautioned, "justice, if separated from merciful love, becomes cold and cutting" (John Paul 1998, 1). Though he used different language, several years later Benedict XVI in effect affirmed John Paul's warning to the effect that for the disciples of Christ more than the virtue of justice is necessary for the proper conduct of economic affairs (Benedict XVI 2009, § 6).

By caring we mean what Dempsey signifies by "putting oneself out for others" (Dempsey1958, 368). Caring is the secular counterpart to Christian charity. Caring may be

prompted by a sentiment such as the Golden Rule – "do as you would be done by" -- or Kant's categorical imperative – "act only on that maxim through which you can at the same time will that it should become a universal law."

With caring, human beings are seen as living, breathing, existential actualities, as ends in themselves more so than means, as persons with certain inalienable rights that must not be violated, as equals. As to the question "To whom does a human being belong?", with caring, he/she is perceived as belonging to no one but self for as long as life lasts.

With Christian charity, human beings are seen as children of God the Father, made in His image and likeness, as brothers and sisters of Jesus Christ whose incarnation as a human being and whose death ransomed them from sin and reconciled them to the Father and whose sacrifice forever more established each one as precious beyond measure. With Christian charity, every human being belongs to God because every human being is created by God to live forever. For Christians the greatest commandment is "to love one another, especially those who despise you, as I have loved you."

In what follows, Christian charity is emphasized even though it requires a greater leap of faith than does caring because as Leo XIII warns in *Rerum Novarum* "... no human expedients will ever make up for the devotedness and self-sacrifice of Christian charity ..." (Leo XIII 1891, §30). Pius XI in *Quadragesimo Anno* insists that Christian charity "alone has power to subdue firmly but gently the hearts and wills of men to the laws of equity and justice" (Pius XI 1931, § 142). Stated differently, putting oneself out for others simply is not sufficient. For sure, caring may achieve micro-economic results that are similar to Christian

charity in the short run. However, if the one truly is no substitute for the other, caring is not likely to maintain that micro-economic performance in the long run unless, of course, it evolves into charity.

Christian charity promotes goodwill, workplace solidarity, and the authentic marketplace bargain. The destructiveness of persons who are careless and indifferent in their work has been thoroughly documented in such forms as shoddy merchandise, demeaning service, unkept promises, and a bad reputation for the firm's product or service. The worker who is faithful to the demands of economic justice and Christian charity, on the other hand, is known for long-lasting products, friendly service, commitments kept, and goodwill in the marketplace.

The careless worker, *ceteris paribus*, produces less value-added than the Christian worker because the former fails to provide "a full day's work" in exchange for "a full day's pay" while the latter fully meets his/her obligations under commutative justice. While use typically depletes whatever value has been embedded in a given product or service, more real value is added by the fair-minded worker than by one who is careless and therefore more is available for use by the buyer.

The Christian worker, however, is more than just fair-minded. He/she routinely exceeds the demands imposed by commutative justice and gives this additional value-added freely. The diligent worker's gift is prompted by genuine love for his/her fellow worker, employer, and customer. This excess value-added can be seized entirely by the employer in the form of a higher margin of profit[2] or it can be given freely in full or in part, to the

customer. If the excess value-added is given freely to the customer and is accepted graciously and lovingly by that customer who explicitly acknowledges the bargain received,[3] the excess value-added in effect is freely given back to its source. In this manner, the Christian customer creates or enhances the real though intangible business asset known as goodwill. In contrast, the ungracious and unloving customer who accepts the gift but refuses or neglects to affirm the giver in effect loses an opportunity to contribute to this asset. The tragedy is that, with this holding back, nothing is kept, nothing is gained.

In the workplace, the Christian worker's gift creates a sense of solidarity or community, a oneness that some call "family," "togetherness," or more often "team" only when the employer responds in similar fashion by giving it freely to the customer in the form of a bargain and the buyer responds by returning the excess value-added in the form of goodwill. Thus, as long as the excess value-added is freely given, it produces goodwill for the employer, a sense of belonging for the worker, and an authentic bargain for the buyer. If it is hoarded, it becomes sterile and its fruits wither or never blossom at all.

Charity has a positive-sum constitution. The three forms of added value -- goodwill, workplace solidarity, and the true bargain -- are the products of Christian charity. In that sense, charity is an authentic economic resource. Uniquely among resources and goods, charity *is not used up* in the process of production or consumption. Rather, it produces solidarity in the workplace, the real bargain in the marketplace, and goodwill throughout the economic order *only when it is given freely*.

Human beings are unique as economic resources in a second, closely-related and more widely recognized manner. As with all economic resources that are living things, human beings are reproductive, are subject to fatigue, and are re-invigorated by means of regular periods of rest. However, human beings alone among economic resources are able to learn new skills and acquire new talents. In other words, for humans the very use of their skills and talents as instruments of work can lead to an enhancement of those skills and talents. For all other resources, *use signifies depletion*.

Christian charity and caring produce the gratuitous gain that stands in sharp contrast to the ill-gotten gain. In *Caritas in Veritate* Benedict XVI claims that gratuitous behavior precedes the practice of justice: "While in the past it was possible to argue that justice had to come first and gratuitousness could follow afterwards, as a complement, today it is clear that without gratuitousness there can be no justice in the first place" (Benedict XVI 2009, § 38).

For some economic agents Benedict's claim no doubt is valid. For others, however, justice is learned first because many economic transactions require written contracts where the parties involved understand at least instinctively what is demanded of them under justice. Whether they engage in gratuitous behavior at that time or some time later is problematical.

JUSTICE AND GRATUITOUS GAIN IN LENDING AND BORROWING

The faithful practice of two principles of economic justice – commutative justice and distributive justice -- can contribute powerfully to (re-)establishing trust between agents involved in financial transactions. Regarding a routine loan transaction, both parties under

commutative justice are agreed without coercion as to the amount to be borrowed, the schedule for repaying the principal, and the rate of interest that equalizes the burden for the creditor who must wait for repayment subject to the risk of default. Excessively high rates of interest are condemned as usurious. Thus, there must be some upper limit to the rate of interest imposed on the borrower that equates his/her burden to the burden of the creditor.

What that limit should be must be determined in general by market forces, by the specific financial conditions at the moment, and by parties who are not driven entirely by personal gain but who understand that the creditor and most especially the borrower are human beings whose dignity must be respected and who never are to be exploited. Otherwise, there is no "level playing field" in financial markets, which means that the powerful are able to dominate and exploit the weak, and that at times credit is denied to those most in need especially the poor in developing countries.

Furthermore, the creditor has a duty under the principle of distributive justice to treat as equals all prospective borrowers who are in the similar financial circumstances notably as determined by risk evaluation. The principle of distributive justice demands that the lender not engage in price discrimination even when the opportunity presents itself or in "redlining," the illegal practice of excluding everyone in a specific geographic district from obtaining credit, even those who are creditworthy. This requires transparency as to the details of credit transactions that preferably is done by voluntary compliance or if necessary by some kind of private or public institutional oversight.

We note that the International Monetary Fund already has affirmed two codes relating to transparency: *The Code of Good Practices on Transparency in Monetary and Financial Policies* and the *Fiscal Transparency Code* (IMF 1999, 2014). Regulatory agencies, preferably of the voluntary or self-regulatory type, are preferred for this oversight role because they necessarily function closer to the day-to-day operations of the financial institutions whose operations they are examining. Locating the oversight agency as close to the actual lending institution and therefore close to the specific conditions in which that institution extends credit helps the oversight agency avoid supporting projects that have little or no prospects for economic success and long-term survival, and other projects that otherwise might be turned to personal gain.

In daily operation in international financial systems the economic agent should have a working knowledge of what is required in justice, and his/her supervisors may be expected to be monitoring that agent's work to assure that he/she is faithful to those demands. In other words, senior executives and officials of financial institutions may be expected to make justice an everyday priority of the institutions they manage and direct.

As state previously, more than justice is required to forge a true sense of trust. Caring helps develop a sense of trust and solidarity by affirming that all human beings are equal and should never be used solely for the personal gain of others. Christian charity helps develop this sense by insisting that all human beings are precious and their well-being is more important, in the long run, than the achievement of maximum efficiency in the

utilization of economic resources. In personalist economics, economic systems are subordinate to human welfare.

As with justice, caring is a lubricant that allows the economic engines of cooperation and competition to function safely at high speeds, but caring is a higher-grade oil than justice. Christian charity and the recognition of the innate value of every human being work like an even higher-grade, longer-lasting oil, allowing those engines to function even more effectively and more efficiently. In real terms, caring and Christian charity mean going beyond the demands of justice such as creditors who are willing and able to renegotiate the terms of credit to ease the burden on the troubled borrower and merchants willing to give their customers more than they bargained for. This additional value, which helps trust and solidarity grow and flourish, has a real economic component that is overlooked by mainstream economics. That asset, as noted previously, is known as goodwill.

FORGIVENESS: THE VIRTUE OF MERCY IN ACTION

Forgiveness is another remedy for what is lacking in the virtue of justice. It puts the virtue of mercy into action that Benedict XVI identified as significant in promoting the earthly city. "The *earthly city* is promoted not merely by relationships of rights and duties, but to an even greater and more fundamental extent by relationships of gratuitousness, mercy and communion" (Benedict XVI 2009, § 6; emphasis in original).

In economic affairs, forgiveness is the golden mean between enabling irresponsible financial behavior and crushing the human spirit under an unbearable load of debt.

Forgiveness by definition must be given freely by the one who holds the debt claim. The physician who does not charge an impoverished patient for care that is rendered or the landlord who allows a single mother who has lost her job and cannot pay the rent to remain in her apartment with her children exemplify the true meaning of forgiveness. In every instance, forgiveness involves a need that otherwise would not be met.

While bankruptcy provides relief for persons, families, or organizations that are unable to meet their obligations under justice, bankruptcy is relief that is legally coerced. In a bankruptcy judgment, creditors are forced to give up all or part of any claim to what is rightfully theirs. Bankruptcy is not forgiveness, it is cancellation of debt.

Writing off debt that is uncollectible, including a debt that has been assigned to a collection agency that has not been able to get the debtor to make payment, is not forgiveness. It is acquiescence because, even though there is no legal coercion, writing off forces the creditor to concede that the underlying claim will not be honored. Debt that has been legally cancelled or written off may reflect expenditures for things that were truly needed such as hospital care or auto repair or for things that were wanted at the time of purchase but not strictly needed such as designer clothes or custom wheel covers. The true measure of forgiveness in economic affairs is relief for what is owed that is given freely.

INTEGRAL HUMAN DEVELOPMENT

In *Rerum Novarum* Leo XIII asserts that the material goods of this world are intended for human perfection (Leo XIII 1891, §22).[4] Years later and quoting from Paul VI's *Populorum Progressio,* Benedict XVI in *Caritas in Veritate* connects human perfection

and integral human development. "Integral human development on the natural plane, as a response to a vocation from God the Creator, demands self-fulfilment in a 'transcendent humanism which gives [to man] his greatest possible perfection: this is the highest goal of personal development'" (Benedict XVI 2009, §18).

The immediate problem for personalist economics is how to square integral human development and human perfection with personal advantage – the central objective of the economic agent according to mainstream economics. Jesuit economist Bernard Dempsey provided the answer: human material development, which is achieved by maximizing human economic efficiency, is a *condition* for integral human development (Dempsey 1942, 12; emphasis added). Years later he added that the "basic purpose of the society cannot be other than the basic purpose of the real persons who compose it, that is, their perfection" (Dempsey 1958, 273).

Personalist economist Peter Danner uses language that is less direct than Dempsey's or Benedict's but unmistakably embraces integral human development as the ultimate end of economic activity. "Belief in a Supreme Being and a personal final destiny, implying a moral mandate to do what is good and right for people, espouses justice, moderation, and charity as values in seeking and sharing wealth. A philosophic view of humanity, by espousing personhood as an individual's ultimate dignity and worth, *judges economic actions according to how they enhance or degrade people as persons*" (Danner 2002, 35; emphasis added).

Human perfection in economic affairs refers to the maximization of integral human development through engagement in economic affairs. At first glance, we might object that human perfection is humanly unattainable. However, we see examples in everyday life of persons *striving* for perfection in the work they do, and we express great admiration for the likes of Michelangelo and Rembrandt, Beethoven and the Bach, Joan Sutherland and Maria Callas, Michael Schumacher and Richard Petty. What characterizes personalist economics is a focus on the practice of virtues and avoidance of vices as the pathway to human perfection.

Human development is "integral" to indicate that development encompasses the *entire range* of human materiality, spirituality, and personality, as suggested by the Jesuit economist Thomas Divine.

> **In addition to these (individual needs) there are certain social needs which arise from his living in community with others, such as a sense of security and of status, a sense of belonging in his group, a sense of competence and of attention resulting from such competence, and a sense of importance and of participation with others in the job he is performing. But as the fulfilment of those social needs must be found for the most part in that area in which man spends the greater part of his social life, i.e. economic activity, it follows that *the final and ultimate goal of economic life is the development and perfection of human personality in so far as that lies within the sphere of economic activity*. In other words the individual is not only, as co-producer of goods and**

services, the efficient cause of economic activity, he is, as consumer and social being, the final cause as well. (Divine 1960, chapter 24, 7-8; emphasis added).

Personalist economics asserts that economic systems should provide humans with the goods necessary for acts of virtue, and economic institutions should offer "opportunities for, and habituation in, *the practice of virtue itself*" (Worland 1959, 111; emphasis added). Personalist economics focuses on the decision-making process wherein the economic agent develops further as a human person by acting virtuously or deteriorates as a human person by acting viciously.

Integral human development is operationalized as an economic concept in the following function:

$$\mathbf{IHD} = f\,(\mathbf{HC, SC, PerC, MWB})$$

where IHD is integral human development, HC is human capital, SC is social capital, PerC is personalist capital, and MWB is material well-being.

Simply put, HC involves investments in, for example, one's education and health. SC refers to developing one's social network. MWB addresses the extent to which human material need is met. Our attention in the following is restricted to personalist capital.

With personalist capital a person's moral development is tied to three levels of action. The first level refers to reflexive or instinctive action that humans have in common with animals: the dog chases the cat up the tree; the basketball player leaps to grab a rebound. Second-level action is purposeful or intentional: the farmer plants seeds in the spring in order to harvest a crop in the fall. Third-level action produces a change in the

person who engages in that action: a financial adviser who devises a scheme to defraud his clients is exposed and convicted as a felon.

Action at the first level is associated with physical freedom; both humans and lower animals are capable of engaging in first-level action. At the second-level, action is associated with unrestricted freedom and is the way in which mainstream economics represents economic agency. Only humans are capable of action at the second level. Third-level action is associated with self-determination -- the freedom to shape one's personhood by the choices one makes -- and is critical to the way in which personalist economics represents the economic agent and accounts for the acquisition or loss of personalist capital. Personalist capital is formed by action at the third level. It is acquired or destroyed in accordance with action in economic affairs that is virtuous or vicious.

Personalist capital in a specific time is given by the stock of virtues (vir_t) acquired by a person from birth (t=0) through that specific time (t=n) minus his/her stock of vices (vic_t). Thus the following function:

$$\textbf{PerC} = \sum_{t=0}^{n}[vir_t - vic_t]$$

Of the four cardinal virtues -- justice, moderation, prudence, and fortitude -- personalist economics emphasizes moderation because that virtue provides the needed limits to consumption, work, and leisure to assure integral human development. As Danner observed, *"unlimited economic gaining is self-defeating"* (Danner 2002, 122; emphasis in the original). At the same time, he also stated:

…[B]y braking the tendency to seek pleasures for oneself and, instead

> **changing one's preferences toward goods of higher values and away from baser sensual values, moderation is simply the rationale of a person's fostering the right use of material goods. Moderation, by thus linking guiding and braking functions, achieves Aristotle's principle that all true virtues steer between excess and deficiency.**
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> **… [J]ust as moderation urges the right use of material things for self, justice directs their use for what is right for others. (Danner 2002, 124-125).**

Clearly, from what we have already observed, personalist capital is also acquired by the faithful practice of the virtues of Christian charity, caring, and mercy in economic affairs.

One of the inconsistencies in mainstream economic theory is that there is no place for human *needs* in microeconomics even though *unmet need* is examined in macroeconomics as poverty. To explain, unmet need regarding consumption is defined and measured mainly in terms of a comparison of the consumer's income to (a) the money required to purchase a basket of items objectively identified as essential or (b) the income of others. That is, an absolute or a relative standard of poverty, respectively.

The *unmet need* for work is defined and measured in terms of unemployment. We have not proceeded to the point where unmet leisure is recognized as a problem in mainstream economic theory. However, anecdotally we know of persons who are terribly in need of rest. Further, and most importantly for our purposes, limits on the number of weekly hours of work reinforce the *need* for days of rest, and vacation leave confirms the need for longer periods of rest. In this matter, moderation plays an important role.

Mainstream economic theory has not come to grips with the limits on work that derive sensibly from moderation because mainstream economics defines leisure as "time spent not working." Personalist economics, in sharp contrast, sees leisure as critically important to integral human development and human perfection *wherein maximizing IHD leads to human perfection*.

SUMMING UP

An economic agent functioning in a market system needs economic gain in order to complete an exchange: what is gotten through exchange must be more highly valued than what is given up. No gain, no exchange.

But economic gain alone does not control exchange. Trust is required and trust demands that the terms of the exchange must be fair to all of the parties engaged in that exchange. Fairness in economic affairs is defined in terms of three principles of economic justice. Commutative justice defines fairness between equals in exchange such as between buyer and seller. Distributive justice sets down the conditions for fairness between superior and subordinate. Contributive justice specifies the conditions that produce fairness for a person who is a member of a group. The faithful practice of these three principles is necessary to limit the ill-gotten gain that comes from one economic agent taking advantage of another.

The problem with justice in exchange is that "justice, if separated from merciful love, becomes cold and cutting (John Paul 1998, 1). What is required to smooth the rough edges of an exchange that is fully in accord with the principles of justice is what we prefer

to call gratuitous gain where, due to Christian charity or its secular counterpart, caring, more is gotten in exchange than was agreed to. Gratuitous gain is unique in that it originates in the act of giving, and appears under the real economic forms of goodwill, workplace solidarity, and the authentic marketplace bargain. Gratuitous gain is lost whenever caring or Christian charity is withheld. It is, in other words, strictly impossible under the conditions of unrelenting acquisitiveness that mainstream economics posits for the economic agent.

Forgiveness, which puts the virtue of mercy into action, is another remedy for what is lacking in the virtue of justice. In financial affairs, forgiveness is the golden mean between enabling irresponsible financial behavior and crushing the human spirit under an unbearable load of debt.

Forgiveness by definition must be *given freely* by the one who holds the debt claim and relates to a need that otherwise would not be met. While bankruptcy provides relief for debtors, it is not forgiveness. It is instead debt cancellation that in the end is coerced. In like manner, writing off debt that is uncollectible is not forgiveness. It is acquiescence because it forces the creditor to concede that the underlying claim will not be honored. The true measure of forgiveness in economic affairs is relief for what is owed that is given freely.

Personalist economics is committed to finding a way to reconcile human perfection and integral human development, which encompasses the entire range of human materiality, spirituality, and personality, with personal advantage – the central objective of the economic agent according to mainstream economics. Dempsey, with support from

Divine and Danner, provided the answer: human material development, achieved by maximizing human economic efficiency, is a *condition* for integral human development.

Integral human development is operationalized and maximized as the dependent variable in a function where human capital, social capital, personalist capital, and material well-being are the independent variables. Personalist capital is acquired or destroyed in accordance with action in economic affairs that is virtuous or vicious. Acting virtuously means in compliance with the virtues of caring, Christian charity, mercy, and four cardinal virtues of justice, moderation, prudence, and fortitude. Acting viciously means embracing the vices of antipathy, malevolence, cruelty, injustice, excess, foolishness, and cowardice

Moderation is necessary for a personalist economy because that virtue provides the needed limits to consumption, work, and leisure to assure integral human development. Mainstream economic theory has not come to grips with the limits on work that derive sensibly from moderation because mainstream economics defines leisure as "time spent not working." Personalist economics, in sharp contrast, sees leisure as critically important to integral human development and human perfection *wherein maximizing IHD leads to human perfection*.

In the end, it is the maximizing of integral human development, not personal advantage in the form of utility or profit, that represents the primary objective of economic affairs.

Endnotes

1. In *Sollicitudo Rei Socialis,* John Paul II refers to charity in similar language: "the distinguishing mark of Christ's disciples" (John Paul 1987, §40).

2. In *Sollicitudo Rei Socialis*, John Paul II warns about the "all-consuming desire for profit" and "the thirst for power" both of which are "indissolubly linked" and which he labels a "double attitude of sin" (John Paul 1987, § 37). Clearly, the faithful Christian cannot accept the utility- and profit-maximizing premises of conventional micro-economics.

3. Which, in this instance, flows from a seller who freely gives more than commutative justice demands rather than from undervaluation on the part of the seller.

4. In this section, we draw heavily from a paper presented in Glasgow in June 2012 by Sandonà and O'Boyle.

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