TO JOHN PAUL II WHO WITH FEW WORDS AND A SIMPLE GESTURE DEMONSTRATED THE DIFFERENCE BETWEEN THE INDIVIDUAL AND THE PERSON
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PERSONALIST ECONOMICS: Putting the Acting Person at the Center of Economic Affairs did not just suddenly spring to life. It represents a re-thinking of economics and economic affairs that began in a public way in 1985 with the publication of our article on the unemployed as persons (see O’Boyle 1985, pp. 325-344) that drew inspiration from John Paul II’s 1981 encyclical LABOREM EXCERCENS (see John Paul).

At the time, however, we had no idea or intention to re-examine economic affairs or economics from the perspective of the economic agent as a person. Individual and individualism still had a powerful hold on us and it took years to break those ties. From time to time a close colleague would ask ‘What difference does it make’ to replace individual with person? Our answer never was clear or convincing. But we continued to work, hoping that we would know more later. Over the years a set of papers emerged that were collected in 1998 in our PERSONALIST ECONOMICS: Moral Convictions, Economic Realities, and Social Action and published by Kluwer. It was our first major effort to establish personalist economics as a new and different way of thinking about economic affairs. Whatever its strengths and weaknesses (see O’Boyle 2000, pp. 539-552), it did establish personalist economics as its own genre. Everything in this second collection was written after the first collection was published.

An enormous breakthrough occurred in late July 2000 at a small gathering of friends for lunch with John Paul II in his summer residence. Responding to one of the guest’s pointed question regarding the difference between individual and person, using both hands John Paul replied with a simple gesture indicating clearly that a human person is very nearly divine. Nothing before or since has made a greater impact on our thinking.

There have been several others who have helped bring this collection to life. A conference at DePaul University in summer 1998, with the theme “teaching the social economics way of thinking,” was the occasion of our first presentation on how to teach introductory economics from a personalist perspective. Four years later the first draft of our principles of economics took shape as an e-text.

William Waters’ exposition of the different “hard-core premises” of mainstream economics and solidarist economics (his term at the time) was very helpful in sorting out why it is so difficult to substitute person for individual as the basic unit of analysis in economics (see Waters, pp.113-143). Peter Danner’s The Economic Person was most instructive at many points, notably on humans as both matter and spirit and on economic gain that helped shape our thinking on justice as setting limits on ill-gotten gain (see Danner). Further, Danner has been an important source of support and encouragement for our continued efforts to understand the economic agent as a person.

In the early 1960s a brilliant graduate student in English at Saint Louis University turned our attention to the work of Walter Ong who for many years served on the University faculty. We took his advice but did not see a connection between what Ong was saying and what we were struggling
to understand. About 40 years later we began to see for the first time the importance of Ong’s insights on human communication and personalism and our own instincts telling us that individual and individualism no longer contribute to a clear understanding of contemporary economic affairs.

Finally, Rupert Ederer’s silent, persistent work on translating Heinrich Pesch’s *Lehhrbuch der Nationalökonomie* and after many years getting his English translation published reminded us that often this kind of work, to use the familiar cliché, is more perspiration than inspiration.

My parents Helen and Daniel O’Boyle were my first teachers, though as Irish immigrants neither one had more than a grade school education. Even so, from them I learned an independence of mind, a persistence in living one’s own convictions, the intrinsic worth of scholarly enterprise, the courage to ask questions when one does not understand and to stand one’s ground when others are confrontational and intimidating, and perhaps above all else that we are family. *Requiescant in pace.*

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**References**


INTRODUCTION

PERSONALIST ECONOMICS: Putting the Acting Person at the Center of Economic Affairs follows my PERSONALIST ECONOMICS: Moral Convictions, Economic Realities, and Social Action that was published by Kluwer in 1998. It is axiomatic that a second effort improves on the first, but it is not automatic. Readers familiar with the first will know if we have been successful. Others will judge this second effort strictly on its own merits.

PERSONALIST ECONOMICS: Putting the Acting Person at the Center of Economic Affairs\(^1\) is organized around seven central themes:

1. person, personalism, and personalist economics;\(^2\)
2. organizing economic affairs around justice, subsidiarity, and the acting person\(^3\);
3. persons surviving at the margin;
4. a personalist vision for global economic affairs;
5. more from John Paul II;
6. integral human development; and
7. teaching personalist economics.

Several of the twenty-three chapters are based on papers that were peer reviewed and published, thus providing some assurance as to their quality. In compiling this collection, each paper was edited to eliminate redundant material, thereby assuring a better overall fit. No doubt some repetition remains that may be annoying to the person who reads sequentially from cover to cover but not to the one who reads selectively and out of sequence. PERSONALIST ECONOMICS II is not like the blanket made from material that was woven at one time in a single machine process. Rather, because it is a collection of papers, it is comparable to great-grandmother’s hand-stitched patchwork quilt. It is our hope that with the passage of time PERSONALIST ECONOMICS II will have held up as well as her handiwork.

Based on the premise that improvement depends on fixing what might have been unsatisfactory about PERSONALIST ECONOMICS I, the following introductory comments center on what we have done to correct earlier mistakes, fill in gaps in coverage, and replace dated information.

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1 Hereafter simply PERSONALIST ECONOMICS II. The earlier book is referred to as PERSONALIST ECONOMICS I.

2 Personalist economics is our preferred expression because it emphasizes that this body of work lies within the domain of the discipline of economics. Others are using economic personalism which to us indicates a body of work primarily within the discipline of philosophy.

3 By the acting person we mean the person in action carrying out such uniquely economic activities as producing, distributing, exchanging, consuming, saving, investing, credit-creating, lending, borrowing, innovating, developing, and (re-)vitalizing.
The first and most important strength of PERSONALIST ECONOMICS I was that it rested upon and offered a different ideological foundation for doing economics and understanding economic affairs. It suggested re-thinking our premises, re-examining our description of economic affairs, and re-assessing our policy recommendations by substituting personalism for both the individualism of mainstream economics and the collectivism of its principal alternative. It argued that how we understand and describe economic affairs and where we end up in terms of economic policy depend on where we begin in terms of our premises. Taken seriously by our colleagues in economics, whether orthodox or heterodox, PERSONALIST ECONOMICS I called for much greater openness and critical scrutiny of the premises we use routinely but discuss only occasionally.

If the greatest strength of PERSONALIST ECONOMICS I resided in its premises that derive from personalism, it follows that its greatest weakness resided in our still inadequate understanding of personalism and how it relates to economics and economic affairs. We said at that time, somewhat apologetically, that “we will know more later.”

The first four chapters of PERSONALIST ECONOMICS II address that weakness. Chapter One traces the origins of personalist economics to Aristotle, Aquinas, and Smith, shows why personalist economics departs from mainstream economics, and how it is linked to Weber and Walras principally through Schumpeter. Chapter Two demonstrates that person and personalism which emerged during the electronic stage of human communication are much more relevant to contemporary economic affairs than individual and individualism which are tied to the earlier script stage of human communication.

PERSONALIST ECONOMICS I paid much too little heed to the matter/spirit duality. Human beings are both matter and spirit, material beings and spiritual beings, the one corruptible, the other indestructible. The appendix to Chapter Two by Danner helped us see consumption, work, and leisure with much greater insight than in the past.

Chapter Three presents a rough sketch as to how to reconstruct the way we study economic affairs and therefore how we teach economics based on thinking about economic agency in terms of the person (homo socio-economicus) rather than the individual (homo economicus). Though we employed homo socio-economicus widely in works already published, hereinafter we use instead the acting person or the person in action for two reasons. First, the acting person/person in action properly emphasizes personhood and personalism in place of individuality and individualism. Second, the acting person/person in action directs attention to the economic agent as one who acts in economic affairs rather than as one who is socially embedded, to what the economic agent does rather than where the agent is situated (see Davis 2003, 2007 on social embeddedness and situatedness).

Having addressed the questions ‘Who are we?’ and ‘What are we?’ in order to flesh out the meaning of the acting person, we are left with the question ‘Whose are we?’ Mainstream economics asserts that we belong to ourselves. Radical economics, on the other hand, insists that we belong to the collective. In the extreme, mainstream economics takes a libertarian view of humans that liberates the individual from the clutches of the state, and radical economics takes a totalitarian view that not
only subordinates the individual to the state but also reduces the individual to an object. Personalist economics affirms, instead, that we belong to our Heavenly Father who created us in His image and likeness.

However, unlike the way in which it differentiates itself from the mainstream and from radical economics on the questions ‘Who?’ and ‘What?,’ personalist economics sets itself so far apart on the question ‘Whose?’ that further dialogue is closed off with those in economics who are nonbelievers or hold the view that one’s beliefs should not enter their economics. In a world that is overwhelmingly secular, holding views of the sacred in economics is seen by many as a weakness and by others as a disqualifier. Thus, proponents of personalist economics are likely to be marginalized and even excluded from the company of mainstream economists and of some heterodox economists. Even so, we are most encouraged by the fortitude in these matters of Jesuit economist Joseph Becker.

In talks I have given over the years to people working in the unemployment insurance program, especially government officials and representatives of management, I have urged them to see the unemployed as Christ Himself, who will some day say to them “Because you did it to the unemployed, you did it to Me” [Becker 1991, p. 56].

The proposition that we human beings belong to God runs through all of PERSONALIST ECONOMICS II. Indeed, we argue that there is no other way to examine economic affairs. Nonetheless, personalist economics is still a work in progress.

Chapter Four advances two propositions. First, economic agency in mainstream economics is outdated because it has oversimplified its representation of the economic agent -- the individual or homo economicus -- in order to simplify economic analysis and produce empirical findings about which it can claim certitude. We propose instead an economic agent -- the acting person -- who is more faithful to contemporary understanding of human nature and better aligned with human activity in current economic affairs. The result is greater complexity in economic analysis that demands more judgment on the part of the economist in correctly interpreting the findings that the analysis brings forth.

Our second proposition is that economic agency constructed by mainstream economics on utility/profit maximization also misrepresents human nature. We propose instead that human beings maximize the intermediate goal of what we call personalist capital in which certain virtues such as justice and courage are learned, practiced, and acquired and by which a human being becomes more fully a human person. Further, as human beings develop more fully as a human persons, they become more effective and more highly valued as economic agents. We should add that human beings become less fully human persons by learning, practicing, and acquiring certain vices such injustice and recklessness, and become less effective and less highly valued as economic agents.

Personalist economics orders economic reality in terms of the following human activities: producing, distributing, exchanging, consuming, saving, investing, credit-creating, lending, borrowing, innovating, developing, and (re-)vitalizing. Chapter Six offers an orderly construct for organizing the
essential economic processes and functions that are responsive most fundamentally to human need. Chapter Seven provides a principle -- subsidiarity -- for deciding whether that organization should be based mainly on private enterprise or public institutions.

Representing economic affairs in terms of human activities puts a human face on economic reality and warns us that our economics has to take into account when those activities are ethically proper and when they become unethical. Accordingly, PERSONALIST ECONOMICS II presents a framework for ethical decision-making based on the three central principles of economic justice – equivalence (also known as commutative justice), distributive justice, and contributive justice -- and demonstrates how they apply in the product, resource, and financial markets (see Chapters Five, Eight, Nine, and Ten). The virtue of Christian charity (see Chapter Three) partners with the virtue of justice in protecting human wellbeing in economic affairs. Bringing the virtue of justice into play means that personalist economics is intrinsically normative and at odds with the logical positivism of mainstream economics. Pulling in the virtue of Christian charity reinforces the marginalization and exclusion which follows from the question ‘Whose?’ in personalist economics.

Chapter Eleven addresses the ambiguity surrounding social justice, a concept used widely but with different meanings for different users. In addition to the different meanings applied to the term, there are two other sources of ambiguity. First, social justice is referred to under at least three other labels: constructive justice, legal justice, and general justice. Second, there has been some ambiguity originating in careless scholarly work. Confusion is added to the ambiguity by blurring the line between social justice and social charity, and substituting solidarity for social charity.

Chapter Eleven begins with a clear definition of justice and moves on to discuss charity, social charity, and solidarity. In this chapter we argue that practicing social justice means practicing all three types of justice relevant to economic affairs: equivalence, distributive justice, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carrying out their everyday economic activities in common.

All of the human activities enumerated above -- producing, distributing, exchanging, consuming, saving, investing, credit-creating, lending, borrowing, innovating, developing, and (re-)vitalizing -- are activated (more or less) by the twin engines of competition and cooperation. PERSONALIST ECONOMICS I presents all of these human activities except developing and (re-)vitalizing in considerable detail as means to the end of meeting human material need. By developing we mean sustainable development. By (re-) vitalizing we refer to the physical (re-)vitalizing that humans require because the body is depleted by various human activities especially work, and the (re-) vitalizing that the human spirit requires due to ignorance, neglect, or pre-occupation with other human needs or wants. In this regard, we have found the mainstream’s treatment of leisure entirely inadequate. Chapter Two (including the appendix), Chapter Four, and Chapter Ten of PERSONALIST ECONOMICS II speak to those deficiencies.

Consuming and (re-)vitalizing bring to the fore the difference between having and being. As John Paul II has warned repeatedly under the heading of the dangers of consumerism, without limits on consuming and having, (re-)vitalizing and being are slighted. PERSONALIST ECONOMICS I would
have been strengthened had we been much more attentive to these matters. That deficiency is addressed in part in Chapters Four, Eighteen, Nineteen, and Twenty of *PERSONALIST ECONOMICS II*.

Thus *PERSONALIST ECONOMICS II* constructs a bridge between the premises it employs and how it proceeds in describing economic reality at its most elementary level. This presentation has been strengthened by linking it metaphorically to the operations of a twin-engine aircraft wherein the two organizing principles that activate economic affairs -- cooperation and competition -- are represented as the two engines that provide lift for the aircraft (economy) and the third organizing principle -- intervention -- provides control and direction to economic activities just as the plane’s rudder and stabilizers allow the pilot to maneuver the aircraft safely in flight. Further, the entrepreneur is the pilot in the sense of making decisions that determine course and destination. Finally, the investment banker fuels the economy with the credit necessary to start and operate the twin engines of competition and cooperation. Regulatory agencies such as Securities and Exchange Commission and the Federal Trade Commission are responsible for inspecting the aircraft and providing control during takeoff, flight, and landing. The Federal Reserve System assures that the fuel supply is adequate and free of contaminants.

In characterizing the various human activities that are central to economic affairs we have found limit to be a most helpful pedagogical device. It applies, for example, to producing in the sense that every production process confronts the limit of capacity beyond which additional inputs result in actual losses of output. It also applies to consuming in the sense that every consumer confronts the limit originating in his/her own materiality beyond which additional consumption is irrational because it results in a loss of total utility. Another application relates to a partial-reserve banking system in which excess reserves impose a limit on credit creation.

*PERSONALIST ECONOMICS I*, however, did not make full use of the limit. For instance, even though waste, resource depletion, and environmental contamination are touched upon, there was no mention whatever of the limit conveyed so fittingly by carrying capacity, and nothing more than a superficial understanding that the faithful practice of the three principles of economic justice limits ill-gotten gains. Nor did *PERSONALIST ECONOMICS I* include the rootedness of the limit of capacity in the human body itself in the form of physical fatigue and exhaustion and in the human spirit in the form of boredom and the fundamental human disorder of workaholism. In like fashion, *PERSONALIST ECONOMICS I* did not recognize the limit on human consumption originating in the human disorder of compulsive buying or shopaholism. Justice and ill-gotten gains are addressed in Chapter Five of *PERSONALIST ECONOMICS II*. Carrying capacity is examined in Chapter Ten. Chapter Sixteen and Chapter Twenty-Three deal with the other two omitted limits.

Chapter Twelve of *PERSONALIST ECONOMICS II* suggests a way to reconcile the dispute as to whether poverty should be defined and measured by an absolute standard, responding to the question ‘How much does the average person/family require to maintain a minimal-living standard?’, or a relative standard, responding instead to the question ‘How much does this person/family have relative to what others have?’. Chapter Thirteen compiles poverty data supplied by the U.S. Bureau of Census though not fully utilized by the Bureau to demonstrate that there is a huge gap in income
in 2006 between poor families and nonpoor families by various family types, and the gap has been getting wider in every year since the data first became available.

Chapter Fourteen examines worldwide poverty, hunger, death, disease, illiteracy, using the most recently available information supplied by the World Bank, the World Health Organization, and other organizations similar in their operational scope. Here too we find huge differences notably between sub-Saharan Africa and the rest of the world.

This chapter presents these topics in four sections. In the first section, we are concerned about six infectious diseases, infant mortality and life expectancy, and the causes of disease and death. In the second section, our interest centers on illiteracy and public expenditures on education. The third section addresses poverty and hunger. The last section speaks to the five revolutions that influence global health, education, and welfare.

Chapter Fifteen discusses the need to reconcile human trafficking and slavery with the principle of equality. Slavery in the United States did not end with the Emancipation Proclamation. Even today, trafficking and slavery continue apace though few Americans are aware of them or admit to their true dimensions. In this chapter we put slavery and trafficking in a contemporary global context because both involve movements across many international borders.

PERSONALIST ECONOMICS I did not cover world poverty, hunger, death, disease, illiteracy, or slavery and trafficking.

The term “the new economy” emerged in the dot.com boom of the 1990s (see, for example, Mandel, pp. 90-12). It remains relevant today well after the bursting of the dot.com bubble because “the new economy” is more than merely a catchphrase. Economic affairs are conducted differently today in part for two main reasons. First, the information-communication technology revolution has permanently altered the way that economic agents interact and in turn has changed the economic agent’s awareness of others and of self (see Chapters Two and Three). Second, increasingly commerce is conducted in ways that the sovereignty of the nation-state no longer matters. Large, supra-national economic unions such as the European Union have broken down barriers between countries in Europe that until recently impeded the flow of goods and services and economic resources.

Chapter Sixteen of PERSONALIST ECONOMICS II examines the new economy at length, showing how it has precipitated change in the relationship between the consumer and merchant, the worker and producer, and the entrepreneur and financial agent. Chapter Seventeen proposes a set of norms for evaluating economic globalization derived mainly from John Paul II and the Universal Declaration of Human Rights, and rounds on this two-chapter section on global economic affairs.

The fifth section of PERSONALIST ECONOMICS II consists of four chapters that draw upon and extend John Paul II’s comments on the social economy. Chapter Eighteen covers John Paul II’s vision of the social economy. In Chapter Nineteen we address the characteristics of the good company as articulated in general terms by John Paul. Chapter Twenty examines what early on in his
papacy John Paul referred to as “social mortgage.” The fourth and final chapter in this section examines John Paul’s understanding of economic freedom notably as applied to the United States.

The sixth section of PERSONALIST ECONOMICS II addresses integral human development. For the moment, it consists of just one chapter in which integral human development is examined in the context of economic gain. Maximizing integral human development, which depends importantly on acquiring personalist capital, is the authentic and ultimate objective of economic affairs. Personalist economics argues that it properly replaces the personal net advantage objective of mainstream economics.

The seventh and last section of PERSONALIST ECONOMICS II provides a personalist economics framework for teaching introductory economics based on the usual textbook divisions: foundations, microeconomics, and macroeconomics. Chapter Twenty-Three concludes with eight lessons learned in more than 25 years of teaching introductory economics to undergraduate students. This chapter supplies the web address to my own copyrighted e-text for teaching introductory economics that is accessible without password and available without charge. PERSONALIST ECONOMICS II closes with an afterword on the 18 central tenets of personalist economics.

Heavily-burdened readers with little spare time and much material competing for their attention might appreciate some instructions on what in PERSONALIST ECONOMICS II is must-read material. Accordingly, we recommend the following chapters above all others: Chapters Two, Three, Four, Five, Six, and the Afterword. Instructors should not skip Chapter Twenty-Three; students of poverty ought to include Chapters Twelve and Thirteen. Chapters Fourteen, Fifteen, Sixteen, and Seventeen are recommended for those with a special concern for the global economy. Chapters Eighteen, Nineteen, Twenty, and Twenty-one are a must-read for those who want to know more about John Paul II’s views on economic affairs. Finally, and repeating what we said earlier, personalist economics is still very much a work in progress.
References


PART I
PERSON, PERSONALISM, PERSONALIST ECONOMICS
CHAPTER ONE

THE ORIGINS OF PERSONALIST ECONOMICS

Aristotle’s contributions to Western thought are enormous: deduction and induction, syllogism, analysis of causation into material, efficient, formal, and final, distinctions such as matter/form, essential/accidental, genus/species/individual, potentiality/actuality, universal/particular, subject/predicate, and ten categories -- substance, quantity, quality, relation, place, time, position, state, action, and affection [Tarnas, p.60]. He is credited by many with founding the first university where the course of study included biology, theology, metaphysics, astronomy, mathematics, botany, meteorology, ethics, rhetoric, politics, and poetics [McClelland, p.52].

Aristotle demonstrated through logic that there exists a supreme being whom he called the Unmoved Mover, that happiness is the goal of human existence and virtue is the necessary precondition for achieving that goal, that body and soul are linked to one another as matter to form, that there is a developmental dynamic to all living things, that humans alone share in God’s nature by virtue of intelligence, are capable of communing with God, and achieve their full potential through the development of their shared nature, through their divine intellect [Tarnas, pp.61, 63, 67]. Aristotle powerfully influenced medieval Christian and Islamic scholastic thought and until the 17th century Western culture was grounded principally in Aristotelian thinking [Encyclopedia Britannica, p.1].

For the thinking Christian in the Middle Ages, the lessons of Greek science beg reconciliation with the teachings of the Church of Christ. Reason must be squared with revelation. Thomas Aquinas certainly was not the first man of letters to attempt this reconciliation. However, he was for sure the most important of his contemporaries, known as the scholastics, and his influence on Western thought extends well beyond the medieval period to the modern age [Hayek, p.94]. As Tarnas explains:

The extraordinary impact Aquinas had on Western thought lay especially in his conviction that the judicious exercise of man’s empirical and rational intelligence, which had been developed and empowered by the Greeks, could now marvelously serve the Christian cause. For it was the human intellect’s penetrating cognition of the multitude of created objects in this world -- their order, their dynamism, their directedness, their finiteness, their absolute dependence on something more -- that revealed, at the culmination of the universe’s hierarchy, the existence of an infinite highest being, an unmoved mover and first cause: the God of Christianity [Tarnas, p.188].

... Aquinas converted Aristotle to Christianity and baptized him. Yet it is equally true that in the long run Aquinas converted medieval Christianity to Aristotle and to the values Aristotle represented [Tarnas, p.189].
Personalist economics originates in this marriage of Greek science from antiquity and scholastic philosophy from the Middle Ages\(^1\) principally at first through the labors of the German Jesuit Heinrich Pesch to construct an economics based directly on Aristotelian-Thomistic thought.

Pesch’s five-volume magnum opus *Lehrbuch der Nationalökonomie*, originally published in German between 1905 and 1926, has been aptly described as a commentary on Leo XIII’s 1891 encyclical *Rerum Novarum*\(^2\) and a sourcebook for Pius XI’s encyclical *Quadragesimo Anno* forty years later.\(^3\) For most of the 20\(^{th}\) century Pesch’s economics was known as solidarist economics due to its heavy emphasis on human solidarity as opposed to individual autonomy. Pesch’s work was continued and extended by his study group that included notably two other Jesuit economists, Gustav Gundlach and Oswald von Nell-Breuning, plus Franz Mueller and Goetz Briefs. Von Nell-Breuning *sub silentio* participated in the preparation of a draft of *Quadragesimo Anno*.\(^4\) Briefs and Mueller immigrated to the United States, and both played a role in the establishment of the Catholic Economics Association in 1941 that some 30 years later became the Association for Social Economics.

Drawing on Aristotle and Aquinas, solidarist economics rejects the individualism of the main pillars of classical economics -- Smith, Ricardo, Malthus, and John Stuart Mill -- who were inspired by several Enlightenment philosophers including notably Hobbes, Locke, and Hume\(^5\) and constructed an economics in the 75 years following the publication of Smith’s *Wealth of Nations* in 1776 strictly on reason in which the economic agent is represented as cut off from a deity who does not care or worse yet does not exist. Smith’s *Theory of Moral Sentiments* in which generosity, benevolence, and sympathy also influence economic decision-making was all but buried by classical economists in the

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\(^1\) Schumpeter asserts that economics emerged in the 18\(^{th}\) century due to a convergence of the philosophy of the ancient Greeks and the scholastics and a literature on practical economic affairs that appeared in England between the 16\(^{th}\) and 17\(^{th}\) centuries. These two original sources converged at the time of the controversy surrounding the French corn laws. In *History of Economic Analysis* Schumpeter argues that more so than any other group the scholastics with their understanding of utility, interest, and money laid the foundations of economics [Swedberg, pp. 42-42, 187].

\(^2\) Misner [pp. 444-464] provides a detailed account of the predecessors of this encyclical within Catholic circles in which he identifies the Jesuit periodical *Civiltà Cattolica* as the “social-philosophical taproot of *Rerum Novarum*” that “drew consistently on a Neo-Thomistic personalism” [Misner, pp, 451, 456].

\(^3\) Worland [p.622] argues that Pius XI drew on the concept of legal justice as articulated by Aristotle and Aquinas and reformulated it so that the principle of subsidiarity provides moral guidance for a modern economic system.

\(^4\) See “Goetz A. Briefs” in the December 1983 *Review of Social Economy*.

\(^5\) Others including Descartes, Kant, and Diderot easily could be mentioned here. We have chosen Hobbes, Locke, and Hume from the Enlightenment period in part because (a) as with Smith, Ricardo, Malthus, and Mill, all three are British, (b) all three taken together are identified as materialists, as opposed to idealists, by Haney [p.197], and (c) Hume according to Heilbroner [p. 42] was Smith’s “intimate.”
19th century who found much more to cling to in his *Wealth of Nations*. The same selective reading of Smith applies even today except for a very few whose economics is outside the mainstream.

Starting more than 200 years ago, individualism, materialism, empiricism, and secularism took firm hold not just in economics but across all of Western culture, and not just for the moment. The result has been a huge and permanent split from Aristotle and Aquinas, from God and revelation.

For the robust civilization of the West at the high noon of modernity, it was science and reason, not religion and belief, which propelled [man’s] progress. Man’s will, not God’s was the acknowledged source of the world’s betterment and humanity’s advancing liberation [Tarnas, p.323].

Ong’s powerful insights help explain the emergence of individualism in the Enlightenment of the 17th-18th centuries. Three key events/developments are crucial: the printing press, the Protestant Reformation, and Ramist pedagogy. All three represent a radical departure from Aristotle and Aquinas. All three occur in Western Europe, the first in the 15th century, and the other two in the 16th century. As to the printing press and the Protestant Reformation, Ong says the following.

The fact that the crisis of authority marking the rise of Protestantism appeared at the time it did is itself interesting. The movement from an authoritarian to an objectivist state of mind … in great part correlated with the shift from habits of predominantly auditory synthesis to habits of predominantly visual synthesis. An oral culture tends to be communal, nonindividualistic, and authoritarian. … An oral culture stores information in memory and thus maximizes the word of others as an avenue to truth, stressing the reliance of mind on mind, of person on person. By contrast, a typographic culture because it is strongly visualist, isolates the individual from the tribe even in much of his verbal activity, mutes and minimized interpersonal communication, and elaborates the visual in all its aspects, including “observation” and “objectivity,” as the preferred route to truth [Ong 1967, p. 283].

Even apart from an expressed doctrine of private interpretation, the printed text throws the individual back on himself, away from the group or the tribe.[Ong 1967, p. 284].

… the Catholic and Protestant views regarding authority are subjective and objective in opposite ways. In Catholic teaching, the voice which is heard as the voice of authority is God’s voice speaking through the Church, in which the Bible has a unique and preeminent place. In classical Protestantism, the voice speaks through the Scriptures alone, to the accompaniment of preaching. The Catholic is objective in that he has resort to the word of an objectively existing Church, recognizable, Catholic doctrine insists, in its “visible” members and he is subjective in the sense that the tradition on which this Church relies does not in its entirely have the visually discernible presence which the Bible as a written document does have. … in basing
his position on a written and printed document, the Protestant is objective in the sense that he fixes on the visible word [Ong 1967, pp. 284-285].

White offers a helpful synthesis of Ong’s long and detailed argument on the role of Peter Ramus in pedagogy.

… Ramus introduced a method of enquiry that tended to eliminate public dialogue and discussion at the level of deeper philosophical and social issues. Ramus magnified a tendency to pitch public scientific discourse at an analytical, quantifiable, univocal level rather than on the analogical, plurivocal, symbolic level necessary to deal with more philosophical issues of cultural values. The motivation for Ramus and many others who followed him was a fascination with “method”: finding the quickest, most mechanical and efficient means of attaining some goal [White, p. xix; emphasis in the original].

The Ramist method is simply this: the laying out of knowledge in a book” [Johns, p. ix]. Farrell describes Ramism as “spectacularly popular” in the 16th and 17th centuries because it replaced the probabilities of Aristotelian dialectic with certainties which made it enormously attractive to Puritans. The visualism embedded in Ramism reinforced in humans an inward-directedness in humans, making them more individualistic [Farrell, pp. 64-65, 76, 125].

Mathematics and mathematical physics come into their own, according to Ong, in the period immediately following the scholastics and only in Western Europe [Ong, 1962, p. 72]. Under the influence of Ramist rhetoric, dialogue and conversation become “mere nuisances” [Ong 2004, p. 289]. Aristotle is attacked brutally.

Ramus’s critique of Aristotle labors in a cascade of invective … He systematically misrepresents Aristotle’s positions and frequently resorts to highly mythical self-dramatization, picturing dialectic as a tree of knowledge with golden apples hanging from the boughs … surrounded by screeching and frustrated Aristotelian hobgoblins.

… Ramus concludes his charges against Aristotle and the Aristotelians in stock humanist terms. Aristotelians are obscurantists. They foster barbarism. They should not be clung to out of mere custom. The Aristotelian logical works must be rejected in favor of the one sole dialectic which rules all [Ong 2004, pp. 174-175].

These three events/developments made human beings more inward directed, more centered on self, and at the same time less outward-directed, less concerned about others, and more open to the philosophy of individualism. Ramism, adds Ong, reduced what we learn through the other senses – smell, pressure, sound, taste – to visual forms such as a table, graph, wavelength. This visuality in turn is at the very heart of modern science [Ong 2004, pp. 108, 269]. And we argue at the very heart of mainstream economics today with its insistence on the individual as the basic unit of economic analysis and its claim of certitude in the findings of economic analysis. For more on the premises of mainstream economics see Chapter Two.
Due principally to modern communication technologies, there is a huge difference in human consciousness today as opposed to years ago. This difference has made possible new modes of thinking. As Ong remarked in the mid-1970s “we live in a different world inside our own heads than did our great grandparents” [Ong, p. 24]. Contemporary mainstream economics, however, still holds fast to the thinking prevalent when writing was the most advanced mode of human communication.

Writing more than 100 years after the individual became the basic unit of economic analysis and individualism its philosophical underpinnings, Pesch launched the following criticism.

Individualism represents a mechanism. It has no intrinsic binding force, no inner organic unity, no coordination or direction toward a common goal. Thus competition there does not amount to contention in the performance of functions toward the fulfillment of a common purpose, but it is rather a relentless conflict among individuals. Authority remains as something extrinsic to this process rather than an intrinsic principle of society. Its task is simply to prevent the worst kind of mayhem, like the policeman in Berlin on New Year’s Eve [Pesch, vol.II, bk.1, p.249].

The clash between classical economics and solidarist economics centers on method. Classical economics is narrow, mathematical, deterministic science. Solidarist economics is broad, soft, moral science. Classical economists think about economic affairs mainly in terms of the decision-making process and maximizing behavior of the individual. Solidarist economists think about economic affairs principally in terms of human material well-being [Waters 1988, p.137].

This clash notwithstanding, there are clear connecting links between solidarist economics and three central figures in the history of economic thought: Smith, Weber, and Schumpeter. Without tossing aside Wealth of Nations, solidarist economics has been much more open to Moral Sentiments than classical economics has been. We argue in Chapter Two that Wealth of Nations presents an understanding of economic affairs based on the individuality of the economic agent whereas Moral Sentiments calls attention to the sociality of the economic agent.

Weber noted that the split in economics between those who were overly abstract and non-historical and others who were overly historical and non-theoretical was polarizing economics into two sciences. In a new type of economics called Sozialökonomik Weber attempted to bring the two together through a synthesis that used sociology to reconcile economic history and economic theory. Gordon calls attention to a “striking re-echo” in Weber of Aristotle’s view that economics should be oriented primarily to ends and then to the means appropriate to those ends [Gordon, pp.155-156].

Weber greatly influenced his young colleague Schumpeter whose own work was constructed around Weber’s paradigm, at times leaning more toward the mathematical and at other times leaning toward the historical [Swedberg, p.2]. In leaning toward the mathematical the 25-year old Schumpeter

1 See, for example, the December 1976 special issue of the Review of Social Economy that is built entirely on the theme of “the social economics of Adam Smith.”
published *The Nature and Essence of Economic Theory* (1908) in which he displayed admiration for the work of Walras [Perlman and McCann, p.560]. In *History of Economic Analysis* which was published posthumously almost 50 years later Schumpeter argued that even though Walras’ general equilibrium theory did not incorporate a dynamic that accounts for change in economic affairs, it was Walras who first discovered the fundamental problem of economics [Swedberg, pp. 29,188]. Perhaps not surprisingly, as Casson states, the entrepreneur who is so central to Schumpeter’s general dynamic theory is unnecessary in neo-classical economics because other economic agents already account for every economic function; the closest the neo-classicals come to Schumpeter’s entrepreneur is the Walrasian auctioneer [Casson, pp.12-13].

There are two direct connections between Schumpeter and what later became personalist economics. First, it is reported that Schumpeter once asked Briefs ‘Why don’t you design the alternative economic system?’ Further, in a public forum just nine days before his death, Schumpeter pointed to *Quadragesimo Anno* as a viable alternative to socialism [Waters 1961, pp.136-137]. Second, Schumpeter was Bernard Dempsey’s doctoral adviser at Harvard University and wrote an exceptionally complimentary introduction to Dempsey’s dissertation when it was published in the early 1940s under the title *Interest and Usury* [Roets, p.548-549]. No doubt it was Dempsey who as Schumpeter’s student called his attention to the scholastics and their work on utility, interest, and money. At roughly the same time fellow Jesuit economist Thomas Divine and Dempsey founded the Catholic Economics Association.¹ It is rumored that when Schumpeter served as president of the American Economic Association in 1948 he was able to have the Catholic Economics Association included as one of the six founding associations of the Allied Social Science Associations, the organization that coordinates the annual meetings of professional economists that today typically draws more than 7,000 registrants.

There is a third important connection between Schumpeter and personalist economics, though this connection is less direct. William Waters wrote his doctoral dissertation at Georgetown University on Schumpeter (see Waters 1952), served as editor of the *Review of Social Economy* for 20 years starting in 1965, was elected president of the Association for Social Economics and was named first recipient of the Thomas Divine Award for lifetime contributions to social economics and the social economy. Waters’ scholarly writing and teaching were deeply rooted in Schumpeter’s thinking² and especially in the late 1980s Waters became identifiably personalist though he still referred to himself as being within the solidarist tradition. His presidential address in 1987 is titled “Social Economics: A Solidarist Perspective.” No one more so than Waters connects personalist economics to Schumpeter, Pesch’s study group, Aquinas, and Aristotle. Two statements taken from his dissertation help make this connection evident. The very first sentence in the introductory chapter reads as follows: “To appreciate the investigations that follow, the reader must be fully conscious of our debt

¹ Oddly, these two Jesuits -- one trained at Harvard, the other at London School of Economics -- saw things much differently. While Dempsey was powerfully influenced by Pesch, Divine was closely allied with mainstream economic thought. Eventually, Divine’s view became the dominant perspective within the Association [Waters 1990, pp.92-93].

² Following completion of his service as editor of the *Review of Social Economy* in 1985, Waters served as special editor of a 1991 issue of the *Review* on the theme of “the social economics of Joseph A. Schumpeter.”
to Aristotelian metaphysics” [Waters 1952, p.1]. Later in the same introduction Waters makes this assertion: “We wish to give recognition to the great man [Schumpeter] who restored the human person as the dynamic factor in the explanation of economic activity” [Waters 1952, p.19; emphasis added]. Although as a graduate student he became Schumpeterian in thinking principally under the influence of Josef Solterer, Waters also studied under Briefs.

In the following attention is concentrated on six persons who were importantly influential in the development of personalist economics: Pesch, Dempsey, von Nell-Breuning, Briefs, Waters, and Danner. Others who are worthy of our noting but are not included in this review are Richard Mulcahy, S.J., Josef Solterer, Gladys Gruenberg, Stephen Worland, Gustav Gundlach, S.J., Rupert Ederer, Philomena Mullady, Friedrich Baerwald, Leo Brown, S.J., Louis Buckley, Walter Froehlich, Joseph Becker, S.J., Thomas Nitsch, Franz Mueller, Arnold McKee, and Catherine Knoop. A reading list is appended for those who would like to explore the solidarist/personalist literature further.

**HEINRICH PESCH, S.J.**

The economic-science component of Catholic social economics is anchored firmly in the work of Heinrich Pesch. His *Lehrbuch der Nationalökonomie*, volume one of which was published in 1905, is regarded as a commentary on *Rerum Novarum* and a source book for *Quadragesimo Anno*. His “religion cannot produce grain” is a warning that in matters of human material need more than faith alone is required.

Pesch took up economic science for the same reason Leo XIII wrote *Rerum Novarum*: the miserable conditions of the working class. A four-year period of study in England in the 1880s was decisive because it sensitized Pesch to the miseries of the working masses and some years later led to his taking up the study of economics [Mulcahy 1952, pp 2-3]. In addition to the *Lehrbuch*, Pesch produced more than 100 other publications before his death in 1926. Thus, from the very beginning, a concern for the working class and for conditions in the workplace has been a dominant theme of Catholic social economics. The centerpiece of Pesch’s life work is his social system of labor that occupies the middle ground between the individualism of the capitalist system and the collectivism of the social system and which for that reason has been called “the third way.”¹ Pesch’s system more commonly is called “solidarism” and is more aptly described as an architectural sketch for a reconstructed economic order than a set of detailed blue-line drawings.

Absolutely central to Pesch’s economics is his conceptualization of human beings. Pesch rejects individualism’s conception of the human being as basically self-sufficient and self-determined and collectivism’s view of him/her as mere member or functionary of a homogenous, self-dependent whole. Instead, humans are inseparably individual and social, simultaneously an independent free being and a dependent social being [Mueller 1977, p.295; Schuyler, p.226].

¹ Interest in mapping “the third way” reached a peak in the years following *Quadragesimo Anno* but never really became deeply rooted in Catholic social economics. Nothing in the encyclicals of John Paul II reaffirmed the importance of finding “a third way.” Instead, Catholic social economists today are challenged to help reconstruct the market system in ways that help it better serve human material need.
Consistent with his foundations in Aristotelian-Thomistic thought, Pesch regards human beings as body-soul composites. It is the body that gives the human being his/her materiality. It is the soul that supplies him/her with the two characteristics -- free will and intellect -- that make him/her truly unique. Most fundamentally, Pesch’s conception of humans is that they are made by God in His own image and likeness. This view underpins literally the entire body of Peschian economic thought [Mueller 1951-1952, p.489; Schuyler, pp.230-231].

There is little in the way of specific details in Pesch’s system, but this is of no crippling consequence since Catholic social economics insists that, without exception in economic affairs, humans are far more important than the system. Human beings truly exist; economic systems are a manner of speaking. John Paul II calls attention to this distinction in Laborem Exercens.

> Everything contained in the concept of capital in the strict sense is only a collection of things. Man, as the subject of work, and independently of the work he does -- man alone is a person [John Paul, p.31].

Moreover, in our judgment, economic systems are to serve human material need and because that need may be different in different places, times, and circumstances, some differences in the details of solidarist economic systems are desirable, if not necessary.

As noted earlier, Pesch directly influenced a small group of fellow Germans known as the study group. In addition to Gundlach, von Nell-Breuning, Mueller, and Briefs already mentioned, the group included Wilhelm Schwer, Paul Jostock, Heinrich Rommen, and Theodor Brauer [Mueller 1940, p.337].

Pesch’s influence extended to the United States in part as a result of the emigration of some members of the study group. But two of his followers were Americans: the Jesuit economists Richard Mulcahy and Bernard Dempsey. Mulcahy authored the only book-length commentary on Pesch’s work in English that is all the more significant because until 2002-2003 only a very small portion of Pesch’s work had been translated.¹ Dempsey’s The Functional Economy owes much to the work of Pesch and is one of the finest examples of scholarly work in the Catholic social-economics tradition.

In a private communication with Pesch’s English-language translator it is not clear if Pesch by using different words in German intended to differentiate individual from person in the same way that the two are set apart in personalism and personalist economics or simply was using them as synonyms.

**OSWALD von NELL-BREUNING, S.J. and BERNARD DEMPSEY, S.J.**

Von Nell-Breuning is included here even though little is known about von Nell-Breuning’s professional contributions apart from what appears in the Review of Social Economy.² Even though

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¹ Rupert Ederer’s English translation of the five volumes of Pesch’s *magnum opus* has been published by The Edwin Mellen Press (see references section under “Pesch”).

² His four articles in the *Review of Social Economy* are cited in the references section. Three first appeared elsewhere in German; the fourth was published originally in Latin. Each one was translated into English by a
he seems to have lived in the shadow of his mentor Heinrich Pesch, von Nell-Breuning is noteworthy because he is reported to have drafted *Quadragesimo Anno* for Pius XI [Mueller 1964, p.132].

Shortly after the public release of that encyclical letter in 1931, von Nell-Breuning published his extended commentary *Reorganization of Social Economy: The Social Encyclical Developed and Explained*. Several years later Bernard Dempsey published the English edition. In his commentary, von Nell-Breuning raises the very same question solidarists in later years have been asked: ‘What does the vocational order look like?’.

Since the question of vocational order has, by the Encyclical *Quadragesimo Anno*, been made practical and open for general discussion once more, explanations may be expected in this book as to what such a vocational order would look like, and how it can be brought about. This is a fair question, but an answer cannot be given; not because nothing can be said about it, but rather because so much could be said that it would exceed the space available and would demand a separate book. The deciding factor is that the Encyclical purposely restricts itself to discussing the principles of a vocational order of society and economics, but carefully avoids entering into the description of a *functional order in the concrete*. Since, in this instance, we have to interpret the Encyclical, and not to answer questions that are brought up by it without any comment, this restriction seems imperative. Furthermore, it is by far more important to study the Encyclical’s principal ideas thoroughly, than to deal with these questions of organization. And, let us frankly admit that frequently the reason for the great interest in learning what a vocation order would look like is not so much zeal to begin immediately with its realization, but doubt whether the Holy Father’s noble ideas are really possible and practicable. Some fear that Pius XI may have become the victim of visionary ideals. Since we do not share these fears, it seems unnecessary to take them into account by bringing the proof for the possibility of such an order in the form of an example [von Nell-Breuning, pp.5-6; emphasis added].

Von Nell-Breuning’s “functional order in the concrete” foretells the title and the central theme of Dempsey’s *The Functional Economy: The Bases of Economic Organization* by which Dempsey meant the principles that are foundational to a functional or organic economic system [Roets, p.550]. *The Functional Economy*, which in fact is a collection of articles previously published, is a major contribution to Catholic social economics because it applies the principles of Mainstream economics such as marginal utility and substitution *along with* the principles of Catholic social teaching such as subsidiarity and equivalence to everyday economic affairs. The subjects covered in some of the

different American colleague.

1 Von Nell-Breuning lived past age 90; he died in Germany in the early 1990s.

2 Often referred to as the principle of commutative justice, and thereby perpetuating some confusion. We prefer to call it the principle of equivalence because this principle underscores equality in the exchange process.
chapters are especially illustrative: the worker as person; basis of just wages; just price in a functional economy; subsidiarity -- a basis for functional adjustment.

Further, and most importantly, Dempsey understands the importance of the question on vocational order raised in von Nell-Breuning’s commentary on Quadragesimo Anno but set aside. Dempsey’s answer, however, does not take the form of concrete examples. Rather he asserts that the question relates to the nature of economic institutions and he articulates three principles -- consistency, feasibility, and economic rationality -- that provide instructions as to the functions and structures of economic institutions reconstructed along the lines suggested in the encyclical.

Consistency, according to Dempsey, means “a harmony between the structuring given to man’s economic activity and the conclusions of an adequate philosophy of human nature and human action” and feasibility is defined operationally and administratively as “what is socially and politically possible” [Dempsey 1958, pp.327-329]. Economic rationality to Dempsey means the impact of the reconstruction suggested by the so-called vocational order principally on production and distribution.

Will the social planner’s scheme help to produce more and better goods, in a better way, with better distribution? How much more? How much better? [Dempsey 1958, p.331].

Dempsey died at age 57.¹ We can only speculate as to what his contributions might have been had he lived another 20 years. Even so, the last chapter of The Functional Economy provides some hints in the form of Dempsey’s statement that the central problem facing American business leadership is how to “maintain democratic government and personal freedom in an economy where the high standard of living is bound up with the efficiency of very large aggregates of capital goods” [Dempsey, p.460]. The rest of the last chapter intimates that Dempsey likely would have studied the ways in which it is possible to reconstruct economic institutions to facilitate the everyday practice of the three principles of justice: equivalence, distributive justice, and contributive justice.

GOETZ BRIEFS
Goetz Briefs as mentioned above was a member of Pesch’s study group. At the height of a formidable academic career, Briefs fled his native Germany in 1934 when his life was threatened by the forces loyal to Hitler and National Socialism. He served on the economics faculty at Columbia University and Catholic University. His longest service, however, came at Georgetown University where he retired in 1970 after serving 33 years on the faculty. Briefs is an important bridge between the German solidarists Pesch and von Nell-Breuning and the Americans personalists Waters and Danner.

¹ For more on Dempsey’s life see Roets.
In addition to being a solidarist, Briefs was an institutionalist in the sense that he insisted that institutions matter much.¹ His son Henry characterized Briefs as a “Christian personalist” which to the author’s knowledge is the first time anyone in economics is formally portrayed as such. Today, no doubt, Briefs would have enthusiastically embraced the personalism of John Paul II as applied in his social encyclicals.

Two themes, both very much consistent with his solidarist/personalist convictions, run through Briefs’ life work. The first is his criticism of collectivism whether in the form of the central state, syndicalist state, or smaller units of society which threaten the personhood of their members. The second is his criticism of “classical liberalism and individualism as pseudo social philosophy no less than as ruling public philosophy” [Henry Briefs, pp.217].

As with other social economists, Briefs was not able to reconcile economic efficiency with the principles of his social philosophy. At times, it seems that economic efficiency imposes constraints or limits on the attainment of social improvement. At other times, Briefs’ anthropological-societal norms constrain or limit the achievement of economic objectives such as allocative efficiency and productivity growth.

A short commentary like this is a disservice to Briefs and his life work, some of which still is not available in English, but his views regarding trade unions are worth our notice in part because Briefs’ service on the Georgetown faculty was as a labor economist. Predictably, as a student of Pesch, Briefs saw trade unions at least in earlier stages of the development of capitalism as necessary, self-organized, self-help solidarist institutions. But later -- in the 1950s and 1960s -- Briefs came to see trade unions that have a cartel-like structure as subordinating their members to certain organizational objectives. That is, he saw them as one type of collectivist institution dangerous because of their tendencies to depersonalize their members. Thus his vocal criticism of the closed shop.

WILLIAM WATERS

Of the six solidarists/personalists covered at in some detail in these pages, William Waters had perhaps the best grasp of the vast published works of Catholic social economists, no doubt as part of his work as editor-in-chief of the Review of Social Economy for twenty years beginning in 1965. From the very start of his editorship, Waters encouraged a broadening of perspective within the Association for Social Economics to include institutionalists, humanists, radicals, feminists, and environmentalists. As editor-in-chief, he probably did more than anyone else at that time to not only welcome them into the Association but also embrace them as intellectual brothers and sisters. He was honored in the Summer 1990 issue of the Review of Social Economy as a “distinguished member of the Association for Social Economic.” Earlier, he was named the first recipient of the Thomas Divine Award for lifetime contributions to social economics and the social economy.

¹ In the following the author borrows heavily from Henry Brief’s review of his father’s contributions to social economics and the social economy in the December 1983 Review of Social Economy. This issue is devoted entirely to the social economics of Goetz Briefs.
Waters was Jesuit-educated as an undergraduate student at Loyola College in Baltimore and later as a graduate student at Georgetown University. He switched from history to economics when he entered Georgetown where he was influenced by Briefs and even more so by Solterer. Waters’ dissertation focused on Schumpeter and the Schumpeterian emphasis remained central to Waters’ vision of economics and economic affairs throughout his professional work. In his presidential address to the Association for Social Economics in 1987 Waters said the following.

A realistic explication of the nature of the economy focuses upon the mechanism of [economic] change. The empirical reality is dynamic. Starting with this emphasis, the central role is given to the creative person as an alternative to the utility-calculating individual and is thus more compatible with the solidarist philosophical position than with the dominating classical one.

The economic process is ... essentially Schumpeterian centering upon a creative vision supported by funding that gives the economic creator access to society’s resources and brings forth an innovation. Characteristics of the innovational process [include] some Schumpeterian favorites such as dynamic competition, resistance, creative destruction and the universality of cyclical behavior in a private enterprise society [Waters 1988, pp.122-123].

Waters quietly referred to himself as a “solidarist” but, in private conversations, recognized the special liability that attends such a label with its greater meaning and acceptance in Europe than America. It is no disservice or misrepresentation to call Waters’ economic thought personalist.

As already suggested, Waters was best known for his work as editor-synthesizer of the work of a vast array of social economists with widely different views on economics and economic affairs. At the same time, as researcher-author Waters’ contribution came in the form of a small but important body of published work that is significant for its consistently high quality. The following is a sample.

Social economics begins with and centers on a

view of human beings as unique persons affirming their individual absoluteness but sharing a common humanity as purposive, responsible and free; as transpersonal beings moving toward community with others to reflect the ultimate dignity of each; and as creative in [the sense] that an essential makeup [of the person] is the need for accomplishment.¹

Finally, Waters had a special gift as teacher-mentor. The courses he taught over more than 40 years include history of economic thought, intermediate macro-economics, European economic history, principles, real-estate economics, and a special seminar on Marshall’s economics. Oddly, in more than 40 years on the economics faculty of DePaul University, Waters never taught a course on Schumpeter’s economics.

¹ Quoted in “William R. Waters, Distinguished Member of the Association for Social Economics,” Review of Social Economy, Summer 1990.
**PETER DANNER**

Danner’s developmental work on personalist economics began initially with his student/teacher relationship with Dempsey at Saint Louis University. In the preface of his *The Economic Person* which was published about 50 years after his student days, Danner says the following about his teacher.

Bernard W. Dempsey, S.J., my mentor at St. Louis University, was the first to resolve conflicts between fundamental ethical and economic principles and to introduce me to the economic wisdom of Joseph A. Schumpeter, his own mentor at Harvard [Danner, p.xiii].

Danner attributes his efforts to rethink economic principles and the history of economic thought in terms of personalism to Mounier’s *Personalism* and Kavanagh’s 1993 lecture and 1995 monograph *Recovery of Personhood: An Ethics After Post-Modernism* [Danner, p.xiii]. We are convinced that no one has contributed more to rethinking economic theory on the foundation of personalism than Danner notably in his *The Economic Person* that was published in 2002.

*The Economic Person* represents a substantial reworking of five of Danner’s earlier publications\(^1\) and is the capstone of Danner’s efforts to understand contemporary economic affairs in terms of the economic agent as a person. Though the book’s title only hints at this, to Danner the economic agent is an embodied spirit, a human body within a spirit.

… the one basic fact is that we are primarily spirits needing to know and to love but spirits, nevertheless, who need and must work through bodies to create from the powers and raw materials of the universe the beautiful as well as the useful things for living [Danner 2002, p.xii].

… the older tradition [prior to Smith and other 19\(^{th}\) century economists] continued of seeing religious, philosophical, social, and humanistic factors influencing people’s economic actions. It inevitably suggests examining the economic agent as a self-knowing but embodied spirit. This melding of the material and spiritual, the empirical and the metaphysical, suggests the need to re-examine some basic economic principles [Danner 2002, p.xiii; emphasis added].

*The Economic Person* is neither a principles nor advanced textbook written for the undergraduate student of economics. For example, it offers none of the schematics or mathematical expressions that have been commonplace in economics texts for many years. It is instead an extended commentary on the economic agent functioning in a modern market economy that goes well beyond the simple understanding of economic agency that is captured by the mainstream’s *homo economicus*. *The Economic Person* is a direct challenge to mainstream economists to re-think economics by replacing the concept of the individual that dates from the 17\(^{th}\) and 18 centuries when economic affairs were

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predominantly local with the concept of the person that is much more relevant to the overwhelmingly
global economic affairs of the 21\textsuperscript{st} century. Ironically, Danner’s understanding of person originates
with the classical Greek philosophers Plato and Aristotle. Implicitly following T.S. Eliot’s counsel
that “in my beginning is my ending,” Danner’s argument is that a proper analysis of economic affairs
begins with the economic agent. Several insights from \textit{The Economic Person} help capture the tone of
Danner’s extended argument.

(1) The economic person disappeared into the rationality and gain-seeking of \textit{homo economicus}
and the mathematical and quantitative methods of mainstream economics (Chapter Two).
(2) Person is an amalgam of contraries -- body and spirit, male and female, individual and social,
“I” and “Thou,” unified and changing, free and constrained -- whose development depends
on sorting out the conflicts between those contraries (Chapter Four).
(3) Mainstream economists exclude the person from economic analysis by absorbing all personal
values, however important in economic decision-making, into price. Economic rationality
transforms into moral perversion when “Thou” is completely disregarded. (Chapter Six).
(4) Gain-seeking in the form of profits, economic rent, and consumer surplus by itself does not
assure the common good (Chapter Seven).
(5) Though the hopeful expectation of acquiring economic gain is necessary to motivate
economic agents to compete in economic affairs and the actual experience of taking
possession of that gain is necessary for them to remain engaged, some limit on gain-seeking
is necessary to elicit the cooperation that is necessary to work together and live in
community. Three virtues or good habits -- moderation, justice, and generosity -- help
constrain gain-seeking and thereby make community a possibility (Chapter Eight).
(6) The economy can be described as an assortment of physical things such as factories, farms,
forests, mines, roads, bridges, and the like. However, it is much more fundamentally a
network of human persons acting as buyers and sellers, employers and employees, borrowers
and lenders, producers and resource-holders, and in other economic roles (Chapter Nine).
(7) The social values of liberty, equality, and fraternity are the necessary foundations for the
three principles of competition, government mediation, cooperation that organize the central
activities of a market economy: buying and selling, employing and producing, borrowing and
lending, innovating and investing (Chapter Ten).

\textit{The Economic Person} challenges everyone in economics, whether orthodox or heterodox, to begin at
the beginning, to construct their economics around flesh and blood economic agents primarily and
physical things only secondarily, to examine more carefully how humans conduct themselves in
economic affairs especially in matters where conflicts must be resolved, and to draw their
conclusions with greater appreciation for the profound mysteries that at the heart of the human
condition and greater acceptance of the uncertainty that necessarily follows from not knowing human
beings more fully. Danner served on the economics faculty at Marquette University for many years
and retired professor emeritus in 1986.
FINAL COMMENTS

Figure 1.1 provides a schematic showing that the origins of personalist economics are traced to Aristotle and Aquinas and incorporate the father of economics without ever embracing the individualism of the Enlightenment that continues to dominate mainstream economics today.

The papal encyclical *Rerum Novarum* (1891) helped inspire the development of solidarist economics in Germany under the guidance of Pesch who was deeply troubled by the abject poverty he observed in England in the late 1800s, rejected as seriously flawed the individualism at the center of economic thought at that time, and set out to construct economics on the foundations of the much older philosophy of the scholastics. Solidarism in turn found an important though silent outlet in the encyclical *Quadragesimo Anno* (1931). Briefs, Mueller, and one or two others from Pesch’s study group who emigrated to the United States, along with the American Jesuits Dempsey and Divine, established the Catholic Economics Association in 1941 (renamed the Association for Social Economics in 1970).

Schumpeter’s economics entered the Association initially through Briefs and Dempsey. Personalist economics emerged on its own as the offspring of solidarist economics principally at the hands of Waters who was greatly influenced by the teachings of Aristotle and Schumpeter, and Danner whose work draws heavily on John Paul II and Mounier. Figure 1.1 also provides a timeline that connects the three stages of human communication -- the oral/aural stage, the script stage, the electronic stage -- to the evolution of economics since the Enlightenment. The significance of that timeline is addressed at length in Chapter Two.
FIGURE 1.1 THE ORIGINS OF PERSONALIST ECONOMICS

Printing Press Reformation Ramist Pedagogy

Enlightenment: Age of Reason

Scholasticism (Aquinas)
Faith and Reason

Individualism (Locke - Hobbes - Hume)

Wealth of Nations Smith Moral Sentiments

Orthodox Economics

Ricardo
Malthus

J.S. Mill
Marshall - Fisher - Walras

Solidarist Economics

Rerum Novarum

J.M. Keynes
Schumpeter

Moral Sentiments

Schumpeter Briefs

Schumpeter

Rerum Novarum

Moral Sentiments

J.M. Keynes

Schumpeter

J.M. Keynes

Wealth of Nations Smith Moral Sentiments

Orthodox Economics

Ricardo
Malthus

J.S. Mill
Marshall - Fisher - Walras

Solidarist Economics

Rerum Novarum

J.M. Keynes
Schumpeter

Moral Sentiments

J.M. Keynes

Schumpeter

J.M. Keynes

Wealth of Nations Smith Moral Sentiments

Orthodox Economics

Ricardo
Malthus

J.S. Mill
Marshall - Fisher - Walras

Solidarist Economics

Rerum Novarum

J.M. Keynes
Schumpeter

Moral Sentiments

J.M. Keynes

Schumpeter

J.M. Keynes

Wealth of Nations Smith Moral Sentiments

Orthodox Economics

Ricardo
Malthus

J.S. Mill
Marshall - Fisher - Walras

Solidarist Economics

Rerum Novarum

J.M. Keynes
Schumpeter

Moral Sentiments

J.M. Keynes

Schumpeter

J.M. Keynes

Wealth of Nations Smith Moral Sentiments

Oral/Aural Communication language

Script Communication typescript

Electronic Communication telegraph telephone radio

television

fax internet e-mail wireless

Personalist Economics

Catholic Economics

Association

Chicago School

Personalism (Mounier - John Paul II)

Personalist Economics

17
References


APPENDIX

SELECTED READING LIST: PERSONALIST ECONOMICS


Pesch, Heinrich. *Lehrbuch der Nationalökonomie*, a five-volume work originally published in German by Herder and Company between 1905 and 1926.


CHAPTER TWO

FROM INDIVIDUAL TO PERSON:
A JOURNEY FROM THE SCRIPT STAGE OF HUMAN COMMUNICATION TO THE ELECTRONIC STAGE

_Homo economicus_ is one deeply-ingrained concept of mainstream economics that of late has come under greater scrutiny.\(^1\) To illustrate, in the summer 2000 issue of the _Journal of Economic Perspectives_ three articles appearing back to back are relevant. Fehr and Gächter address the need for re-thinking _homo economicus_ in terms of the adequacy of a pure self-interest model.

We believe that for important questions in these areas (such as labor market interactions, public goods, and social norms) progress will not come from additional tweaking of a pure self-interest model, but rather from recognizing that a sizable proportion of economic actors act on considerations of reciprocity [Fehr and Gächter, 2000, p. 178].

Ostrom presents the issue in terms of the cogency of the self-interested agent.

It is possible that past policy initiatives to encourage collective action that were based primarily on externally changing payoff structures for rational egoists may have been misdirected -- and perhaps even crowded out the formation of social norms (such as reciprocity, trust, and fairness) that might have enhanced cooperative behavior in their own way [Ostrom, 2000, p. 154].

Manski defines the issue in terms of the accuracy of the core concepts.

The very first step in undertaking research on _social interactions_ is to get the concepts right. The core concepts -- of preferences, expectations, constraints, and equilibrium -- offer a coherent framework within which one can define rigorously and analyze constructively many _interaction processes_ [Manski, 2000, p.132, emphasis added].

In the very same issue of that journal, however, Saffran’s recommended reading list calls attention to Alan Blinder’s article in the January 2000 issue of _Business Economics_ in which Blinder [2000, pp. 18, 24] approvingly references _homo economicus_ as a “rational, self-interested calculating machine” and trumpets that Adam Smith has made a “worldwide comeback.” While Blinder

\(^1\) We have been able to trace “_homo economicus_” (more specifically “_homo oeconomicus_”) to a book published in 1889 by the Italian economist Maffeo Pantaleoni.
references Smith’s *Wealth of Nations*, nowhere in his article does one find reference to reciprocity, trust, and fairness, or even Smith’s *Moral Sentiments*. If one accepts Blinder’s views as typical of mainstream economics, what is stirring in the ranks of economists today is a restlessness with a concept that is centrally important to the way in which economic affairs are understood and economics is taught. A restlessness that indeed is present at the very beginnings of economic science and is reflected in the idealism in *Moral Sentiments* and the individualism in *Wealth of Nations* [Haney, 1949].

At times, this restlessness evokes no specific remedy. At other times, it elicits one that is more specific but does not advance a convincing argument as to why that remedy is better than any other. Henrich and several colleagues, for instance, assert that “recent investigations have uncovered large, consistent deviations from the predictions of the textbook representation of *Homo Economicus*” [Henrich, p.1]. Gintis and Orr in the *Boston Review* (on-line) quite forcefully would replace *homo economicus* with *homo reciprocans*.

... human beings exhibit a form of strong reciprocity that cannot be explained by reciprocal altruism or enlightened self-interest. Reciprocal altruism cannot explain why people vote, give to charity, participate in large collective actions to transform social institutions, or sacrifice themselves in battle. In each of these cases, people incur costs while contributing to a collective good, but cannot expect a compensating, long-term benefit to result from their contribution ... *Homo economicus* is what we would commonly call a sociopath: an individual totally indifferent to the well-being of others [Gintis and Orr, 2001, p 2].

In the July 2000 issue of the *Journal of Economic Behavior and Organization* Nyborg introduces *homo politicus* that she recommends not as a replacement for *homo economicus* but a complement. [The] distinction between consumers and citizens seems to suggest that every individual may have two distinct and possibly conflicting preference orderings over social states, one associated with each role ... I propose a formalization of the distinction between consumers and citizens, or *Homo Economicus* and *Homo Politicus*, using well-known concepts from neoclassical welfare economics [Nyborg, 2000, p. 306].

Ten years earlier, sociologists Hirsch, Michaels, and Friedman [pp. 39-56] recommended *homo sociologicus* in a wide ranging exposition of the differences between economics and sociology within a collection of papers that call attention to the defects in the neo-classical paradigm. In the same collection, Swedberg, Himmelstrand, and Brulin [pp.57-86] set out the fundamental items in the neo-classical paradigm and compare those items with the paradigm employed in economic sociology. A short time later Doucouliagos [pp. 1-5] satirically adds *paleo-homo economicus* and *neo-homo economicus*, refers approvingly to *homo sapiens*, and calls the reader’s attention to Jensen’s anglicized term *socio-cultural person*. At roughly the same time, we added to this list of

More recently, Thaler [pp.133-141] predicted that developments in other disciplines notably psychology increasingly will be incorporated into economics and consequently *homo economicus* eventually will evolve into *homo sapiens*. Thaler argues for constructing economic models on the basis of an economic agent who better represents the full range of human behavior in economic affairs. To Thaler, economics must recognize the role of emotion in economic agency and integrate it with rationality in economic decision-making.

Following years of criticism of the main tenets of mainstream economics, Joseph Stiglitz in his 2001 Nobel address [pp. 460-501] sharpened his attack on the neo-classical paradigm for: “seemingly precise models” that leave out information concerns; impossibility of involuntary unemployment; separation of equity and efficiency; continuous market clearing and equilibrium; Pareto-efficient markets; and reduction of economics to engineering. Included in his indictment were these central tenets of neo-classical economics as well: failure to differentiate types of markets; information efficiency of markets; separation of action, information, and behaviour; invisible hand leading to Pareto-efficient allocation of resources; privatization as welfare enhancing; supply and demand constituting the whole of economic analysis.

The problem, as Stiglitz [p. 488] makes explicit, is that “the economists’ traditional model of the individual is too narrow.” He does not point out, however, that the underlying philosophy of individualism must be too shallow. Further, he does not offer a carefully articulated substitute for the individual or individualism. With the exception of Peter Danner, to our knowledge no one else has either (see Danner 2002). See the appendix to this chapter for Danner on person and personalist economics.

In 1986 Kahneman, Knetsch, and Thaler stated that there are two ways to improve the basic microeconomic model. One is to “adopt a more complex view of the environment and of the interactions among transacting agents;” the other is to abandon “the standard assumption of rational expectations” [pp. 298-299]. They warn that the second way adds uncertainty regarding predictions of human behaviour in economic affairs and complexity to the factors that influence economic behaviour. Mequior [pp. 353-378] is more forceful and more alarmed. *Homo economicus* is under attack and with it the central values of individualism and critical objectivity in knowledge. Thus does he suggest, though clearly would condemn, that in order to amend the meaning of economic agency conveyed by *homo economicus*, it is necessary to offer a cogent alternative to individualism.

In this chapter we intend to demonstrate that the remedy for this restlessness lies in the distinction between individual and person, between individualism and personalism, and why today person as the basic unit of economic analysis is superior to individual. Additionally we will explain why the

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1 We were not the first to use “homo socio-economicus.” Lindenberg used the term in 1990 and Nitsch in 1982, though we were not aware of their use of the term when we used it for the first time in 1994.
remedy is found in Smith’s two masterpieces *taken together* and why Smith who was embedded in the script stage of human communication and the individualism of the Enlightenment could not fully integrate the “self” (“I”) of *Wealth of Nations* and the “other” (“thou”) of *Moral Sentiments* into a more fully human economic agent. Classical economics embraced “self” and rejected “other,” and down to this very day mainstream economics -- Blinder’s earlier comments taken as indicative -- has followed suit.

**CYCLIC VERSUS EVOLUTIONARY:**
**FUNDAMENTAL CONFLICT IN THINKING ABOUT ECONOMIC AFFAIRS**

Walter Ong, a Jesuit specialist in rhetoric, communication, language, and technology, identifies what is wrong and clarifies what needs to be done. The problem and the solution lie in the difference between thinking about economic affairs from the cyclic model versus the evolutionary model.

*What’s Wrong: The Cyclic Model.*

As with other disciplines such as history that “repeats itself,” economics is constructed on a cyclic model that applies circular descriptions and explanations to economic events. Note the following examples from economics past and present: (1) the use of the circular flow diagram to better understand macroeconomic affairs; (2) the characterization of the market as a system that clears shortages and surpluses, automatically returning to a state of micro-economic equilibrium; (3) the way in which automatic stabilizers restore macro-economic equilibrium; (4) Say’s law that supply creates its own demand; (5) the business cycle as a representation of macroeconomic affairs unfolding over time, repeating a pattern of expansion, contraction, peak, and trough; (6) cost-of-living adjustments that restore current income to some prior purchasing-power benchmark; (7) the iron law of wages -- higher real wages induce increases in the birthrate and subsequently in the supply of labor that in the long run leads to wages reduced to a level just sufficient to maintain the population; (8) the natural-rate hypothesis which claims that unemployment invariably returns to its normal or natural rate regardless of the rate of inflation, and Wicksell’s natural rate of interest; (9) the economic life cycle which asserts that a person’s lifetime income varies according to a regular pattern with age and experience; (10) the cobweb theorem which argues that the quantity supplied today is a response to price and profit signals from the past.

In the cyclic model events are construed as identical and inevitable, and therefore predictable. With the cyclic model reality is closed in and brought under control; though assertive, thinking remains in a primitive mold [Ong 1967, pp. 87, 73, 95]. Thus, the widespread use of econometrics in mainstream economic analysis. Using cyclic reasoning, and given the data required to operationalize their econometric models, mainstream economists are comfortable in asserting that changes in economic affairs can be predicted. What they do not fully appreciate is that one other requirement -- a central premise of their way of thinking about economic affairs -- must be firmly in place. Specifically and notwithstanding any changes taking place in economic affairs over time, *homo economicus* is an utterly rational and in a behavioral sense a *never*-changing human individual. Without this rationality and constancy about human individuals as economic agents, and the automaticity that is characteristic of market economies, the cyclic model disintegrates for lack of predictability.
Ong beckons us to set aside cyclic thinking for evolutionary thinking because “one can make use of the circle model only as a result of a careful selection of details and the calculated elimination of others” [Ong 1967, p. 89]. In addition to the cyclic thinking embedded in the mainstream paradigm as enumerated above, note the following examples of “careful selection” and “calculated elimination”: (1) resting on the central premise that the economic agent is *never*-changing and taking as a given in economic analysis that whatever may be excluded or not considered remains constant (*ceteris paribus*); (2) imputing values for unobserved or unobservable variables; (3) omitting regressors; assuming (4) that dependent and independent variables are normally distributed in the population (multivariate normality), (5) that measurement error is randomly distributed, (6) that in linear programming two of the lines bounding a region of basic feasible solutions do not intersect at the same corner point (no degeneracy); (7) using budget constraints that ignore kinks, discontinuities, gaps, and nonconvexities (a problem with first-generation studies); (8) employing linearization to simplify complex problems with budget constraints; (9) glossing over sample selectivity bias; in matters of comparative dynamics (10) deciding what is to be held fixed, and (11) choosing between measures of permanent income and other measures that include transitory income [Berndt, pp. 614-649].

**What Needs to be Done: The Evolutionary Model.**

Charles Darwin’s theory of natural selection has had a powerful influence on modes of thought well beyond the precincts of biology.

There can be no doubt that the discovery of the process of evolution, cosmic and organic, has been one of the greatest achievements of the human mind. In a sense, this is the central discovery in the Western world since Renaissance times, and in a still further sense it is the *central corporate discovery of all mankind* [Ong 1967, p. 61; emphasis added].

The discovery of evolution has undermined cyclic views even more than would at first blush appear. In the universe as we know it, there exists no real model or analogue for cyclicism -- that is the identical and inevitable repetition of an event or two (much less at an infinite number of) points in time [Ong 1967, p. 73].

*The birth of man in the cosmos is striking evidence against cyclicism* if further evidence is really needed. For here we have the cosmic processes terminating not in repetition but in its antithesis, the utterly unrepeatable and unique human person [Ong 1967, p 78; emphasis added].

By extension, Ong is arguing and we certainly concur that there is no way to posit a *never*-changing *homo economicus* without essentially casting aside “the central corporate discovery of all mankind” and without effectively cloning all economic agents from a single cell taken from a hyper-rational abstract human being. At the very heart of economic affairs is found the economic agent who is evolutionary in nature not cyclic. More about this later in this chapter.
There are, fortunately, numerous examples of evolutionary thinking outside mainstream economics. Marx, for instance, is a leading advocate of the evolutionary model. So too are Veblen, Commons, Mitchell, and Ayres whose evolutionary thinking about economic affairs forms the intellectual foundations of *Journal of Economic Issues* and its sponsoring membership organization -- the Association for Evolutionary Economics.¹ Sherman and Dugger identify Commons and Ayres as “moderates” who held the view that “evolutionary change in society was mostly smooth, virtually irresistible, involved little class conflict, and led to progress” [Sherman and Dugger, p. 5]. Marx and Veblen, on the other hand, are radicals whose evolutionary vision Sherman and Dugger embrace and apply directly to their own way of thinking about contemporary economic affairs. Their assertion that “we study the evolution of societies, not the evolution of species” [Sherman and Dugger, p. 6] points to a void in evolutionary economics that we hope to fill -- the evolution of the economic agent.

Several other examples that demonstrate evolutionary thinking in economics are worthy of note. Deriving its inspiration from Schumpeter, the *Journal of Evolutionary Economics* also presents economic affairs in terms of an evolutionary process.² Though somewhat confusingly titled *Evolutionary Economics*, Tool’s two-volume work that was published in 1988 under copyright to the *Journal of Economic Issues* is a collection of papers on institutional economics. The first article in that collection, however, helps clarify the difference. Evolution is one of four ideas that are foundational to institutional theory. The other three are culture, cultural relativity, and instrumental valuing [Mayhew, p. 23]. Evolutionary economics replaces the maximization and equilibrium assumptions of neo-classical economics with “uncertainty and imperfect information, routines, heuristic search processes and optimizing behavior, and nonequilibria” [Blauwhof, pp. 153-154]. With high expectations and considerable enthusiasm initially, evolutionary economists have been applying the concepts of path-dependency, non-linearity, and self-organization from chaos theory to the problems of innovation and technological change. Their work continues and advances have been made but the results have not shaken the foundations of mainstream economics (see, for example, Leydesdorff and van den Besselaar).

Explicitly analogizing economics to biology, Daly in the late 1960s argued that matter-energy are degraded through the economic process (production and consumption) in the same way that matter-energy are degraded through the metabolic process (anabolism and catabolism). In both the biological and economic order the purpose is the same: the maintenance and enjoyment of life. In his extended analogy, Daly examines the life process that he regards as the ultimate subject matter of economics and biology under two aspects: steady-state and evolutionary [Daly 1968, pp. 392-394]. Unlike the cyclic thinking that dominates mainstream economics, Daly’s thinking is linear. He visualizes the flow of matter-energy in economic affairs as “one-way, non-circular, and irreversible” [Daly 1968, p. 395]. Several years later Daly employed linear thinking again to give expression to a steady-state economy based on the flow of matter-energy (see Daly 1974, pp. 15-21).

¹ See www.orgs.bucknell.edu/afee/; [Hill, p. 168].

² See http://link.springer.de/link/service/journals/00191/aims.htm.
In the early 1980s Boulding [p. 17] argued that Smith, Malthus, and Marshall employed the evolutionary model and that it was Walras and his followers who by grounding economics in mathematics subsequently steered it in the direction of the cyclic model. Economic science, in other words, was first a biological science before it was fashioned into a physical science. With some reservation, Boulding [pp. 85-86] added Schumpeter to this list of evolutionary thinkers especially as regards economic development. With even greater reservation, Witt and others [1992, p. 4ff.] cited Schumpeter’s contributions regarding innovation, the entrepreneur, and economic development as examples of rudimentary evolutionary thinking. In 1993 Witt offered a definition of evolutionary economics that is well-suited to our purposes because it is grounded in both Schumpeter and Darwin.

Evolutionary economics may be … characterized by its interest in economic change and in its causes, in the motives and the understanding of the involved agents, in the processes in which change materializes, and in the consequences [Witt 1993, p. xiii].

Because he uses the evolutionary model in his thinking about economic agency, Walker [pp. 69-77] supplies perhaps the most important example for our purposes. He argues that the economic agent has evolved from the accumulator of wealth, a concept that was widely embraced until well into the 20th century, to the allocator of economic means between various material ends in order to enhance his/her own well-being. The allocator concept was introduced more recently by Robbins and his followers and is dominant within contemporary mainstream economics. Though clearly different, these two concepts are alike in that both are based on an inward-directed economic agent. Both underscore human individuality. Walker points to two other concepts neither of which has replaced the allocator concept: the supporter of socially endorsed ethical standards; and the co-operator in provisioning human material and cultural wants and needs. Both are alike in that they are based on an outward-directed economic agent. Both emphasize human sociality.

By confining economic agency to the role of the allocator whose behavior is strictly optimizing mainstream economics is able to greatly simplify economic analysis and to achieve the appearance of greater certainty in its findings. By including all four roles -- allocator, accumulator, supporter, and co-operator -- personalist economics encompasses a wider range of fundamental human action in economic affairs in which human beings from time to time switch from one role to another role, sometimes acting in accord with one role only, and at times in keeping with two or more roles as their own personal circumstances require. Human beings are complex creatures, often torn between the demands placed on them by these different roles, and therefore not always able to act as optimizing allocators. By making the economic agent more complex, personalist economics renders economic analysis more problematical, calling for more hands-on experience in the details of the specific economic affairs under investigation and leading to less certainty with regard to specific empirical findings.
Two models of economic agency clearly are neither mainstream nor evolutionary: *homo sovieticus*\(^1\) and *homo heroicus*.\(^2\) We mention them here because both are based on compelling philosophies, the one from Marxism, the other from fascism. Even though both left deep tracks across human civilization in the electronic age, we mention them no further because both have been undone in the last 50 years by more compelling ideas.

**ECONOMIC CHANGE AND THE THREE STAGES OF HUMAN COMMUNICATION**

Following Ong and rejecting the *never*-changing *homo economicus* of mainstream economics, we argue that the *person in action* of personalist economics is *ever*-changing. Personalist economics asserts that economic change is not just a matter of the *what* and *how* of production, distribution, exchange, consumption, and investment but also the *who* of economic affairs, the persons engaged in and being changed by those activities, principally by the work they do. In this regard the changes taking place over a long period of time in human communication, from oral to script and more recently electronic, are critical to understanding economic agency and in general have been neglected by mainstream economics. In the following, we replace the individual (*homo economicus*) and the out-dated philosophy of individualism that are rooted in the Enlightenment and the script stage of human communication with the *person in action* and the more modern philosophy of personalism that emerged during the electronic stage of human communication.\(^3\) Changes in communication, in other words, are at the very core of the meaning of the new economy.

*Oral Communication.*

Face-to-face is the most intense and personal method of communicating, requires the parties to agree on meeting at the same time and in the same place, and makes this kind of interaction costly in terms of out-of-pocket expenses (including meals, lodging, transportation) and opportunity costs. Teaching and learning in the oral stage of human communication are strictly face-to-face. In terms of their work, however, human beings are more isolated and therefore must be more self-reliant. Human self-awareness is built mainly around the individuality of human beings. The philosophy of individualism that fleshes out the meaning of individuality is borne of the 17\(^{th}\)-18\(^{th}\) century Enlightenment. Libertarianism is a type of individualism that rejects all forms of coercion. To the extent that community -- both in terms of living and working in close physical proximity and in terms of the ties that bind the human heart and spirit -- developed during the oral stage, it was severely

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\(^1\) *Homo sovieticus* – a human being with no creativity, initiative, or responsibility who through a pact with the state tolerates lies, petty crimes, and poor morale in the workplace in exchange for security -- originates with the Josef Tischner (see Goldfarb, p. 1, and Halik, p. 4, and Alakbarov, p. 2).

\(^2\) In 1939 Drucker [p. 137] juxtaposed the heroic or noneconomic man of fascism, who functions entirely independently of any economic status, to the economic man of capitalism. According to Drucker, heroic man is a new conceptualization of the human being as self-sacrificing, self-disciplined, and self-abnegating. Later Drucker’s heroic man was latinized to *homo heroicus* (see “Los Principios,” p. 6). See also Weber [pp. 40-42] who associates the fascist concept of the human being with the medieval knight well-known for “sacrifice, abnegation, and entire devotion to the cause … and the mystical idea of transcendence by expiation.”

\(^3\) See Ong 1967 for more on the three stages of human communication.
circumscribed by the distance that a person could travel by foot or by horse in a day’s time.

**Written Communication.**
Written communication, which emerged around 3500 BC [Ong 1967, p. 4], is less intense and personal, does not require the parties to meet at the same time or in the same place, reducing considerably though not eliminating entirely the costs associated with this method of communicating. Humans are less isolated in their work, more dependent on others, and no longer as self-reliant. Even so, self-awareness remains largely a matter of human individuality.

Written communication evolved over a very long period of time and in the 15th century became much more widely accessible to the literate public through the invention of the first instrument of mass-production -- the printing press. Teaching and learning no longer are tied to direct face-to-face communication because printed materials are intended primarily for private, silent reading, as is demonstrated so clearly in the traditional library setting. For that reason, in the script stage of communication human beings remain individuals who are aware of their individuality and are wedded to individualism. In this stage and until the development of the railroad, community was similarly constrained to the distance one could travel in a day by foot or by horse.

Ong locates Smith toward the end of the script stage of human communication that Ong describes as a “spectacularly aggressive period … of empire-building and laissez-faire economics” …”with which our present less aggressive, more socialized age appears to have lost its nerve” [Ong 1970 p. 99]. At the same time, Smith was embedded in the Enlightenment and its dominant philosophy that effectively deified the individual, Father of economics aside, Smith still was very much a child of his times.

**Electronic Communication.**
Communicating by telephone (including video-phone and cell-phone) is less intense and personal, requires the parties to agree on meeting at the same time but not in the same place, substitutes phone charges for travel expenses, and eliminates other out-of-pocket costs but not opportunity costs. Notice, for example, that primary-care physicians no longer make house calls largely because both types of cost involved in driving to the patient’s home are so much greater than the cost of maintaining telephone service that very often provides sufficient information to make an well-informed decision as to the nature and severity of the patient’s condition, and what should be done next.

Workplaces are re-constructed around telecommunication systems and thus humans are much less isolated in their work, and much more dependent on others. Today hardly anyone in the modern workplace is able to function without immediate access to a telephone. This interdependency is underscored when a severe storms brings down telephone lines that at least momentarily renews their isolation. Self-awareness is rooted in both human individuality and human sociality. This duality is characterized by Ullman as follows.

… out of … the recognition of the identify of others, comes our own identity, the
sense that we exist, ourselves, our self. Everything we call consciousness unwinds from that.

We don’t merely send out signals to identify ourselves; we create one another’s identity.

Yet somehow for our own survival (and pleasure) it is critical that we attain a unified view of ourselves as unique selves [Ullman, p. 70].

Surratt puts individuality and sociality in Hewitt’s language of differentiation and identification and in the context of the economic order and the Internet.

The distinguishing feature of the most successful corporations is that they celebrate the validity of the self via Net logic.¹ It should come as no surprise that customization and community building are the two attributes vital to modern corporate success, as both strategies implicate the modern self at the core. Customization is the recognition of self as a unique individual worthy of special attention and endowed with consumer rights. It is the attempt to achieve the first half of Hewitt’s equation -- differentiation from. Conversely, successful corporate attempts at fostering community online complete the second half of Hewitt’s equation -- identification with [Surratt, p. 207].

By virtue of the ongoing developments in electronic communication, human beings themselves are evolving from individuals to persons. In this regard, it may be comforting to note that, as Ong states unequivocally, it is “virtually impossible” to determine if societies built on modern technology are more or less depersonalizing than other societies [Ong 1981, pp. 200-201].

The philosophy of personalism enlightens us further as to why individual and individualism no longer serve us well in the age of electronic communication [O’Boyle 2001, pp. 367-394]. The constraints on community are relaxed considerably by the telephone and by much faster and relatively inexpensive means of long-distance travel, making the opportunity costs much lower.

The digital revolution within the electronic stage (notably e-mail and wireless internet access²) produces human communication that is even less intense and personal, does not require meeting at the same time and in the same place, reduces even further the cost of communication but does not eliminate opportunity costs. Workplaces are designed around digital communication systems that often must be upgraded just to maintain contact with others. Humans are even more dependent on others including persons at distant locations due in part to the much lower cost of communicating.

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¹ As with all other media, the specific logic according to which the Internet operates as an institution [Surratt, p. 8].

² Commonly referred to as Wi-Fi but perhaps better described as wireless networking (see Green and others, pp. 86-92).
This ever greater interdependency makes humans more aware of others and thereby more fully aware of themselves as human persons. Their dependency becomes even more evident when the internet crashes due to a storm that interferes with satellite transmission or a virus infects the system. During the interruption of service, human beings for a while become diminished as persons because a powerful communications link with other humans has been severed.

There are for sure new dangers originating in electronic communication affording additional opportunities to reduce some humans to ciphers, to spread lies about them much more widely, to transform themselves and others into pornographic objects, to steal their identity, and in the extreme strip them of their personhood through enslavement. Whether it is used for good or ill, communication by electronic means has made humans increasingly aware that they are more than just human individuals, that they are human persons. In this stage of human communication the constraints on community imposed by time and distance between the “I” and the “thou” are being lifted.

With hindsight informed by Ong’s powerful observations that the personalist philosophies emerged first in the 20th century and only in high-tech cultures [Ong 1981, p. 200; Ong 1967, p. 14] and that our thinking needs to be more evolutionary, we see more clearly how to remedy the restlessness in economics regarding the individual as the basic unit of economic analysis. Taking the “self” (“I”) from Smith’s Wealth of Nations and fusing it to the “other” (“thou”) from Moral Sentiments produces the person – a more fully human economic agent, a unit of economic analysis far better suited to the electronic age. Smith was on the right track regarding economic agency but lived in an age when he was not able to realize the fullness of his own ideas. By holding fast to the individual as the basic unit of economic analysis and individualism as its philosophical foundations, mainstream economics functions in effect in the script stage of human communication as if the telegraph, telephone, radio, television, internet, and e-mail had never happened and Smith had never written Moral Sentiments.

PERSON AS THE BASIC UNIT OF ECONOMIC ANALYSIS
Mainstream economics is built on four premises: the individual -- homo economicus -- is the basic unit of economic analysis; left unrestrained economic agents sort out all problems in economic affairs through markets; with the right information and theoretical models certainty in economic analysis is possible; human beings have instrumental value. By far the most important premise is the individual. Neo-classical economists today are able to hold firm to homo economicus only if they deny the evolutionary process.

Personalist economics is constructed on four other premises: the person is the central unit of economic analysis; institutional intervention is necessary when market failure occurs; certainty in economic analysis is not always possible; human beings have a sacred dignity quite apart from their instrumental value. To personalist economists person – the person in action -- is the most important premise, and they embrace this premise because they accept and incorporate the evolutionary process in their way of thinking about economic affairs. For more on these premises, see Chapter Three.
Personalist economics is a work in progress that calls for re-thinking economic affairs from the very beginning. Even so, we can state unequivocally that the individual as the central unit of economic analysis and the individualism no longer suffice because both are grounded in the oral/script stage of human communication. What is required is an understanding of contemporary economic affairs in which economic agency is embedded in the electronic stage of human communication where human beings are represented as persons and personalism articulates what it means to be human.

Whereas mainstream economics thinks about economic affairs in terms of a cyclic model, personalist economics thinks about the same affairs in the context of an evolutionary model. Simply put, and notwithstanding their ability to accumulate human capital or see it deteriorate, economic agents are not rigidly predetermined, fully revealed, and entirely predictable throughout economic history. They are not never-changing. Rather, as human persons economic agents are dynamically evolving, only partially revealed to themselves and others, and unpredictable. They are ever-changing. Frequently they are called on to reconcile the conflicting demands of the self and the other, of the “I” and the “thou.”

The economic agent in an evolutionary model allocates economic means between various ends, accumulates wealth, cooperates in provisioning human needs and wants, and supports socially endorsed ethical standards. By construing the economic agent as a multi-dimensional human person rather than the one-dimensional (optimizing allocator) human individual of mainstream economics, personalist economics renders economic analysis more problematical, calling for more judgment on the part of the analyst and less certainty with regard to its findings.

Because it involves a universal presumption rather than a specific finding, the law of nature is not the final word on the basic fairness of the interactions between economic agents in a market system. It is extensive support for and faithful practice of justice and caring and not the invisible hand of the market that help contain such specific abuses as dumping, insider trading, redlining, bribing, harassing, price gouging, counterfeiting, industrial spying and sabotage, loan sharking, expense padding. Even so, these types of practices are likely to continue as long as there are gains to be gotten through deception, exploitation, and opportunism.

In personalist economics, human beings are creatures with both needs and wants. There is, for example, no way to construe poverty except in terms of unmet human material need. Meeting that need is the primary goal for which economic systems are instituted and are to be evaluated. Needs are the things required for human well-being. Wants, on the other hand, are the things desired. Needs and wants inhere not in the things themselves but in the human person and to the extent that humans differ so do their needs and wants. The diabetic for example needs insulin. Others have neither the need nor the desire for insulin since their bodies produce it naturally.

Human beings are two dimensional twice over: individual and social, body and spirit. Rest and sustenance are the needs and wants of the body that are addressed directly through consumption and indirectly through work that provides much of the income required for consumption. Truth, goodness, and beauty are the needs and wants of the spirit that also are addressed by work and
consumption. Human beings work in order to meet the needs of the spirit that cannot be met through consumption: the need to belong that originates in their sociality and the need for opportunities to use their creative skills and talents that originates in their individuality.

While the needs and wants of the body and spirit require human beings to work and consume, the body and spirit at the same time impose limits on work and consumption. The body limits work in the sense that it cannot function without regular rest. The body also limits consumption in the sense that taken to excess consumption is harmful to the body. The spirit moderates consumption through the warning that consumption is not an end in itself but the means to satisfying wants and meeting needs. In like fashion, the spirit moderates work to assure that it remains a means and does not become an end in itself.

The roots of *homo economicus* run so deeply in neo-classical economics and therefore are very difficult to pull up because, as Ong states [1986, p. 3], a fascination with individuals and individual differences “marks nineteenth century thought” in the British Isles and on the Continent -- the time and place where the historical antecedent of neo-classical economics elevated *homo economicus* to the status of icon that simplified economic analysis of the old economy of slow-paced oral and written communication and the hugely powerful nation-state. It no longer suffices for the new economy of high-speed electronic-digital communication and supra-national bodies such as the European Union and the World Trade Organization that more and more are subordinating the nation-state in economic affairs in order to promote economic development.

### TABLE 2.1 THE COMPLEMENTARITY OF ADAM SMITH’S TWO MASTERPIECES

<table>
<thead>
<tr>
<th></th>
<th>Human Awareness</th>
<th>Organizing Principle</th>
<th>Social Value</th>
<th>Principle of Justice</th>
<th>Human Virtues</th>
<th>Ultimate Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wealth of Nations</strong></td>
<td>self (“I”)</td>
<td>competition</td>
<td>freedom</td>
<td>equivalence</td>
<td>diligence</td>
<td>good of individual</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>prudence</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>self-reliance</td>
<td></td>
</tr>
<tr>
<td><strong>Moral Sentiments</strong></td>
<td>other (“thou”)</td>
<td>cooperation</td>
<td>community</td>
<td>contributive</td>
<td>sympathy</td>
<td>good of all</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>generosity</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>benevolence</td>
<td></td>
</tr>
</tbody>
</table>

Pulling together what we have been saying to this point with what we can glean from *Moral Sentiments* and *Wealth of Nations* on human virtues and ultimate goals, it becomes clear that there are compelling reasons to include both masterpieces in a reconstruction of economics around person as the basic unit of economic analysis and personalism as its philosophical foundations, thereby
making economics more relevant to economic affairs in the 21st century (see Table 2.1). *Moral Sentiments* and *Wealth of Nations* are complementary works that should be read and interpreted together to fully appreciate Smith’s enormous contribution to our ability to describe and understand contemporary economic affairs more accurately. Had he lived in the electronic age, Smith probably would have seen more clearly the complementarity in his own work, and would have shared that more profound vision with his followers.
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A personalist view accepts economics as an empirical and mathematical science concerning activity that is expressed in quantity ratios -- so much gained for so much given -- which then can be generalized, correlated, trended, and the like and can be appraised on that basis. This corresponds to what Waters [p. 113] called the second domain of economics – description of the significant characteristics of the economy. Additionally, personalism affirms that all such acts are placed by human persons and thus are moral acts. It follows that there is more to economics than just empiricism and mathematics. There is as well a crucial moral dimension to economic affairs that economics must take into account.

The importance of this insight is to ground one’s economic thinking on the most empirical fact that I am here and now, which to deny is to affirm. From this, persons can deduce that they are both self-aware and self-knowing as existing in time and space.

I exist subjectively, I exist bodily are one and the same experience. I cannot think without being and I cannot be without my body, which is my exposition to myself, to the world, to everyone else [Mounier, p. 11].

In short a person is an embodied spirit, a spirit that can act externally only through its body, not like a rider on a horse nor a ghost in a machine, but essentially and necessarily bonded to the body. The “I,” therefore, retains its identity even though the body renews itself many times in a lifetime. These facts yield two necessary conclusions.

First, a human person can come into being only in conjunction with the act of conception, the fertilization of a female ovum by a male sperm. The embodied person thereby is both uniquely individual and related to every other human person, past, present, and to come. Second, the human person is totally dependent on material things for survival, needing nurture, safeguards, tools, vehicles, carriers, and communication. Since little in nature is usable as such, an economic problem arises for persons individually and collectively: natural things must be discovered, their qualities analyzed and then processed for human use.

But as spirit the human person transcends the material. As singularly coming into being, a person even as child is unique to his/her self and retains this specificity throughout life: grandfather is the same as when a newborn babe. He is not and will never be a creature of parents, society, state, or

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1 Excerpted from Danner and O’Boyle, “Personalist Economics is Human Economics Because It Puts the Human Person at the Center of Economic Affairs,” *Forum for Social Economics*, Volume 29, Number 1, pp.47-61.
As spirit too each and every person is self-aware of his/her own actions, enjoying hindsight, sight, and foresight, and thus insight into what can and should be done. To that extent, therefore, persons are free to act and are, thereby, responsible for their actions. Further, as by nature ordained to what is true, good, and beautiful and as related to and also aware of others as persons, everyone can see whatever values inhere in the nature, character, thoughts, desires, and deeds of others. Such value insights may be of loved ones, friends, enemies, or just chance acquaintances. 

All together these material and spiritual elements -- self-knowing, matter dependent, morally responsible, value-seeking, and other-related -- combine to form the stuff of the human drama.

THE PERSONALIST DRAMA

Obviously, dependence on matter is both necessary for as well as an impediment to achieving full personhood. For persons can survive, grow, and develop as human beings, related to others or place external acts only in a material way. But even the most spiritual acts, however private or public they may be, must occur in time and space and usually require other material means. All in all, therefore, material wealth is an essential element in the human drama. But too little or too much, destitution or super-abundance, can corrode the work of the human spirit.

Even so, the great barrier to spiritual development and human perfection arises from within the person. The moral drama is always a conflict between the forces of good and the forces of evil. But the good is not always and simply what is inherent to the person and the evil external. The conflict is between forces and tendencies within the person.

The inner struggle involves four cardinal virtues doing battle with seven cardinal sins. Prudence (right thinking), justice (granting others their due), temperance (controlling the body’s passions), and fortitude (resolute endurance) are opposed to the spirit’s inclinations to pride, anger, envy, tendencies to inflate one’s ego and to denigrate one’s neighbor, and the body’s unruly appetites for food, drink, and sex, for sloth and avarice. All seven combine in almost infinite variations, each of which, like holes in the dike can let in the flood of moral disaster.

Thus bodily needs for food, drink, medicine, dress, shelter, sex, and the rest can become desires and economic wants in and for themselves even to impairing the spirit’s well-being and actions. “Consumerism” always poses the danger of weighing down the person with material things such that not only are the spirit’s natural yearnings to know, to love, and to seek beauty blunted but also one’s common sense is so warped that the newest product always seems more beautiful, the latest gadget more efficient, and the most expensive fashion more satisfying. Worse, the unchecked drive for more can feed the spirit’s worst tendencies to self-emulation by unrestrained seeking for fame, power, and wealth, and by denigrating through envy, anger, and hate anyone who might impede these goals.

Obviously the human drama is a complex phenomenon, involving the goals of both the spirit and the body. Further, as with Willie Loman in Death of a Salesman, human persons tread the narrow ledge between self-preservation and self-destruction, but their personal drama engaging all who have a part.
in their lives or are included in their calling and vocation. Again, Mounier:

The person only exists thus toward others, it only knows itself in knowing others, only finds itself in being known by them . . . One might almost say that I have no existence save in so far as I exist for others [Mounier, p. 20].

THE PERSONALIST VOCATION

Every human person is called by others. A career, no matter how humble or exalted, is not so much a path that a person chooses as what he/she is called to do by circumstances and by others. This is real meaning of vocation. Whether one is drawn to a mainly moral, artistic, intellectual, or utilitarian vocation, no matter how self-centered the choosing may be, ultimately and basically one’s vocation involves others. Contemplatives pray for petitioners, intellectuals share ideas, merchants sell useful product, legislators frame just laws. History is replete with tragedies of self-centered genius. Ludwig I of Bavaria went crazy and broke trying to build more elaborate palaces than Versailles; Rockefeller and Carnegie were able to rehabilitate their family names only by means of philanthropy. No person, however much a curmudgeon, lives and works in total isolation.

Even our everyday language paints this picture in inescapable sociality: parents, siblings, kinfolk, schoolmates, colleagues, neighbors, friends, spouse, and children. Beyond this world of familiars are the wider circles of economic activity, political alliances, and the comprehensive social common good all of which John Paul II called “together with others” and contrasts with the denial of participation embedded in individualism.

Individualism limits participation, since it isolates the person from others by conceiving him solely as an individual who concentrates on himself and his own good; this latter is also regarded in isolation from the good of others and of the community. The good of the individual is then treated as if it were opposed or in contradiction to other individuals and their good; at best, this good, in essence, may be considered as involving self-preservation and self-defense. From the point of view of individualism, to act “together with others” just as to exist “together with others,” is a necessity that the individual has to submit to, a necessity that corresponds to none of his very own features or positive properties; neither does the acting and existing together with others serve or develop any of the individual’s positive and essential constituents. For the individual the “others” are a source of limitation, they may even appear to represent the opposite pole in a variety on conflicting interests. If a community is formed, its purpose is to protect the good of the individual from the “others” [John Paul, pp. 273-274].

In an economic vocation that provides the goods and services persons need and want, just as in music, art, sculpture, architecture, philosophy, historiography, drama, poetry, and similar pursuits personal expression originates in a basic urge to affirm one’s personhood by communicating it to others, whether the goods and services provided are utilitarian, ethereal, or esthetic. Economic vocations are as essential for embodied spirits as procreation, as necessary as law and order, and as communal as society itself. The economy is nothing other than society manifested in people’s utilitarian relations.
THE PERSONALIST ECONOMY

The economic order needs organization. Even the simplest production requires seeing possible utilitarian functions in natural objects or forces like stone or fire, and calls for careers and vocations to create businesses and markets. From the beginning and for the simplest artifacts, all the elements of the economy were required: innovation, investment, production, marketing. The economy is not a modern invention but goes back to the Neolithic.

Economic organization, of course, implies not only combining finances, equipment and material resources and human effort into a working system, but also an order of subordination: finances to plant and equipment, and the material to labor. That is the basic meaning of the principle of the priority of labor. *The human contribution to the economic process is more important than things.* This would be no less so for a tribal hunt than for shipbuilding. It also means that organization implies subordination of some functions to others, of employment to employer, job to boss, production to selling, and implies the priority of personal responsibility over anonymous organizations.

Beyond that, personalism honors labor in the broadest sense as a desirable human activity, not as a form of slavery but as a fulfilling vocation, as doing tasks worth doing for oneself and for others. Moreover, economy implies doing work well, not only with efficiency but with industry, not wasting resources and effort but with a certain zest in applying one’s skills and know-how. Personalism sees all forms and kinds of economic efforts as producing in cooperation with others something socially desirable. It follows that the work involved in performing the numerous tasks required in the economic order makes those jobs qualify as authentic vocations.

In sum personalist economics expresses all the features of a truly human economics. It acknowledges the spirit’s dependence on the body and the body’s needs and wants for products fashioned from a bountiful universe necessary for human survival and functioning. Further, it accepts gain as a valid economic motive for innovating, financing, producing, and marketing economic goods and services. It affirms, on the other hand, the essential social nature of economic self-interest. Consequently, personalist economics very clearly asserts that wealth has a most obvious social function, that consumption is not for its own sake, but for the spirit’s self-expression and interaction with other persons.

From the personalist perspective, therefore, the economy is a very complex system of interweaving and changing flows of moneys, raw and processed materials, along with human labor, know-how, and wants. Given this complex dynamism, personalism accepts also the need for gain-seeking, hiring and firing, borrowing and lending, and especially for risk-taking. But at the same time it insists that every economic act is a personal expression of the spirit and, as essentially social, can benefit or harm others. Therefore, every economic act is subject to moral judgment, as being just, honest, charitable, moderate and so forth or as failing in these qualities. But howsoever important a personalist view of the economic side of life is, it is far more enlightening when directed to persons’ daily living and their leisure activities and pursuits.
PERSONALIST LEISURE
Leisure is much more than doing nothing. Leisure is doing what a person wants to do and need not do in order to survive. It may be play, doing something for the fun of it, like volleyball on the beach or a game of chess. It may be purposeful, doing something for the good of it, like reading a book, collecting arrowheads, or helping a neighbor. Usually leisure has some economic aspects -- costs, time and expertise -- but these are incidental to the activity itself. Leisure varies widely from person to person and activity to activity and reveals as much, if not more, about a person than his/her economic functions. How a person freely chooses to engage his/her free time and efforts says more one’s character and aspirations than do his/her economic needs and wants.

The leisure people have, therefore, ranges across a spectrum from that of the “idle rich” to the destitute, from the boredom of having everything one wants to the despair of having hardly enough to survive. For some persons, leisure means eating, drinking, gambling, sex and so on which may satiate but never satisfy. Their leisure activities are misdirected and frustrating because they are based on the proposition that their spiritual needs can be met with material things. By contrast, the omnivorous reader, the faithful singer, the devoted father, and charity volunteer, who direct their leisure activities toward the true, good and beautiful, never have enough time. In this sense a person’s use or abuse of leisure is a true index of character and the state of one’s spirit.
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CHAPTER THREE
PERSONALIST ECONOMICS:
UNORTHODOX AND COUNTER-CULTURAL

A new and changing conception of the nature of man, a new and changing conception of the very meaning of human existence -- that is what comes to light in the claims expressed in the modern notion of “work” and “worker.” These great subterranean changes in our scale of values, and in the meaning of value, are never easy to detect and lay bare, and they can certainly not be seen at a glance. And if we are to succeed in our purpose and uncover this great change, an historical treatment of the subject will be altogether inadequate; it becomes necessary to dig down to the roots of the problem and so base our conclusions on a philosophical and theological conception of man [Pieper, pp. 22-23].

There are two notable reasons why personalist economics lies outside the mainstream. First, personalist economics rejects the premises of mainstream economics. Second, personalist economics takes exception to certain dominant values of today’s culture whereas the mainstream is much more at ease with contemporary Western culture.

PREMISES AND COROLLARIES
Waters [1988, pp. 115-117] identifies four premises that are essential to the hard core of mainstream economics. To paraphrase him they are: (1) the individual is the basic unit of the economy, (2) who acts freely, self-interestedly, and calculatedly in a self-regulating economy, (3) whose economic behavior is grounded in reason and, though it changes as economic conditions change, is predictable and knowable with mathematical certainty and empirical precision, and (4) whose ultimate worth is determined instrumentally. These premises have a direct bearing on how mainstream economists understand and describe economic affairs and put forward policy recommendations.

Waters also articulated the four premises of solidarist economics that over the past ten years has become known as personalist economics. To paraphrase him again the hard core premises of personalist economics are: (1) the person is the basic unit of the economy, (2) who acts freely but within certain limits, self-interestedly but often with regard for others, and calculatedly but at times impulsively, whimsically, or altruistically, in a self-regulating economy that from time to time must be constrained deliberately in order to serve the common good1 and to protect the weak and the

1 Defined by Dempsey [pp. 272-273] as the fulfillment of the needs of human beings which arise from their living together, as in the case of public health, instead of each one living alone. Two characteristics set these needs off: (1) they are common to all, and (2) they can be met only through the united efforts of all members of the community acting together. The fulfillment of these common needs depends critically on each person.
needy, (3) whose economic behavior is grounded in reason and in faith,\(^1\) changing as economic conditions change but at times reflecting moral rules and principles, predictable and unforeseeable, and knowable with mathematical certainty and empirical precision but sometimes mysterious and beyond human understanding, and (4) whose worth at times may be construed instrumentally but finally is not reducible to economic calculus because it rests squarely on the conviction that humans have a worth and dignity beyond measure. Thus, the central differences between mainstream economics and personalist economics all originate in and are reducible to the differences between the individual and the person.

These premises help explain why personalist economics sees economic affairs differently and offers different policy suggestions than mainstream economics. To personalist economists, persons are moral agents which means that by virtue of intelligence and free will they are capable of making moral choices. In economic affairs, the moral choices they make are governed by justice and caring or charity. Their behavior, therefore, reflects those kinds of choices and must be judged according to the principles of economic justice and caring or charity. To mainstream economists, on the other hand, economic agents are moral agents too, but it is necessary to prescind from making judgments about their behavior in economic affairs because to achieve and maintain the status of authentic science economics must be value-free. It remains for others such as policy makers to make ethical judgments regarding economic behavior.\(^2\) Many in social economics openly rebel against this view, taking the position that fact and value cannot be separated and that the goal of a completely positive economics is unattainable. However, as important as justice is in economics affairs and in economics, personalist economics is much more than simply mainstream economics with a veneer of justice and altruism.

Mainstream economists characteristically are children of the 17-18th century Enlightenment [Waters 1988, p. 114].\(^3\) In contrast, personalist economists are children of the post-Enlightenment period in contributing to the community because the community by itself has nothing to contribute to its members apart from what its various members contribute to it [Dempsey, pp. 219-220]. Thus is the common good dependent on contributive justice. See Chapter Six for more on the principle of contributive justice.

\(^1\) Reason discovers truth from direct, personal experience; faith accepts truth on the word of another.

\(^2\) Confirming this lack of concern for and interest in ethics and economics, Hausman and McPherson [p. 671] in 1993 argued that “a moderate dose of reflection on the relations between economic and morality could help many economists work more effectively.” They also stated that “Not only do moral principles bear on issues concerning evaluation and policy, but they also influence the questions positive economists ask and the answers they find plausible.”

\(^3\) Richard Tarnas [pp. 282-290] explains the origins of individualism in the Enlightenment wherein Adam Smith is identified as one of a handful of writers and scholars responsible for articulating the new world view of society founded on the rational, newly self-conscious, autonomous individual. Tarnas connects the emergence of the modern mind to the Renaissance, the Reformation, and the Scientific Revolution, and enumerates the central tenets of this new world view the first of which asserts that the modern universe is “an impersonal phenomenon, governed by \textit{regular natural laws}” (emphasis added).
that, according to Walter Ong [1981, p. 200], only high-tech cultures give rise to personalist philosophies. The telephone, for instance, breaks through human isolation and autonomy, making human beings much more aware of others, of themselves, and of their interconnectedness to an extent that was nearly impossible before it was invented and put to such widespread use.

Man is a communicating being. Communication brings the human person himself not only to knowledge of things and other persons, but also to his own self-awareness. Although I myself am unique, and in a way closed in on myself -- for no other man knows what it feels like to be this “I” that I am -- nevertheless I become aware of myself as myself only through communication with others [Ong 1967, p. 1].

As technology improves and communication makes it more accessible and as economies of scale make it more affordable, humans become even more aware of who they are, what they are, and whose they are.

Mainstream economics rests on the philosophy of individualism, whereas personalist economics gives expression to the more modern philosophy of personalism. Thus, the very heart of the hard core premises and therefore the very beginning of mainstream economics is the unique individual made of matter and reason, belonging to no one other than him/her own self, whose economic behavior is free of the influence of others. Similarly, the beginning of personalist economics is the irreplaceable person, at once an individual being and a social being, made of matter and reason, emotion and spirit, belonging to no one other than the Heavenly Father who created human beings in His image and likeness, acting with an awareness of others. As T.S. Eliot [pp. 123-129] put it “my beginning is my end ... and my end is my beginning.” The critical differences between mainstream economics and personalist economics with respect to who, what, and whose are summarized on the following page.

If one defines competition as the human disposition to undertake certain tasks alone for the reward associated with successful completion, it follows that competition is seen as the only activating force organizing economic affairs in any economics originating with the individual. If, however, one admits that human nature is at once two dimensional, social as well as individual, it follows that there is a second human disposition which undertakes certain tasks collectively because those tasks cannot be done so well or at all by acting alone, a second activating force -- cooperation -- that along with competition activates economic affairs. Waters [1988, pp. 114-120] refers to competition as the corollary to the four hard core premises of mainstream economics. It follows that cooperation along with competition are the corollaries to the hard core premises of personalist economics.

The problem of organizing society, Becker [1959, p. 1] asserts, is an aspect of the One-Many dichotomy. Putting the foregoing in the context of that dichotomy signifies that the individualism of mainstream economics leads to a reliance on markets to organize economic affairs wherein Many individuals are able to pursue their own self-interest and at the same time serve the common good

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1 In this regard, libertarian economist and syndicated columnist Walter Williams says “each of us owns himself” (see “‘Click It or Ticket It’ Shows Abuse of Power,” Monroe News-Star, May 24, 2006, p. 11A).
INDIVIDUAL VERSUS PERSON

Who are we?

Mainstream economics: individual beings

Personalist economics: individual beings and social beings, a union of individuality and sociality

What are we?

Mainstream economics: material creatures endowed with reason

Personalist economics: material creatures endowed with reason, spirit, and emotion

Whose are we?

Mainstream economics: belonging to no one other than our own selves

Personalist economics: belonging to no one other than our Heavenly Father who created us in His own image and likeness.

without government intervention through the invisible hand of the market. Personalism, on the other hand, is far more accepting of human beings acting as the One in some economic matters through private groups or public bodies, and in other matters acting as the Many through a system of markets. Personalist economics leans on the principle of subsidiarity to sort out which of the two logical options -- the One or the Many -- best resolves the issues at hand and best protects the dignity of the persons involved. In that sense, there can be no “third-way” option. The principle of subsidiarity in economic affairs is addressed at length in Chapter Seven.

In addition to individual and person, there are three other representations of the economic agent, each one originating in a different philosophy. A hedonistic utilitarian philosophy attributed to Jeremy Bentham begins by representing humans as essentially material objects who employ the pleasure-pain calculus to rationalize their economic behavior. A predatory and opportunistic philosophy of the kind practiced extensively in the antebellum South begins with the representation that some humans are superior to others and for that reason those who are inferior may be enslaved even by violent means. Finally, a humanistic philosophy of the type traced to Immanuel Kant starts by

\[ \text{Haney [pp. 252-253] argues that Bentham’s underlying materialism which he used in support of his extreme individualism (the Many) could easily lead to the other extreme of societism (the One).} \]
representing all humans are real, existential actualities, all having the same dignity, and all therefore most fundamentally are equal.

The concepts slave, human, and person call for further consideration. We include slave for two reasons: (1) slavery is a part of human history and thus of economic history; and (2) the effects of slavery in the United States persist more than 140 years after the Emancipation Proclamation. Additionally, though the civilized world denies it and condemns it, slavery is an ongoing practice directly in the sense that slaves are being brought into many western countries and indirectly in that the goods produced by slaves are sold in the United States and elsewhere. Bales defines slavery as holding a person by violence or threat of violence for economic exploitation, and conservatively estimates that 27 million slaves worldwide work in agriculture, brickmaking, mining or quarrying, prostitution, gem working and jewelry making, cloth and carpet making, and domestic services. In addition, slaves clear forests, make charcoal, and work in shops [Bales, pp. 1-33, 200]. In the United States farmworkers have been locked inside barracks and have labored in the fields under armed guards; enslaved women from Thailand and the Philippines have been freed from brothels in New York, Los Angeles, and Seattle [Bales, p. 22]. See Chapter Fifteen for more on slavery and trafficking.

*Human* and *person* are alike in that both are real, living, breathing existential actualities. Neither one is an abstraction, a mere figure of speech. They are alike in that both affirm a dignity and ultimate worth that set them apart from all other living creatures, a dignity that minimally requires the faithful practice of the three principles of economic justice. Those three are the principles of equivalence, distributive justice, and contributive justice. Equivalence involves the interaction between two parties in an exchange. For example, buyer and seller in the marketplace and worker and employer in the workplace. Equivalence requires both parties to exchange things of equal economic value and impose equal burdens on one another. Distributive justice governs the interaction between the administrator or executive of a community and the members of that community in which the administrator is duty-bound to distribute the benefits and the burdens of the community among its members in some equitable or proportional manner, taking into account differences in the type and quality of the work performed, and differences in needs. The principle of contributive justice relates to the duty of a member of a group to the rest of the group. Specifically, in so far as a member receives benefits from belonging to a group, he/she has a duty to maintain and support the group. For more on the three principles of economic justice, see Dempsey [pp. 164-167]. Economic justice is addressed in greater depth in Chapter Five.

Humanism and personalism are alike in that both affirm that more than the faithful practice of justice is necessary to safeguard dignity. At the same time they differ in that humanism requires caring and personalism calls for charity. John Paul II explains the difference.

Love for a person *excludes the possibility of treating him as an object of pleasure*. This is a principle of Kantian ethics and constitutes his so-called second imperative. This imperative, however, is negative in character and does not exhaust the entire content of the commandment of love. If Kant so strongly emphasized that the person
cannot be treated as an object of pleasure, he did so in order to oppose Anglo-Saxon utilitarianism, and from this point of view, he achieved his goal. Nevertheless, Kant did not fully interpret the command of love. In fact, the commandment of love is not limited to excluding all behavior that reduces a person to a mere object of pleasure. It requires more; it requires the **affirmation of the person as a person** [John Paul 1994, p.201; emphasis in the original].¹

In summary, the five beginning representations of the economic agent upon which an economics can be constructed and economic affairs can be organized are slave, object/instrument, individual, human, and person. We do not include herein the human clone because at this time we do not know enough about the true nature of the clone. However, this question will come to the fore if and when the human clone is actually brought into existence. We differentiate slave from object/instrument in the sense that slave is a human who is held against his/her will to enrich someone else. An object/instrument to us means a human being who has been reduced to the status of a thing in the mind of another. The slave probably knows the slaveholder. The object/instrument may not know the objectifier.²

### CULTURE, ECONOMIC BEHAVIOR, AND THE FOUR AXES OF TENSION

Avery Dulles [p. 2] provides a definition of culture that is well-suited to our purposes.

Culture almost defies definition because it is a pervasive atmosphere rather than an articulated system. It is a social force that encompasses individuals and welds them into communities. It shapes their prejudices, ideas, values, habits, attitudes, tastes, and priorities ... Whereas politics and economics are concerned with proximate and

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¹ See Lutz [1985, p. 167] for more on the Kantian ethics underlying his position on the dignity and worth of human beings, on their affinity to God, and his affirmation that humans must not be reduced to instrumental value.

² To illustrate, in a major inquiry regarding post mortem examinations conducted by the National Health Service in England in which thousands of body parts of dead children were removed and retained ostensibly for research purposes often without parental consent, it was discovered at the Institute of Child Health that entries had been made in the official documentation which referred to human fetal material as “Humpty-Dumpty” and “inflated monster.” The Retained Organs Commission which prepared a 524-page report in January 2001 characterized such practices as “shocking and disrespectful” [Royal Liverpool Children’s Inquiry: Report, p. 114]. Until the publication of this report, virtually none of the nonconsenting parents knew that their unborn children had been rendered into instruments of clinical and basic science research. At Alder Hey Hospital in Liverpool, the lead pediatric pathologist from 1988 to 1995 “removed every organ in every case and retained every organ in every case” [Report, p. 155] often without the consent of the parents of the dead fetuses and children. The organs were to be used for research purposes. Many of them, however, never were used for this purpose. Instead, they were stored for years in containers at Alder Hey Hospital. Another report which was prepared for this inquiry by the Department of Health’s chief medical officer stated that human tissue “are not sold to commercial companies although a ‘handling fee’ may be paid to the NHS Trusts” [The Removal, Retention and Use of Human Organs and Tissue from Post-Mortem Examination, p. 33].
limited goods, culture has to do with the meaning of human existence as a whole. It inquires into what we are as human beings, and what reality is in its most comprehensive dimensions.

Culture is expressed, for example, through art, literature, and music, reflecting long-lasting social values such as equality, freedom, and community and such cherished traits of character as courage, fidelity, and truthfulness. Pop culture also finds expression in art, literature, and music, and with the passage of time may or may not endure. The music of Frank Sinatra has endured well beyond the stage of popular whim and fancy. The Harry Potter books may not. Walter Ong [1970, p. 17] who has written extensively on culture\(^1\) asserts that, in terms of the communication media, cultures can be divided into three successive stages: (1) oral or oral-aural, (2) script that originates with the invention of the alphabet and alphabetic movable types, and (3) electronic.

Henrich articulates challenges that must be addressed to establish a clear linkage between culture and economic behavior. The following is organized to address all three of his specific questions:

1. Where do people get the rules, expectations, or notions of fairness from?
2. Why do these rules, expectations, and notions affect real economic behavior?
3. How much can the varying rules, expectations, and notions affect real economic behavior? [Henrich, p. 978]

The answers to these questions, in turn, will either re-affirm the neo-classical assumption that humans share the same economic decision-making processes or overturn it [Henrich, p. 973].

*First Question*

Human beings develop their own set of rules, expectations, or notions of fairness by reflecting on their own life experiences (reason), by accepting them on the word of another (faith), or both. The university is one institution that studies human behavior in order to understand it better for the purpose of setting down rules, expectations, and notions of fairness in the form of: (1) codes of ethical conduct for the professions; (2) statutory law governing criminal behavior; (3) tax codes specifying how the burden of supporting the government is to be distributed, and the like. These rules, expectations, and notions of fairness may differ for the moral absolutist and the moral relativist even if they have attended the same university. Or they may be the same because the two share the same faith and frequent the same place of worship. In any case rules, expectations, and notions of fairness develop over years and are transmitted and reinforced at various times by the family, the school, the church-temple-synagogue, the judicial system, and other social institutions.

Kohlberg [pp. 347-480] identified six stages in a person’s *cognitive moral development*: (1) avoidance of punishment; (2) desire for reward; (3) anticipated disapproval of others; (4) anticipated dishonor; (5) maintaining respect of equals and community; and (6) self-condemnation for departing from one’s principles. Rest [pp. 1-2] then developed a test that allows one to classify a person

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\(^1\) See the references section for four citations to Ong’s work.
accordingly. In general, a person progresses to higher stages of moral development with age, but there is no assurance that he/she will have progressed to the last stage upon reaching adulthood.

Drawing importantly but not entirely from Kohlberg and Rest, a moral decision-making process has been identified by O’Boyle et al. [pp. 100-105] to include six discrete steps: (1) perception, (2) discernment, (3) resolution, (4) assessment, (5) decision, and (6) action. Perception is the ability to recognize that a moral problem exists for which a person has some duty to address. Moral perceptivity requires the acting person to have some knowledge of the good. The second step requires that the person in action has some ability to state the problem clearly. Discernment obviously depends on the acting person’s ability to think logically. Resolution is the third step that raises the issue of the acting person’s ability to resolve the issue at hand, and requires him/her to think analytically. Assessment is the next step in the process and raises the question as to whether the person is free to act and requires that the acting person has the ability to assess his/her own personal freedom to act at the moment. The fifth step is decision that inquires as to whether the acting person is obliged to act and presumes knowledge of one’s obligations. Action is the sixth and last step of decision-making process wherein the person in action is challenged to address the question as to whether he/she is going to act and presumes a disposition and at that time the courage to follow one’s convictions. This six-step process is circular rather than linear. A person’s basic knowledge of the good is a prerequisite for sensing whether a moral problem is present and whether he/she has some personal responsibility in the matter. It is determined as well by direct personal experience with the other steps, especially with the action step. That is, what is learned in the action step improves one’s ability to more readily perceive other moral problems thereafter.

It follows that different persons likely are at different stages of their own cognitive moral development and therefore some are better prepared than others to handle ethical issues in economic affairs, and in fact may act differently in the same situation. Thus, employers following virtually the same decision-making process but at different stages in their cognitive moral development likely will behave differently. To illustrate, due to differences in cognitive moral development an employer at the avoid-punishment stage might take no action at all in a clear case of workplace discrimination especially if there is no punishment likely to befall him/her, whereas an employee in anticipated-dishonor stage might act promptly in order to avoid any dishonor. Some senior managers might be more prone to schemes that defraud their stockholders when the payoff is large enough, while others would not, whatever the size of the payoff, because the former have an underdeveloped conscience while the latter are much further along in their ethical development. Similarly, workers in the same firm may respond differently to defects in workmanship or unsafe work processes, one blowing the whistle while others remain silent. And for the same reason consumers and employees may respond quite differently to the same shoplifting and embezzling opportunities.

Ethicist Gerald Cavanagh in 1985 stated that “most of us have a child’s notion of ethics and a graduate-school notion of finance, marketing, and management” [U.S. News and World Report, p. 58]. Surely even today Cavanagh’s indictment applies to many if not most students of economics who under the influence of logical positivism cling to positive economics and are ill-prepared to address ethical issues in economics, with the possible exception of matters relating to distributive
justice. In effect, justice in exchange (equivalence) and justice in working with others in the community (contributive justice) are dismissed because all such matters are addressed by the free and informed interaction between economic agents in a market economy or are subsumed under the common good which is served through the invisible hand. In other words, issues of conflict wherein ethics plays a role are sorted out by *homo economicus*, and the hard, concrete decisions are drained off into abstract rules.

**Second Question.**

To answer Henrich’s second question, rules, expectations, and notions of fairness affect economic behavior because they are the mechanisms used to bring economic behavior into compliance with the dominant social values of the culture. When there are changes in the values that are formalized by specific rules, expectations, and notions of fairness, the transmission mechanism must change as well in order to produce the desired economic behavior with as little disruption as possible. Insufficient attention was given to these mechanisms in guiding the transition of the former U.S.S.R. into a market economy. The chaos and gross injustices that have attended that transition were predictable.

Rules, expectations, and notions of fairness change as our insights into human action deepen. For example, in the Early Middle Ages and well into the Late Middle Ages charging interest on loans was regarded as sinful. After the Protestant Reformation, and with a better understanding of risk and waiting, Christian lenders no longer were guilty of sin by requiring that interest (within limits) be paid on their loans. Much more recently, we have come to understand the silent injustice of the gentlemen’s agreement, the glass ceiling, redlining, and many other unjust practices and we are witnessing considerable efforts to condemn these practices as unacceptable behavior in economic affairs. As social values change or are ranked differently as to their importance, economic behavior changes too under the influence of new rules, expectations, and notions of fairness such as took place over a long period of time with regard to interest on loans.

Changes such as these originate in and are reinforced by changes taking place deep within the socioeconomic order and which are changing the very institutions that we rely upon to provide stability and continuity as to the rules, expectations, and notions of fairness governing economic behavior. At the moment, we are in the midst of two powerful revolutions. One is technological in origin -- the new economy -- and is affecting the five central economic processes of production, distribution, exchange, consumption, and investment. The other revolution originates in a shift along the four axes of tension underlying the social order and the basic institutions that express the fundamental values embodied in culture: (1) away from the sacral toward the secular; (2) away from the moral absolute toward the moral relative; (3) away from the objective reality toward the subjective reality; and (4) away from the group toward the individual. The shift toward individualism is being felt across all institutions including the family, the school, the state, the church, and the armed forces (see Becker 1992, pp. 353-355). Culture matters in economic behavior and becomes much more visible when economic institutions are shaken by revolutionary change. Furthermore, the movement toward individualism in effect validates the central philosophical underpinnings of mainstream economics.
At the present, these four shifts are slowly redefining our culture from one of life and hope to one of death and despair. This cultural revolution, in turn, is further promoting the individual and dismissing the person by redefining how we perceive economic realities around us. Freedom of choice increasingly is regarded as more important than one’s duty to others. To illustrate, tax relief for those with much is rationalized even when it leads to less assistance for those with little.

Notice how these two revolutions are linked by internet sales of pornography, by chat rooms that redirect human behavior from spouse and children to others through human imagination and fantasy, by video games, motion pictures, and cable television that are deliberately marketing adult materials to children that Senator Joseph Lieberman recently attacked as leading to a “culture of carnage” [p.1]. And by day-trading over the internet that can distort the true risks involved in such practices, replacing them with the false promise of instant wealth and a lifetime of ease and comfort. Notice as well internet sales of powerful drugs without a prescription are raising false expectations that essentially uninformed self-medication will produce more favorable outcomes than better-informed prescribed medication. And take note of the huge and growing demand for illegal drugs in the United States alone that are taken ostensibly to meet the needs of the human body or human spirit but all too often lead to death and despair in addiction and homicides attributed to an overdose or a “deal that went bad.” Notice how suicide and mercy killing increasingly are rationalized by mainstream economics on cost-benefit (pleasure-pain) considerations. Mainstream economics rationalizes a human life that is not worth living. Such a proposition is unthinkable in personalist economics.

Third Question.

To answer Henrich’s third question, culture itself and cultural change can and do affect real economic behavior profoundly. Note, for instance, the huge cultural change that occurred after the end of World War II and how the baby boom that followed is still affecting economic affairs. Much earlier the cultural affirmation of saving reflected in the old cliché “a penny saved is a penny earned” was widely affirmed and embraced in the United States. Today it has little practical relevance.

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1 In Evangelium Vitae John Paul II [p. 14] warns explicitly of the dangers to humankind originating from a culture of death. They include murder, genocide, abortion, euthanasia, willful self-destruction, mutilation, torments inflicted on body or mind, attempts to coerce the will itself, subhuman living conditions, arbitrary imprisonment, deportation, slavery, prostitution, the selling of women and children, disgraceful working conditions, where people are treated as mere instruments of gain rather than as free and responsible persons. In November 2000, the Dutch parliament approved a bill to allow physician-assisted suicide, making it the first country to formally legalize euthanasia [BBC News, pp. 1-3].

2 The Food and Drug Administration [p. 1] identifies eight specific risks in purchasing medicines online including fake, unapproved, outdated, or sub-standard products, medicines that are too strong or too weak or contain dangerous ingredients.

3 Federal drug seizures in the United States climbed from 372 tons in 1990 to 1,481 tons in 2003 [Statistical Abstract, Table 316].

4 In 2003 personal saving as a percent of disposable personal income was 2.1 percent. In 1990 the saving rate
Before the war, a woman’s place was in the home. After the war, especially after the development of the birth control pill, women could pursue professional careers and, with the passage of time, have done so in even greater numbers and proportions with the approval of the rest of society.¹

Figure 3.1 arranges the five starting-point representations of the economic agent -- slave, object/instrument, individual, human, and person -- in hierarchical order in keeping with John Paul’s affirmation that person is nearly divine [Fides et Ratio, §§7, 12], and with Ong’s observation that only high-tech cultures give rise to personalist philosophies [Ong 1981, p. 200]. Accordingly, slave hierarchically is the lowest starting point for thinking about economic affairs and person the highest with human, individual, and object/instrument between the two in that order.

Unlike mainstream economics, personalist economics recognizes gender differences as significant with regard to the economic agent in that competition is the organizing principle favored more by the aggressive masculine gender trait and cooperation is the organizing principle favored more by the nurturing feminine gender trait [O’Boyle 1994, pp. 320-324]. By embracing the individual as their starting point and given the overwhelming disposition in Western intellectual tradition to construe individual in masculine terms [Tarnas, p. 441], it follows that mainstream economists would represent competition as the only principle organizing economic affairs from the very beginnings of economics to the present day. Both competition and cooperation are affirmed as organizing principles by humanists such as Lutz [1990, p. 254] but we have not observed Lutz and Lux² or any other advocate of humanist economics linking competition and cooperation to masculinity and femininity respectively. Nevertheless, we have done so in Figure 3.1 because of our deep conviction that Ong’s argument in this matter [Ong 1981, pp 15-209] is compelling. For those whose way of thinking about economic affairs originates with object/instrument and utilitarianism or slave and what we call predatory opportunism, the matter of gender per se seems to be important only so far as it enters into instrumental valuation. Both gender traits enter our thinking about economic affairs principally through the organizing principles of competition and cooperation.

Figure 3.1 brings together the philosophical foundations of the five points of departure with their philosophical foundations in the context of Becker’s four axes of tension and the One-Many dichotomy in a way that relates to the only two systems for organizing economics affairs: the market economy and the ordered economy. Note that to activate economic affairs by means of competition in a market economy requires wide acceptance of the social value of freedom, and to employ cooperation in like manner in an ordered economy calls for the social value of community. Starting

was 7.0 percent [Statistical Abstract, Table 650].

¹ In reviewing the growing number of comprehensive management studies Rochelle Sharp [pp. 75ff.] reported that women executives actually outperform men executives “on a wide variety of measures, from producing high quality work to goal setting to mentoring employees.”

² For instance, in an extended commentary on gendered economics Lutz and Lux [1995, pp. 121-131] make no mention of any linkage between competition and masculinity or cooperation and feminism.
with the premise of person requires a culture that sustains a movement toward the sacral along the sacral/secular axis of tension, and toward the objective along the objective/subjective axis. Further, the same premise requires cultural support for moving toward the absolute and away from the relative along that axis of tension, and away from the individual and toward the group along that axis of tension. Thus Figure 3.1 shows some of the important ways in which personalist economics today is unorthodox and counter-cultural.

Maureen Maloney [pp. 529-534] argues correctly that my Personalist Economics bears an affinity to Smith’s Moral Sentiments without embracing his Wealth of Nations. However, Smith’s “invisible hand” and his strong suspicion that persons in the same trade tend to collude and conspire place him in the camp of the autonomous individual where the activating force of competition grounded in the social value of individual freedom -- the Many -- organizes economic affairs. On the other hand, his affirmation of sympathy, generosity, and justice in the conduct of human affairs locates Smith in the camp of the human. Smith in essence is conflicted as to where economics begins: Is it with the individual or the human? To the extent that they question at all the proper starting point for economics, mainstream economists hold fast to the individual of Smith’s Wealth of Nations and see little reason to bother with the human of his Moral Sentiments. There is no such conflict in personalist economics because humans as social beings do not invariably turn to collusion and conspiracy. Positive-sum outcomes are possible when the persons in the same trade who meet together are willing to be sympathetic, generous, and fair to others who are affected by their decisions but are not present to voice their concerns. Consequently, there is a legitimate role for cooperation as a second activating force in economic affairs and while Smith admits of a strictly limited role in economic affairs for public-group decision-making grounded in the social value of community -- the One that is public -- he makes no allowance for private-group decision-making -- the One that is private -- grounded in the same social value of community. Personalist economics not only approves of the One that is private but actually prefers it to the One that is public because even though both are rooted in community, the One that is private typically is closer to persons, families, and business enterprises facing problems that cannot be addressed by economic agents acting alone. More about Smith and private-group decision-making appears later in our remarks.

Figure 3.2 narrows our focus to person, human, individual, and object/instrument in the same hierarchical order as in Figure 3.1 and indicates why the autonomous economic agent effectively splits economic theory in two, and why in principle human and even more so person bring unity to economic theory. By starting with the human being as a one-dimensional individual or object/instrument, mainstream economics in essence twice denies any role for the social dimension of human nature. First, the routine interactions of the Many taking place in a market economy rest not on the social value of authentic community but on the social value of individual freedom. Second, notwithstanding the view of mainstream economists to the contrary, the One is more than simply the sum of the Many. The One, as seen from the perspective of personalist economics, is unified by being grounded in the social value of community. As stated previously, there are needs that arise when humans live together such as protection against communicable disease that are not present when they live alone. For personalist economics to replace neo-classical economics as the
FIGURE 3.1 FROM SLAVE TO PERSON: THE CENTRAL PREMISE IN ECONOMICS

DIVINE: pure spirit

Axis of tension: Objective                  Axis of tension: Sacral

 PERSON: human body within a spirit
  personalism
  charity
  justice

HUMAN: real, existential actuality
humanism
  caring
  justice

Axis of tension: Relative                 Axis of tension: Absolute

 Axis of tension: Individual

 Individual: autonomous agent
  invisible hand

 OBJECT/INSTRUMENT: human body
  utilitarianism
  pleasure-pain calculus
  ordered economy

 SLAVE: short-term asset
  predatory opportunism
  violent denial of freedom and control of weak by strong

Axis of tension: Subjective                Axis of tension: Secular

 Individual: decisions made by the Many

 Group: decisions made by the One

 Social being

 Individualism

 Invisible hand

 Market economy

 Organizing principle of competition &
grounded in social value of freedom

 Pleasure-pain calculus

 Underlying principle of cooperation &
grounded in social value of community

 Autonomous agent

 Object/Instrument: human body
**FIGURE 3.2 FROM OBJECT TO PERSON: CONNECTION TO ECONOMIC THEORY**

*Microeconomics and Macroeconomics Fused into a Unified Theory Because Both Personalism and Humanism Rest on the Premise that Humans are at once Individual Beings and Social Beings*

\[\begin{array}{c}
\text{PERSON: human body within a spirit} \\
\rightarrow \\
\text{personalism} \\
\rightarrow \\
\text{charity} \\
\rightarrow \\
\text{justice} \\
\rightarrow \\
\text{humanism} \\
\rightarrow \\
\text{caring} \\
\rightarrow \\
\text{justice} \\
\rightarrow \\
\text{social being} \\
\text{decisions made by the One thru cooperative private or public groups} \\
\text{in competitive markets} \\
\text{decisions made freely by the Many} \\
\rightarrow \\
\text{INDIVIDUAL: autonomous agent} \\
\rightarrow \\
\text{individualism} \\
\rightarrow \\
\text{invisible hand} \\
\rightarrow \\
\text{OBJECT/INSTRUMENT: human body} \\
\rightarrow \\
\text{utilitarianism} \\
\rightarrow \\
\text{pleasure-pain calculus} \\
\rightarrow \\
\text{decisions made by valuing humans instrumentally} \\
\end{array}\]

*Microeconomics and Macroeconomics Split Apart Because Individualism Rejects Human Sociality and Collectivism Rejects Human Individuality*
norm, it is necessary to expunge from mainstream economics the long-standing but erroneous assertion that cooperation invariably is collusion and to recognize competition and cooperation -- within defined limits and grounded in the twin social values of individual freedom and authentic community respectively -- as true partners in activating economic affairs. In other words, the neo-classical paradigm sees economic affairs leaning heavily toward the individual end along the individual/group axis of tension, and personalist economics sees the same affairs more nearly toward the center of that axis of tension, blending the two into a relationship that is neither strictly individualist nor wholly collectivist.

Replacing the individualism and utilitarianism of mainstream economics with humanism or personalism opens the possibility of someday unifying economic theory that for many years has labored under the micro-macro split. That fracture can be healed when economic decision-making is seen in terms of the One-Many dichotomy, as articulated by Becker, wherein person and human embrace both systems of economic decision-making whereas mainstream economics especially if it is tinged with the libertarian extreme of individualism embraces only one. Figure 3.1 and Figure 3.2 are the bare bones of a new paradigm that we hope the rest of the chapters in this book flesh out sufficiently so that the careful reader sees more clearly that an enhanced description and understanding of economic affairs proceeds from conceptualizing the economic agent not as an individual but as a person.

**RECONSTRUCTING ECONOMICS ON THE PREMISE OF PERSON**

Attention to the role of culture in economic affairs acknowledges that humans are more than the one-dimensional, autonomous economic agents, as premised in mainstream economics, whose very existence is temporal, whose role in economic affairs is strictly instrumental, and whose behavior is entirely rational and virtually the same across cultures. Though living in different cultures, humans according to mainstream economics are not influenced by those differences when it comes to economic affairs. In the mainstream way of thinking, the individual to quote again from Waters [1988, pp. 115-117] is the basic unit of the economy, who acts freely, self-interestedly, and calculatedly in a self-regulating economy, whose behavior is knowable with mathematical certainty and empirical precision, and whose worth is determined instrumentally.

We have argued instead that each human being is two-dimensional twice over. First, humans at once are individual beings and social beings: solitary and communal, self-made and culture-bound, autonomous and dependent, rational and emotional, self-centered and other-centered. In that regard, our argument conforms to the judgment that human development depends on both nature and nurture.

Second, humans at once are both matter (the visible outwardness) and spirit (the invisible inwardness): not a spirit inside a body which suggests that the spirit is subordinate to the body, but a body inside a spirit -- an embodied spirit -- which underscores both as essential, and differentiates a human person from a pure spirit. Following John Paul II [1998, 28], the human being is the one who pursues the truth, and whose body is the medium whereby a person expresses him/herself [Wojtyla, p. 204]. Anton Pegis [pp. xxiii-xiv] asserts that in order to pursue knowledge adequately, the human must be material. Accordingly, we represent a human being as a “materialized spirit,” not a dualism in which the body is subordinated to and separable from the spirit, but a union of body and
The individuality and sociality of the human person afford an opportunity to unify economic theory wherein individuality (the Many) is the focus of microeconomics and sociality (the One) is the center of macroeconomics. Putting the isolated individual at the very heart of economics and assuming that economic laws are the sole measure of human activity close down that opportunity and assure that mainstream economic theory will remain truncated indefinitely. At times, it is difficult to determine where in economic affairs human individuality ends and human sociality begins. It is clear, however, that in both the marketplace and the workplace a one-time interaction with another human being is not the same as a personal relationship. Following Ong [1967, pp. 1-2], the determining factor is whether there is contact between the two or communication. Contact is superficial. Communication, whether it takes the form of touch, taste, smell, sight, or sound, is at the very core of human existence, and it is communication through sound that is paramount. We begin to know one another and ourselves more fully when we speak to one another. Ong [1967, p. 16] argues forcefully that developments in communication have imposed a critical problem on humankind today: How are we to manage the tension between a growing interiorization of human consciousness and a growing exteriorization? In our terminology, How are we to deal with the tension between a growing human individuality and a growing human sociality?

Three examples drawn from ordinary economic affairs help make this point. A newly hired worker begins as an isolated individual but with the passage of time may become a full participant in the company, like one of the family. A person buying and selling shares of stock in publicly traded corporations over the telephone or by internet may never experience any oneness with his/her broker or other traders. Enterprises that rely on repeat business, such as the corner grocer or neighborhood pharmacy, may be operated by a proprietor who understands that in order to forge a long-term relationship it is necessary to know one’s customers beyond the perfunctory “have a nice day.” These examples underscore the artificiality of dividing economic theory in two, and the uneasiness that mainstream economists clinging to the autonomous economic agent sometimes experience in teaching macroeconomics. Economic theory is one because the human person is one. It is our task to unify the two divisions of theory into an undivided whole.

Ong [1967, p. 181] regards the human being as a “bridge connecting the material and spiritual, which means, under grace, the material and the divine.” In Fides et Ratio [§§ 7, 12] John Paul II puts the person between the human and the divine, quoting directly from a Vatican II document, and asserts it a second time, citing the New Testament. Three years earlier in Evangelium Vitae, John Paul professed the sacred dignity of the human person three times [pp. 63, 129, and 134]. The last is the most telling in that he references the Old Testament (8th Psalm) making his appeal Judaeo-Christian: “... man and his life appear to us not only as one of the greatest marvels of creation: for God has granted to man a dignity which is near to the divine.”

Ong [1981, p. 198] points to the role of human communication in either affirming personhood or reducing humans to things. Indeed, all such communication displays some regard for the other human being as a person and when communication comes to a halt the person is reducible to a thing. In an impassioned address to the two houses of the Irish parliament on the occasion of the
commemoration of the Famine of 1845-1850, President of the Republic Mary Robinson voiced these sentiments in her simple but eloquent “part of cherishing must be communication” [Robinson, p. 6].

By avowing the isolated individual and denying the role of culture in economic behavior, mainstream economists tend to see humans as instrumentalities, as things. This objectification of humans is necessary because culture, as Dulles [p. 2] observes, is inseparable from religion. It is essential, therefore, to exclude culture and the values associated with it through its inseparability from religion and thereby cling fast to the claim that economics must be value-free in order to have any authenticity as a discipline. This exclusion reflects as well as helps fortify the shift away from the sacral toward the secular mentioned previously, and serves an additional purpose as well. Reducing humans to objects gives the appearance that economics can be constructed strictly in terms of things and since only humans can be moral agents thereby excludes any need to examine economic affairs in terms of justice.

Human beings are made male and female, masculine and feminine. Economics must recognize those differences and the inevitable relation between the two when they relate to economic affairs. Even so, more fundamentally true is that all humans are persons which means that economics does not end with one economics for men and another for women. Key to a proper understanding of such matters is a personalist economics that includes and respects the masculine dimensions of human nature as well as the feminine dimensions, and the special needs of women as well as the special needs of men in the context of family and society. Tarnas asserts that the crisis for modern man is an essentially masculine crisis, and I believe that its resolution is already now occurring in the tremendous emergence of the feminine in our culture: visible not only in the rise of feminism, the growing empowerment of women, and the widespread opening up to feminine values by both men and women, and not only in the rapid burgeoning of women’s scholarship and gender-sensitive perspectives in virtually every intellectual discipline, but also in the increasing sense of unity with the planet and all forms of nature on it, awareness of the ecological and the growing reaction against political and corporate policies supporting the domination and exploitation of the environment, in the growing embrace of the human community, in the accelerating collapse of long-standing political and ideological barriers separating the world’s peoples, in the deepening recognition of the value and necessity of partnership, pluralism, and the interplay of many perspectives ...Man is something to be overcome and fulfilled in the embrace of the feminine [Tarnas, pp. 442-443, 445; emphasis in the original].

The needs of the environment originate in human need that never can be subordinated to environmental needs without diminishing the person. The needs of the environment are additional evidence of human sociality, this time in relation to the entire ecosystem. We require an economics to better provision human need and protect human well-being. Protecting the environment is necessary for human survival but it is not the final purpose of human earthly existence. Respecting the person is the best way to protect the environment. In this regard, limits imposed on production, distribution, exchange, consumption, and investment by public or private groups can be helpful. Leaving the provisioning of human need to the market and the invisible hand is rhetoric more so than
theory and analysis that misconstrues human nature and disrespects every person ’ s essential equality and dignity.

Though mainstream economics departs from a culture of life and hope, ironically it converges with a culture of death and despair. Humans as seen by the mainstream are not ends in themselves but only a means whose value depends on their usefulness and who have no value whatsoever once they no longer are useful. This development, in turn, destroys the very foundation of the democratic state, John Paul II warns [1995 p. 38], because once the inviolate dignity of every human being is denied, the personhood and the rights of the weak also are denied, allowing the strong to dispose of them freely and to claim that what they do reinforces individual freedom and therefore is good and just. 1 Because the powerful claim rights that they deny to the powerless, the principle of equality is dismantled and the inevitable outcome is a transformation from democracy to tyranny, as occurred so tragically in a Germany that embraced the teachings of Nietzsche and where National Socialism toppled the Weimar Republic.

Turning mainstream economics away from its current premises is a difficult task because it entails carefully re-examining what has been taken as given, what indeed is thought to be immutable. But the task is not impossible. Students of economics in Europe are openly rebelling against an “excessive mathematical formalisation.” 2 A growing number of professional organizations in economics are attracting new members to institutional economics, feminist economics, humanist economics, environmental economics, socio-economics, radical economics, and personalist (formerly solidarist) economics all of which hold one position in common: there is something fundamentally flawed or missing in neo-classical economics. A number of respected academics including James Buchanan, Geoffrey Harcourt, Walter Adams, Tony Lawson, Wallace Peterson, John Elliott, Warren Samuels, Ingrid Rima, Nicolas Georgescu-Roegen, Amitai Etzioni, Severyn Bruyn, and many other lesser-known professionals, 3 in various ways have voiced their criticism of mainstream economics, offering other descriptions of economic affairs, and advocating other policy positions proceeding from different premises.

Media outlets such as CNBC in its day-long programming of financial news rarely invite academic economists to comment on economic affairs. The president ’ s Council of Economic Advisers is not nearly as visible to the public as it once was under Presidents Truman, Eisenhower, and Kennedy. More and more United States universities are eliminating economic history, comparative systems, 

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1 To illustrate, in its 1973 decision in Roe v. Wade the United States Supreme Court ruled that “the word ‘person’ as used in the Fourteenth Amendment does not include the unborn” [§ IX] and that “This right of privacy, whether it be founded in the Fourteenth Amendment ‘s concept of personal liberty ... or ... the Ninth Amendment ‘s reservations of rights to the people, is broad enough to encompass a woman ‘s decision whether or not to terminate her pregnancy” [§ VIII].

2 See the Post-Autistic Economics Newsletter [p. 1], which began publication in September 2000, for information on several important developments relating to student unrest over excessive mathematical formalisation.

3 See Waters [1993, pp. 262-286] for a listing of the twentieth-century social economists who in Waters ’ own words “best contributed to supplying the building blocks of a realistic and personalist economy.”
and history of economic thought, the courses most likely to require students of economics to re-examine the premises used in mainstream economics, thereby assuring that criticism of mainstream economics will continue to increase and that future generations of doctoral-degree graduates will be less able to defend their descriptions of economic affairs and their policy recommendations.

Because it deals most fundamentally with human well-being, economics is not a physical science. Accordingly, mainstream mathematical modeling that regards all human behavior as self-interested and strictly rational is constrained by its own dated premises. Human behavior cannot be completely represented by a logic and method drawn from the physical sciences, where Einstein’s $E=MC^2$ is an awesome insight, because humans are informed by both faith and reason. In economics, notice Schumpeter’s “creative destruction” is more widely and frequently referenced than any mathematical expression.\(^1\) There is no economics which is value-free through the complete separation of fact and value. Economics, all economics, is normative because human behavior can no more be separated from the values inhering in human nature than economics can be divorced from its premises.

The makeover of economics will take much time because the mainstream way of thinking about economic affairs is deeply entrenched. To illustrate, the notion that economics is more nearly akin to physics than to natural history originates with J.B. Say in the early nineteenth century [Gide and Rist, p. 126]. The makeover will take place once neoclassical economists acknowledge the confusion regarding ends and means in their way of thinking. That is, once they accept that the ultimate end of economic systems and therefore economics itself relates to provisioning human material needs wherein mathematical modeling, powerful though it may be, is merely one means to achieving that end and useful only when the user knows his/her premises well enough to articulate and defend them effectively, as was recommended by Young [p. 656] in 1990. Thirty years before Young, Becker [1961, p. 10] put it simply and directly.

This monograph is a partial appraisal of benefit adequacy in unemployment insurance ... The body of data was provided by a number of studies recently conducted by some of the states in co-operation with the federal Bureau of Employment Security ... The aim of this monograph is to present the findings of these studies in relation to meaningful norms of benefit adequacy. To do this involves first the development of norms and then their application ... the process of selection of norms serves the additional purpose of revealing my personal value judgments (they have probably influenced my selection and arrangement of the data) so that anyone who disagrees with my judgments can the more easily pinpoint the disagreement and substitute his own set of values [Becker 1961, pp. 9-10].

Finally, we close as we opened, with two reasons why personalist economics lies outside the mainstream. The one relates to premises; the other to culture. The good news is that changing the premises requires acceptance by orthodox economists that individualism which was conceived by

\(^1\) *Business Week* in 2000 published a commentary on Schumpeter entitled “Today’s Hottest Economist Died 50 Years Ago” (see Whalen, p. 70).
Adam Smith in the Enlightenment of the 17th and 18th centuries is a worn and tattered philosophy for the 21st century. Ong [1970, p. 99] characterizes the father of economics as follows.

The late typographic age is the age of empire building and of laissez-faire economics; Adam Smith had begun his academic career at Edinburgh as professor of rhetoric and belles lettres, a typographic communications man with lingering oral commitments (rhetoric).

Once individualism has been displaced by a philosophy that acknowledges that human beings are social beings as well as individual beings, that they have become more social due to the development of electronic means of communication that emerged well after Smith’s time, the premises that derive from script-stage individualism will fall apart.

Just as we have argued herein that individualism is a product of 17-18th century Enlightenment and for that reason is not well suited to economic affairs in the 21st century, Alfred Chandler in 1977 presented substantial historical evidence that Adam Smith’s “invisible hand” is outdated.

The visible hand of management replaced the invisible hand of market forces where and when new technology and expanded markets permitted a historically unprecedented high volume and speed of materials through the process of production and distribution. Modern business enterprise was thus the institutional response to the rapid pace of technological innovation and increasing consumer demand in the United States during the second half of the nineteenth century [Chandler, p. 12]

The bad news is that the individualism of orthodox economics finds nothing inherently objectionable in the contemporary culture of death and despair. Indeed individualism tends to reinforce it and rationalize it. First, if the costs of continuing to support human life -- say through relief for starving peoples or medical assistance for AIDS-stricken populations -- are greater than the benefits, who in the mainstream would approve such expenditures? Second, if a deeply depressed worker or a terminally-ill patient wants to end it all, shouldn’t that person be free to make that choice? If we truly embraced the conviction that all humans indeed are precious quite apart from their instrumental value and their own self-valuation, we could not so easily ignore or dismiss their most fundamental unmet human needs.

Replacing a culture of death and despair with one of life and hope is an extraordinarily difficult but not impossible task. Those who join in that work will continue to be marginalized and at times even ridiculed by their mainstream colleagues. The professional resistance and personal risk entrepreneurs typically encounter -- which in this instance would destroy the old ways of doing economics based strictly on human materiality -- constitute our daily burden in creating a vision for the 21st century which begins with the premise that every human being is a materialized spirit, an embodied spirit, and ends with a human being who has become a more fully developed person.
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CHAPTER FOUR

THE ACTING PERSON: RE-CONSTRUCTING ECONOMIC
AGENCY AROUND A LIVING, BREATHING,
EXISTENTIAL ACTUALITY

In this chapter we advance two simple but important propositions. First, economic agency as represented in mainstream economics is seriously outdated in large measure because it has deliberately oversimplified its representation of the economic agent -- the individual or *homo economicus* which originated in the Enlightenment of the 17-18 centuries -- in order to simplify economic analysis and produce empirical findings about which it can claim certitude. We propose instead an economic agent -- the *acting person* – who is more faithful to contemporary understanding of human nature and better aligned with human activity in current economic affairs. The result admittedly is greater complexity in economic analysis which in turn demands more judgment on the part of the economic analyst in correctly interpreting the findings that the analysis brings forth. This proposition rests on the premise that certitude purchased at the price of oversimplification is an illusion.

Our second proposition is that economic agency constructed by mainstream economics on utility/profit maximization also misrepresents human nature. Referring back to Aristotle, we propose instead that human beings routinely maximize what we call personalist capital in which certain good habits or virtues such as justice and courage are learned, practiced, and acquired and by which a human being becomes more fully a human person. Further, as human beings develop more fully as a human persons, they become more effective and more highly valued as economic agents. We should add that human beings become less fully human persons by learning, practicing, and acquiring certain vices such injustice and recklessness, and become less effective and less highly valued as economic agents. This second proposition rests on the premise that the economic agent is inseparable from the human person.

These two propositions are presented in eight main parts. The first part addresses the meaning of humaneness and personhood. The second part examines the three levels of human action and what it means to *be* rather than to *become* a human person. In the third section the practice of virtues and vices that changes a human being into a *person in action* is examined. Physical, financial, and human capital are reviewed in the fourth part and other forms of capital including personalist capital are taken up in the fifth part. The last three sections examine how human persons develop as economic agents – as *acting persons* – through engagement in the three central economic activities of consumption, work, and leisure.
HUMANNESS AND PERSONHOOD

Whether by union of male and female or by cloning, human beings bring into existence other humans and in that sense all humans are contingent beings. Contingent beings are constituted of an actuating principle that defines them for who/what/whose they are and a limiting principle that defines them for who/what/whose they are not. In accordance with the actuating principle, they are persons because they are living, breathing existential actualities, made in the image and likeness of God, and therefore very nearly divine. They are fully individual beings and at the same time fully social beings, neither one being diminished by nor subordinated to the other. Fifty years ago, John Maurice Clark rejected the strict individuality of *homo economicus* as avowed by mainstream economics, affirming instead human duality in these words:

Man has a dual nature, individual and social; and however much individuals differ in their relative emphasis on these two sides, none is a whole man in whom either side is completely repressed [Clark 1957, p. 118].

They are, as well, body and spirit, the one no less than the other. They are creatures whose very nature demands that they be free to act, at times rationally, at other times emotionally. They are therefore self-determining, and remain persons as long as they live. Crosby combines both principles in the following:

… given the depth and intimacy of our embodiment, the only safe assumption is that a new human person begins to exist as soon as a new human body is formed, and continues in existence as long as the body is alive [Crosby, p. 124].

If we regard any human being as an object with only instrumental value, his/her personhood in a certain sense is denied. To illustrate, slaves are not considered persons because they have been reduced by others to material objects that can be bought, sold, traded, or taken. Prostitutes are not thought of as persons because they have been reduced to sexual objects for strictly commercial purposes. Suicide bombers are not viewed as persons because they have rendered themselves into instruments of death and destruction. Even so, all three still cling to their basic personhood because as long as they are living all three can be set free by human action. The slave can be emancipated. The prostitute can be convinced that sex is a gift not a commodity. The suicide bomber can be turned back by personally refusing to carry out the mission or by security forces.

The issue as to when in the very earliest stages of the life cycle a contingent being becomes a human is extremely controversial. No less controversial is the matter as to when such a being becomes a person. For instance, developmental biologist Scott Gilbert [pp. 1-17] identifies many different views on this matter which can be organized along three lines of thinking: the theological, the scientific, and the philosophical.

Nothing in economics informs us as to the exact moment in the life cycle when humanness and personhood first are present or prepares us to sort through that pressing issue. Nor is there any compelling reason to belabor that issue if one is willing to accept humanness and personhood as
givens and assert that every economic agent is a human person. We, however, are not prepared to rest our case on an assertion which mainstream economics, by valuing human beings strictly as economic instrumentalities, in effect rejects out of hand. Instead, we insist that even though economic agents clearly have instrumental value they have more fundamentally an inherent dignity that makes them nearly divine. If that sacred dignity is denied for one human being it can be denied for any human being, and with that denial basic human equality is rejected. With human equality set aside, personhood can be denied to anyone who does not measure up to whatever critical value sets the standard for acceptance as a person. In the end that means that personhood is defined by those who claim to be smart enough to set the standard so precisely as to include only those who truly are persons, excluding all others, and are powerful enough and willing to enforce it.

Putting the elemental issue of personhood and humanness in the form of a question yields the following. Should humans be regarded as persons by virtue of who, what, and whose they are, that is in accordance with their nature, or by virtue of the value others attach to them, that is in accordance with the judgment of others? A norm of personhood and humanness that is based on human nature is an objective norm. On the other hand, a norm that is based on the value attached by others is a subjective norm. In the following, we propose that the proper norm of personhood and humanness is an objective norm.

_Economic Agents are Persons: First Proposition._ Our argument to the effect that all economic agents are persons rests on two propositions. First, humanness and personhood are inseparably one. Second, _becoming_ a person is not the same as _being_ a person. As to the first proposition, humanness and personhood are one because they originate in a contingent being at the very first moment when that being is brought into existence through the sexual union of a fertile human male and a fertile human female or cloning. This is not to say that they are fully developed human persons when humanness and personhood first are present. Fullness comes later through the normal process of growth and development.

From the moment of fertilization every human being has all of the genetic material which he/she will ever have in his/her entire lifetime.¹ The unborn child clearly is distinct from its mother and therefore is an individual being. At the same time, he/she literally is tied by the umbilical to its mother and for that reason the unborn child is a social being. The unborn child is a sensate being, drawing back for instance from a needle inserted in the mother’s womb. Moreover, the unborn child is an intelligent being in that without the mother’s directly intervening, as she must in feeding the newborn infant, the unborn child takes from its mother only the nourishment necessary for growth and development, no more, no less. Also without the mother’s direct intervention, the unborn child positions him/herself in the head-down position for a safe delivery.

The unborn child, therefore, is an individual being, a social being, a sensate being, an intelligent being, not some other living creature such as a camel or cabbage, but a human being. Unless one is prepared to state unequivocally that the unborn child has no inherent sacred dignity and falls short of whatever standard may be used to define its basic worth as a human being, the child is a human

¹ Gilbert [pp. 9-11] refers to this argument as the “genetic view,” one of five with a basis in science.
A person. Since nothing new is added after fertilization to change his/her fundamental human nature, a human being is a person from fertilization until the moment of death when he/she is reduced to dust. Thus, even though economic agents are individuals and objects in the sense that economics views them in the workplace as inputs or human resources, they are first and foremost human persons.

Economic Agents are Persons: Second Proposition. The second proposition in defense of our argument about the personhood of the economic agent is that becoming a person is not the same as being a person. To illustrate, psychotherapist Rogers asserted repeatedly in his widely acclaimed On Becoming a Person [1961] that a human being literally becomes a person implying that he/she, though fully a human being, at times might not be a person. Giavanola [2005] also seems to be caught in some confusion as well in using similar language though her intent is to flesh out the meaning of personhood by adding “human richness” – “… an internal multidimensionality and plurality which intrinsically characterizes each person and that every society should guarantee or at least promote” [p. 250]. Notice the similarities in their language.

… a person is a fluid process, not a fixed and static entity; a flowing river of change, not a block of solid material; a continually changing constellation of potentialities, not a fixed quantity of traits [Rogers, p. 122].

Such an anthropological richness … allows us to think of human beings in a dynamic frame in which they are constantly involved in the process of ‘becoming’ themselves and realizing themselves [Giavanola, p. 215].

Grisez and Shaw on the other hand understand personhood not as a problem of becoming a person but one of being a person and emphatically insist on the distinction. To appreciate their argument one must first examine what they mean by the three levels of action and how each level is associated with a different type of freedom.

HUMAN ACTION AND BEING A HUMAN PERSON
At the first level, which is associated with physical freedom, the action taken leads naturally to a specific outcome provided there is no physical constraint in place. The retriever has been trained and predictably fetches the downed duck unless the dog is physically restrained on a leash. The newborn baby naturally takes to its mother’s breast provided it is not physically separated from her. At the first level, the action undertaken is very simple. For that reason, both animals and humans are capable of action at this level.

At the second level, which is associated with freedom to do as one pleases, the action is undertaken to achieve a specific end. At this level, two conditions must be in place: (1) the end must be desired and (2) the means employed must be sufficient to achieve the desired end. Thus, a farmer desires to plant a crop of corn in order to feed to his cattle. Accordingly he tells his workers to plant corn and they carry out that task as instructed. The crop eventually matures, is harvested, and become available to feed to the farmer’s cattle. Often the kind of freedom involved in action at the second level clashes with a requirement imposed by society that limits the freedom to do as one pleases. A
woman is free to marry whomever she pleases but not someone who is a close relative. A man is free to marry whomever he pleases but not to beat his wife or abuse his children. Human beings are free to do as they please, provided they act responsibly. Because intentionality is required, only humans are capable of action at the second level.

At the third level, which is associated with self-determination, the significance of the action derives from the good that it produces in the person participating in the action. Fishing for the purpose of catching fish to be prepared and cooked for dinner is purposeful and foresighted and therefore is action on the second level. Fishing with another person in order to enjoy and strengthen a friendship is action at the third level. Reading a book like the *Diary of Ann Franke* in order to learn more about human goodness in the midst of evil is action at the third level. Reading the same book simply to fulfill a book-report requirement at school is action at the second level. It is third-level action which is associated with self-determination that makes one a better person [Grisez and Shaw, pp. 2-17].

Persons are persons; the question for them is how to be what they already are. If the problem were how to become a person, it would mean that “personhood” was some sort of definite goal or objective toward which one could work by action at the second level. But this is clearly not the case. We already possess personhood. We are not working toward the goal of becoming persons; we are instead coping constantly with the difficult but fascinating problem of how to be persons [Grisez and Shaw, p.14, emphasis in the original].

… persons are faced with the constant necessity of making choices and, in doing so, of determining themselves. How to use their freedom of self-determination -- how, in other words, to be persons -- is the challenge which continually confronts them [Grisez and Shaw, p.14, emphasis in the original].

The question, if one follows Grisez and Shaw, is how does a human being grow and develop more fully as the person he/she already is. Their answer is that growth and development take place through the choices made at the third level of action in which the actor does not achieve the good or purpose intended but instead participates in it and this participation occurs over the entire period the action is undertaken. Action at the second level means looking into the future. Action at the third level means acting in a consequential way in the present. It is action at this level that affords the opportunity to grow and develop more fully as a human person [Grisez and Shaw, pp.17, 21].

A flower unfolds in a complex multi-stage process in which all along it is a flower for the simple reason that it cannot become anything other that what it has been since the very first stage of its development as a specific organism. Similarly, after birth, the child continues to unfold as a person, grows and develops as a person according to the potentialities present from the very beginning which empower it to act and by acting that child unfolds as a unique person. To illustrate, some are endowed with special mental faculties, and years later become teachers, inventors, researchers. Others with special physical talents become athletes, structural iron workers, ballet dancers. Still others have a special gift for evoking what is best in others, and become orchestra conductors, supervisors, coaches. Others are endowed with a caring nature, and become nurses, ministers,
nannies. Every human being, every economic agent, is different, but all are alike in that all are persons.

Personhood can be affirmed or denied, granted or taken away, conditional or unconditional. By representing the economic agent as an instrumentality, as a means to an end with a fundamental worth that derives from the contribution made to economic affairs, mainstream economics in effect makes the personhood of the economic agent conditional. In sharp contrast, while acknowledging that different economic agents make different contributions to economic affairs, personalist economics insists that every human being is endowed with a sacred dignity that is separate and distinct from his/her instrumentality, a dignity that cannot be denied, taken away, or rendered subordinate to instrumental value. The personhood of the economic agent is unconditional.

VIRTUES, VICES, AND THE ACTING PERSON

As long as the child acts only at the first or second level, he/she remains an innocent person. Once he/she begins acting at the third-level the child becomes a person in action. This unfolding, this realization of one’s own personhood, is a continuous process that takes place throughout one’s entire lifetime. The child may become an evil person or a good person according to how he/she acts in a lifetime. The child becomes an evil person by embracing vices (bad habits such as acting unjustly, acting maliciously), a good person by acquiring virtues (good habits such as acting courageously, acting justly),

The Good of man is the active exercise of his soul’s faculties in conformity with excellence or virtue, or if there be several human excellences or virtues, in conformity with the best and most perfect among them [Aristotle, Ethics, p. 33].

The Noble is that which is both desirable for its own sake and also worthy of praise; or what is both good and also pleasant because it is good. If this is a true definition of the Noble, it follows that virtue must be noble, since it is both a good thing and also praiseworthy [Aristotle, Rhetoric, 1366b].

Moral excellence comes about as a result of habit. We become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts [Aristotle, unsourced].¹

… the true worth and nobility of man lie in his moral qualities, that is, in virtue; that virtue is, moreover, the common inheritance of men, equally within the reach of high and low, rich and poor; and that virtue alone, wherever found, will be followed by the rewards of everlasting happiness (Leo XIII, § 24).

We add that a child becomes a weak or indifferent person by doing little or nothing, by not acting. Whether the child acts righteously, wickedly, or indifferently he/she remains a person throughout, just as changes in weight and height, cognitive abilities, and other human skills and talents over the child’s development as a teenager and later as an adult do not alter the essential reality that he/she is

a person from the beginning of life to the end.

Development from an *innocent* person to an *acting person* is a two-stage process.

> All free males are born with the potential to become ethically virtuous and practically wise, but to achieve these goals they must go through two stages: during their childhood, they must develop the proper habits; and then, when their reason is fully developed, they must acquire practical reason (*phronēsis*) [Kraut, pp. 4-5].

> Although we must be fortunate enough to have parents and fellow citizens who help us become virtuous, we ourselves share much of the responsibility for acquiring and exercising the virtues [Kraut, p. 3]

The rate at which this transformation from *innocent* person to *acting person* varies from person to person because each one is unique with a unique disposition to acquire this virtue or that vice [Rickaby, p. 2].

Our attention is drawn to the four virtues commonly referred to as cardinal virtues: justice, courage, moderation, and prudence. Justice is rendering to others that which is owed. Courage is firmness in the face of difficulty and constancy in the pursuit of the good. Moderation restricts the attractiveness of pleasures and provides balance in the use of created goods. Prudence prompts one to select the best means to achieve a good end.

Following Aristotle, justice is the mid-ground between rendering too much to others and rendering too little, between favoritism for example and ripping off. Courage is the golden mean between the vices of cowardice (too little) and rashness or recklessness (too much). Moderation is the mean between gluttony and extreme self-denial, between workaholism for instance and sloth. Prudence helps us discern excess and deficiency in other areas, enabling us to locate the mean though not activating us toward that mean. Thus, prudence is fundamental to the other virtues [Rickaby, pp. 5-8; Kraut, pp. 5-7].

We refer to the four as *practical* virtues because as Schall states [pp. 414-415] they relate not to thought or truth but to practical human action. Moderation and courage are always inward-directed, toward self; justice is outward-directed, toward others [Schall, p. 410]. Following Aquinas, prudence is not rational self-interest unless it is tempered by justice and friendship or love [Finnis, p. 20]. It involves both the end sought and the means to attain that end, calls for reason rather than impulse, and takes counsel from others in the selection process [Elmendorf, p. 4]. Prudence therefore is both inward- and outward-directed.

Justice is, to quote Schall [pp. 419, 409] “a very cold virtue,” “the most terrible of the virtues.” Strictly speaking, justice results in a condition wherein no one *owes* anything to anyone else. Schall [p. 412] describes this condition as an “isolated hell.” The remedy is found in the virtues of gratitude, benevolence, and charity.
relationships of justice, by themselves, are quintessentially impersonal. We get what is due -- no more, no less. This indifference to the person to whom we are just or who is unjust to us is what I meant earlier in suggesting that gratitude, benevolence, and charity are needed in addition to justice. We must be just even to our enemies, to those who hate us, to those we do not know or care to know [Schall, p. 419].

The virtue of forgiveness is another remedy for what is lacking in the virtue of justice. 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, 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, the neighbor who does not accept reimbursement for school uniforms purchased for the children next door living with their grandmother who survives on a small monthly pension check exemplify the true meaning of forgiveness. In every instance, forgiveness involves a need that otherwise would not be met.

The 2005 Bankruptcy Abuse Prevention and Consumer Protection Act strikes a new balance between the extremes of too much and too little, moving clearly away from canceling too much debt. While it 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. Writing off debt that is uncollectible, including a debt that has been assigned to a collection agency which 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 which 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 designer clothes or high-definition television. To repeat, the true measure of forgiveness in economic affairs is relief for what is owed that is given freely.

Debt that is cancelled through bankruptcy or written off as uncollectible impacts the firm’s cost of doing business, its profitability which is troubling to the owners/shareholders, and may lead to higher prices which would be harmful to its paying customers. In the extreme cancelled and written-off debt could force the firm out of business which is harmful to all of its stakeholders. Like consequences may follow from debt that is forgiven though such outcomes are less likely because the creditor is not being coerced to cancel or write off debt.

In economic affairs, justice, courage, moderation, and prudence operate in the limiting mode. Justice limits ill-gotten gain (in a routine exchange one agent gets too little because the other agent takes too much). Courage limits evil from occurring when a person knows what do to in a difficult situation and is willing to confront that difficulty. Moderation limits excess in work, consumption, and leisure.
Prudence limits recklessness in allocating resources toward some given good. All four virtues are learned (from others, on one’s own) and therefore can be taught (to others). Children become aware of and learn justice first in large measure because family controversies often swirl around questions of justice [Schall, p. 410]. “She messed my drawing.” “He hid my book bag.”

We conclude this part with some extended remarks on the virtue of justice because it plays such an important role in economic affairs. Every exchange between economic agents – buyer and seller, producer and supplier, employer and employee, borrower and creditor – necessarily involves economic gain for both parties. What is gotten must be greater than what is given up. Otherwise, exchange collapses. However, limits on the amount of economic gain are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of equivalence, distributive justice, and contributive justice.

The principle of equivalence limits ill-gotten or excessive gain because what is gotten and what is given up in the exchange are what were freely and openly agreed to before the exchange took place. For example, the ill-gotten gain for the employer who operates a sweatshop is the added profits from denying his/her workers what is due them. The ill-gotten gain for the employee who embezzles is money that rightfully belongs to the employer.

The principle of distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly.

The principle of contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

Justice, courage, moderation, and prudence are essential to an efficient, orderly, and peaceful economy. Mainstream economics asserts that these matters are addressed through the “invisible hand of the market.” Personalist economics argues that the “invisible hand” fails whenever economic agents have not learned and acquired the practical human virtues and do not practice them faithfully. Clark among others long ago asserted a similar view.

… in a modern economy it has become impossible to trust an “invisible hand” to turn crude self-interest into an efficient engine for meeting every social need. We must have a sensitive awareness of what our social needs are, and what the economic
machine is doing to them; and we must work with conscious purpose to make that economy meet those needs [Clark 1957, pp. 180-181].

See Chapter Five for more on the three principles of justice.

**CAPITAL: PHYSICAL, FINANCIAL, AND HUMAN**

Mainstream economists have incorporated three forms of capital – physical, financial, and human – into their ways of thinking about economic affairs. Our examination of capital proceeds from the perspective of the individuality and the sociality of the human beings who design, finance, build, introduce, use, and maintain capital and, with human capital, in whom it is embedded.

Due to its materiality, physical capital resides in *things*, is built for a purpose, is purchased and owned by a producer who is free to retain it, sell it, adapt it to other uses, misuse it, neglect it, abandon it. Physical capital can do nothing for itself or by itself, is neither self-improving nor self-renewing. Physical capital is depleted in use and has value strictly in instrumental terms. Physical capital originates in human action, embodies human intelligence, and evolves as human knowledge and understanding advance particularly in science and technology. To function effectively, even the most sophisticated physical capital requires human direction.

Broadly construed, physical capital may be privately owned and controlled or publicly owned and controlled. Under private ownership and control, access is restricted and any returns accrue to the private owner. Under public ownership and control, access is less restricted and returns accrue to anyone with the know-how to take advantage of it – to turn its use into economic gain. This public form of physical capital which commonly is called “public infrastructure” includes ports and harbors, highways, canals, locks, dams and hydroelectric generating systems, airports, public transit systems, levees, bridges, water and sewage treatment systems, and the like. Physical capital of either type offers the economic agent the opportunity to become more effective and therefore more highly valued. The private form of physical capital which is held by a single person arises out of and reinforces human individuality, whereas the public form originates in human sociality and strengthens it. Physical capital held privately by a circle of owners gives expression to both individuality (more so when the circle is small) and sociality (more so when the circle is large).

Physical capital cannot materialize without financial capital, and in that sense the two are related as end and means. Unlike physical capital that must reside in things, financial capital is intangible and by definition does not reside in things. As with physical capital, financial capital originates in human action, evolves as human intelligence improves, and requires human direction. The two key economic agents in the fusion of science and technology on the one hand and financial capital on the other are the entrepreneur and the banker.

Financial capital is the command over the human and material resources needed in the construction of physical capital. As with physical capital, financial capital is identifiably either private or public in nature, and a reflection of human individuality or human sociality. In a capitalist economy, private financial capital derives from three sources: savings (including retained earnings and venture capital), the creation of credit by private commercial banks, and the issuance of stocks (equity
financing) and bonds (debt financing). Private financial capital may arise through the efforts of a single person launching a new business and thereby reflecting human individuality or in the case of a more mature enterprise through the efforts of a group of persons working together thereby demonstrating human sociality.

Just as the means must precede the end that it serves, savings precedes physical capital. Savings also follows physical capital in the sense that physical capital when successfully applied in economic affairs generates a surplus or gain that can be retained or shared. Seen from this perspective private financial capital or more specifically retained earnings, though depleted in use, can be self-renewing. Thus, means and end are inextricably intertwined and virtually impossible to separate. Public financial capital is raised by issuing revenue bonds or tapping tax revenues, and can be used to improve the public infrastructure or in a partnership with private physical capital. Public financial capital exhibits human sociality in action.

Human capital is unlike the other two forms in the sense that human capital resides in human beings. Human capital is like financial capital in the sense that both are intangible and both are self-renewing. Human capital is like physical capital in that it is potentiality waiting to be actualized. However, physical capital by definition is not self-actualizing. Human capital is.

Because humans are self-actualizing beings capable of self-improvement and self-destruction, human capital can be enhanced or destroyed. Human capital can be exchanged in the sense that the employer gains access to human capital through the employment contract. The extent of that access and utilization depends critically on the employer’s skill as a manager in converting potentiality into actuality.

Human beings become different persons in part as a consequence of changes in their stock of human capital. It flourishes in a human being through the teaching/learning process, and to the extent that human beings learn from other human beings, acquiring human capital is an outward-reaching process that underscores human sociality. To the extent that they are self-taught, accumulating it is an inward-directed process that emphasizes human individuality. Human capital withers in a human being in various ways. One is a self-imposed rejection of the learning process. Another is lack of opportunity. A third is incompetence on the part of the teacher. Obsolescence and physical incapacity are two others.

PERSONALIST AND OTHER FORMS OF CAPITAL

Other forms of capital are being recognized at least at the margins of mainstream economics. Most notable among them is social capital which commonly is defined in terms of human networks, human interactions, and human sociality and which contributes to economic development.

1 The other forms of capital include intellectual capital [McElroy], natural capital [Gowdy], personal capital [Gary Becker], ethnic capital [Borjas], and cultural, linguistic, and scholastic capital [Bourdieu; Bourdieu and Passeron].
Because the very concept of social capital is controversial and lacking in clear specificity (see Knorringa and van Staveren, pp. 1-9), we prefer in the following to use the term “personalist capital” which though it has greater specificity should not be taken as either radically different than social capital on the one hand or as its replacement on the other.

Personalist capital refers to a human development process in which certain good habits or virtues are learned, practiced, and acquired and by which a human being 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 bad habits or vices by which a human being deteriorates as a human person. The virtuous person accumulates personalist capital in a way that parallels the accumulation of physical and human capital – by investing in good habits. The wicked person destroys personalist capital by investing in bad habits.

The person in action refers to a human being who chooses to act either virtuously or viciously, who is functioning at the third level of action. In economic affairs the person in action by definition is the economic agent who accumulates personalist capital by acting virtuously and who destroys it by acting viciously. The innocent person refers to a human being who has not yet begun to engage in action at the third level and therefore has no stock of personalist capital (see Figure 4.1 on the following page).

This emphasis on the role of virtue in economic affairs is not a new idea. Notice in his Moral Sentiments that Smith repeatedly calls attention to the importance of sympathy, generosity, and benevolence. Notice as well that the virtues of thrift and diligence are accepted in mainstream economics though perhaps not with the same emphasis. In the following we restrict ourselves mainly to the four practical virtues and the vices, the extremes, which those virtues seek to avoid.

Personalist capital and person are constructed around the central concept of limit. Plainly, no employer wants a worker who cannot limit his drinking (overindulgence) or one who steals (takes too much). No one wants to work for an employer who sweats his labor (pays too little) or with others who shirk their responsibilities (do too little). No consumer respects a merchant who deliberately misrepresents the quality of the goods for sale (gives too little) or does not fully disclose interest charges on credit purchases (takes too much). No merchant wants a customer who promises to pay the balance owed later but doesn’t follow through (takes too much) or who insists on being served before everyone else (demands too much).

As with physical capital and human capital, there is a distinct return to personalist capital. In general, employers prefer the diligent worker to the lazy worker, the stand-up guy to the wimp. Buyers favor the merchant who is always honest to one who is devious, the merchant who gives sound advice to one who simply doesn’t know his/her product line or worse yet cheats his/her customers. These preferences are expressed and the personalist capital of a specific economic agent is rewarded.

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1 Elmendorf [pp. 1-2] claims that “as habits [virtues and vices] are generated and increased by acts, so ceasing from action diminishes them and sometimes totally destroys them.”
FIGURE 4.1. ACTING VIRTUOUSLY OR VICIOUSLY AND PERSONALIST CAPITAL: THE DEVELOPMENT OF THE HUMAN PERSON AS AN ECONOMIC AGENT

Person initiates …

… first-level action

second-level action

… third-level action

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.

1 Third-level action is associated with self-determination. The significance of third-level action is the effect (good or evil) on the person participating in the action.
(imperfectly because economic agents are not perfect human persons) 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 resource prices including wages are determined along with hours of work and working conditions. Notice, for example, the employment difficulties encountered by convicts following their release from prison, public announcements from the Better Business Bureau and Federal Trade Commission identifying business practices and in some cases specific enterprises that are scamming the public, the complete collapse of Arthur Anderson following the public disclosure that it had been deliberately “cooking the books” for Enron

Malthus appears to be saying that personalist capital is more important than human capital.

Talents, indeed, though undoubtedly a very prominent and fine feature of mind, can by no means be considered as constituting the whole of it. There are many minds which have not been exposed to those excitements that usually form talents, that have yet been vivified to a high degree by the excitements of social sympathy. In every rank of life, in the lowest as frequently as in the highest, characters are to be found overflowing with the milk of human kindness, breathing love towards God and man, and though without those peculiar powers of mind called talents, evidently holding a higher rank in the scale of beings than many who possess them. Evangelical charity, meekness, piety, and all that class of virtues distinguished particularly by the name of Christian virtues do not seem necessarily to include abilities, yet a soul possessed of those amiable qualities, a soul awakened and vivified by these delightful sympathies, seems to hold a higher commerce with the skies than mere acuteness of intellect [Malthus, p. 131].

Personalist capital is not transferable in the same sense that physical capital is transferable. The reason is simple enough: physical capital is a thing that is entirely distinct and separate from its owner and therefore can be bought and sold. As with human capital, personalist capital is embedded in a human being, cannot be detached from that human being, and therefore cannot be bought or sold. There is nothing inappropriate in referring to acts of virtue or vice as contributing to the accumulation or loss of personalist capital just because this kind of capital is lacking in materiality. Materiality has everything to do with physical capital, it has nothing to do with personalist capital. However, both are real assets in economic affairs insofar as both are valued in the market system. Physical capital that has no value is junk. Personalist capital that has no value is inconsequential.

Personalist capital also resides in communities of persons as social beings, but it must first reside in persons as distinct individuals before it can reside in communities. To illustrate, “Cajun engineering” refers to a pride of workmanship in certain Louisiana Gulf Coast shipyards where Cajuns with limited formal educational backgrounds assert with pride that “if you can draw it, we can build it.” Cajun engineering is a form of personalist capital that is embedded in the culture and is passed from person to person, from generation to generation. If all of the children of the Cajuns working in these shipyards were to find their fortunes in other lines of work, the shipyard might survive with workers drawn from different cultural backgrounds, but Cajun engineering would not.
These two aspects of personalist capital – embedded in persons (the individual dimension) and residing in communities of persons (the social dimension) – approximate in a very real sense the relationship between physical capital and the public infrastructure in the sense that physical capital is owned by individual beings and the infrastructure belongs to the community. Put differently, there is no personalist capital in its social dimension and no public infrastructure when human beings act strictly as individual beings.

Ratnapala [pp. 97-119] uses “moral capital” in a way similar to our personalist capital in that he conceptualizes moral capital in terms of three virtues: justice, temperance (moderation), and beneficence. However, unlike our use of the virtue of justice which includes distributive justice, Ratnapala excludes it. Further, he does not include courage. And, most important, even though he uses “person” and “personhood” Ratnapala does not connect moral capital to person as distinct from individual. Rather he uses “person” as a synonym for “individual.”

In the mid-1990s Becker [pp. 3-12] used “personal capital” which along with social capital he sees as forming part of human capital. Using a utility-function approach, Becker argues that utility maximization depends not only on preferences based on current consumption activity but also on past and future consumption activity. He recommends expanding the concept of individual preferences to include “personal habits and addictions, peer pressure, parental influences on the tastes of children, advertising, love and sympathy, and other neglected behavior” [Becker pp. 3-4].

By personal capital (P) Becker refers to the impact of the agent’s own experiences and past consumption on current and future utilities. By social capital (S) he refers to the impact on the agent’s preferences from actions undertaken by others in the past. Becker’s expanded utility function is: \( u_t = (x_t, y_t, z_t, P_t, S_t) \) where \( x, y, \) and \( z \) refer to different goods consumed. Utility maximization remains the rule.

By defining personal capital and social capital as he does, Becker in effect affirms that humans are both individual beings and social beings, and rejects the strictly autonomous individual dimension of homo economicus. Our conceptualization of personalist capital and Becker’s conceptualization of personal capital are alike in that both incorporate good habits and bad habits. Becker [pp. 7-12], 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.

The differences between Becker’s personal capital and our personalist capital, however, are more significant than the similarities. First, we do not accept the utility-function approach because Becker’s personal capital is based on second-level action – consumption is undertaken for the utility.

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1 In 1888 Ingram [p. 105] used “personal capital” to mean that “… in agriculture nature labours along with man, whilst in manufactures nature does nothing, man does all …”

2 Van Staveren and Knorringa [p. 109] state that the utility-function approach is one of three ways in which social capital is integrated into economic analysis.
that is gotten -- whereas personalist capital is based on third-level action. Second, Becker [p. 119] defines a good habit as one in which greater current consumption increases future utility. With a bad habit, on the other hand, greater current consumption decreases future utility. Third, though affirming the duality of human nature, Becker does not differentiate person from individual or personalism from individualism, and does not argue as we do that good habits and bad habits make a human being more fully or less fully a human person and thereby more effective, more highly valued or alternatively less effective, less highly valued as an economic agent.

Fourth, Becker in substance rejects Aristotle’s golden mean to the effect that certain good habits such as moderation limit consumption in order to protect human well-being. It is necessary for Becker to do this in order to preserve the utility-maximization rule. Fifth, Becker says the individual acquires social capital by the impact on his/her own preferences through action taken by others. We argue instead that action taken by others influences action taken by the individual, thereby influencing his/her own personalist capital, for better or for worse.

As with all mainstream economists, Becker in the end asserts that an economy functions best when it maximizes utility, when it achieves Pareto optimality. Libertarians are likely to argue that an economy functions best when it maximizes human freedom. Personalist economics, in contrast, 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.¹

The personalist perspective for sure is a major departure from the mainstream economics way of thinking. In 2003, however, the chairman and chief executive officer of U.S. equipment manufacturer John Deere affirmed these ideas.

I submit that pro-market competition will also drive corporations that aspire to create shareholder value over the long run to work in classically virtuous ways. These virtues, although not sufficient for prosperity, are necessary for sustaining it. The practice of them gives corporations the ability to create shareholder value both in the “short run” and the “long run.” And, it is only when a corporation survives over time that it contributes to human flourishing through goods and services that add value to the quality of life, an honorable way to make a living, the potential for wealth generation for those willing to risk investment, and support public and social needs especially through the paying of taxes [Lane, p. 3].

So, I close with this. The remarkable, although imperfect, performance of vigorous

¹ We do not deny that there is an underground economy where personalist capital is turned upside down, where the person who acts viciously rather than virtuously -- drug dealers, money launderers, and assassins for hire come to mind -- is more effective and more highly valued as an economic agent. Even so, this kind of economic agent remains a human person but has in effect diminished rather than enhanced his/her own personhood. Of necessity, society condemns them for what they do and attempts to undermine their ability to continue acting in that manner.
pro-market capitalism is one that can and must be expanded. This will permit great corporations, large and small, those which practice the four cardinal virtues, to create value on an enduring basis, to be utilized as the means they can be in solving global problems, and to contribute to the greater good of human flourishing [Lane, p. 4; emphasis added].

Much of modern life is taken up with the three principal economic activities: consumption, work, and leisure. Activities in these three domains of living can involve second- or third-level action. Second-level action has no subjective effects. Third-level action has subjective effects that afford opportunities for the acquisition or loss of personalist capital and therefore the development or decline of the agent as a human person. We take up all three activities in the next three parts.

**HOW CONSUMING CHANGES THE PERSON WHO CONSUMES**

Mainstream economics depicts the consumer as unique, solitary, autonomous, self-centered, and self-made, traits that accent the consumer’s individuality. For example, the practice of power dressing and the popularity of health foods give evidence of the consumer who is self-made. The trendsetter and the traditionalist are consumers with much individuality.

Self-centeredness is necessary in the sense that healthy and normal human beings are expected to address their own needs and wants to the extent of their own capabilities. In this regard, two virtues are critical. Self-centeredness degenerates into selfishness when the virtue of moderation is disregarded and the things sought after become ends in themselves rather than the means to satisfying their wants and meeting their needs (Danner 2002, pp. 124-125). If extreme selfishness is not checked by the virtue of sympathy or other-feeling which assures that both parties benefit from the exchange, a transaction involving agents who are acting persons, are free to act, cannot be completed. To the extent that these two virtues are neglected in economic affairs, personal and economic chaos follows.

The consumer behaves predictably in ways that are described as utility-maximizing, privacy-protecting, and commodity-acquiring. In Western culture, acquiring and accumulating goods are perceived as a sign of success. The consumer is free to choose whatever he/she is able to afford, makes those choices informed strictly by reason for the purpose of satisfying some want, and takes into account not only experiences in the past (is hind sighted) but also hopes and plans for the future (is foresighted).

Comparisons are made but they are rigorously intra-personal or inward-looking, wherein consumers evaluate their own wants over time without any regard for others. Adults typically plan years ahead for their retirement, carefully budgeting -- rationally planning income and expenses -- to achieve that goal. Need is entirely rejected by mainstream economics as a central determinant of consumer behavior because it is a value-laden concept. Mainstream economists think of consumption in terms of second-level action.
However, there is more to the consumer than mainstream economics admits. The consumer is a social being as well as an individual being, and as such is both alike and unique, at once communal and solitary, dependent in addition to autonomous, utility-satisficing no less than utility-maximizing, gift-giving in addition to commodity-acquiring, emotional and rational in decision-making, concerned for needs no less than wants, free to choose and morally accountable. Just as the trendsetter and traditionalist are persons with much individuality, the caring neighbor and the philanthropist are persons with much sociality.

In America, soul food and Cajun cuisine originate in specific cultures and appeal especially to persons born and raised in those cultural environments. Pre-teens are persons who are dependent on their parents for the things they need and want. Similarly, the elderly may become dependent on their adult children because of debilitating conditions.

Additionally, personalist economics represents the consumer as behaving in ways that are described as utility-maximizing and utility-satisficing, privacy-protecting and company-seeking, commodity-acquiring and gift-giving. At times, friends may share what they have, one friend taking less than the maximum available if he/she were to exclude the other, in order that the other friend might have more, thereby affirming and strengthening their friendship. Sharing and caring are actions at the third-level, helping transform the consumer into a human being who is more fully a human person. Hoarding and exploiting also are third-level actions, but they weaken rather than strengthen the consumer as a human person.

In personalist economics, the consumer is free to choose whatever he/she is able to afford, but is morally accountable for the choices made, makes those choices informed by reason and emotion, by mind and heart, for the purpose of satisfying a want or meeting a need. Fear drives some consumer choices, as at times with handguns and security systems. Some persons known as compulsive consumers or shopaholics are addicted to shopping. Their choices are not rationally determined, nor are they freely made.

As with mainstream economics, the consumer is not only hind sighted but also foresighted as when parents have to reduce their current consumption for years in order to set aside sufficient funds for their children’s future education. Even though it is a value-laden concept, need is embraced by personalist economics because self-evidently it is a central determinant of consumer behavior. Plainly the consumer is both want-satisfying and need-fulfilling.

Because humans are both individual beings and social beings, consumers often struggle with decisions that require a reconciliation between the demands originating in the two-sides of their nature. A husband, for instance, may have to postpone buying new fishing gear because his wife needs to replace some of her clothing in order to be suitably dressed on her new job. An older sister with a steady job may be asked to help support a younger brother while he completes his college degree even though it means that she cannot buy the new car her heart is set on. A homeowner may have to forego buying new sod for his lawn in order to buy a privacy fence to block out the view of his/her neighbor’s junk-filled yard. Mainstream economics construes such decisions in terms of
opportunity cost, what one gives up once a decision has been made from the available opportunities. Personalist economics sees these decisions as opportunities for consumers to advance and gain ground as persons, or retreat and lose ground as persons.

In addition to the negative impacts of acquisitiveness on the natural environment and on other persons from one’s own consumption activities which are readily acknowledged by mainstream economics, John Paul sees two other dangers. The first is the effect of excessive consumption on the person of the consumer. The other is the effective denial of the principle of the universal destination of the material goods of the world by the affluent and comfortable who do not respond adequately to the needs of the poor. As to the first, he voices this warning:

> A given culture reveals its overall understanding of life through the choices it makes in production and consumption. It is here that the phenomenon of consumerism arises. In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones. If, on the contrary, a direct appeal is made to his instincts -- while ignoring in various ways the reality of the person as intelligent and free -- then consumer attitudes and lifestyles can be created which are objectively improper and often damaging to his physical and spiritual health [John Paul 1991, §36].

As to the second danger, by re-affirming the principle of the universal destination of the earth’s goods (see, for instance, John Paul 1991, §6) which states that the material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in their use by the right of private property, John Paul says in effect that “need” must be re-instituted in our economics.

> ... there are many human needs which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied and not to allow those burdened by such needs to perish. It is also necessary to help these needy people to acquire expertise, to enter the circle of exchange and to develop their skills in order to make the best use of their capacities and resources. Even prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists something which is due to man because he is man, by reason of his lofty dignity. Inseparable from that required “something” is the possibility to survive and at the same time to make an active contribution to the common good of humanity [John Paul 1991, §34].

To John Paul, the material dimension of human existence matters much but is subordinate to the spiritual dimension. Indeed, extravagant regard for one’s own material existence, which increasingly characterizes contemporary western culture, “... consumes the resources of the earth and [one’s] own life in an excessive and disordered way” [John Paul 1991, §37]. The danger is that consumption, carried to an extreme, reduces the consumer to a mere material being. Instead of having more, which modern economies celebrate and mainstream economics tacitly affirms, John Paul urges men and
women to be more, to develop the full potential of their personalities, to be a complete human person, and not just a self-absorbed human being.¹ In 1951 Lebret put the argument as to how consumption can diminish the person who consumes in a few simple words:

Man, in desiring “to have” rather than “to be,” in his eagerness to possess, closes in upon himself. He becomes hostile to others. He becomes the enemy of others [Lebret, p. 25].

In addressing a gathering of young people in Poland in 1987 in which he underscored the practical virtue of courage, John Paul added this powerful assertion:

I referred to that episode [the defense of Gdansk in 1939 by young Polish soldiers fighting the German invading army], inviting the young people to reflect, above all, on the relation ‘between being more and having more,’ and I warned them: ‘Having more must never be allowed to win. If it did, we would lose the most precious gift of all: our humanity, our conscience, our dignity’ [John Paul 2004, p. 191; emphasis in the original].

In their 2004 study of the nature, scope, and effects of overindulgence,² Clarke, Dawson, and Bredehoft [pp. 40-41] identified five main areas of childhood overindulgence: toys, clothing, activities, privileges, and entertainment. They noted that childhood overindulgence has negative effects that extent into adulthood. One of those effects confirms John Paul’s insight.

Some of the overindulged adults reported that they had confused getting with being. ‘I am if I get,’ one said. ‘I have to get in order to be sure I’m alive.’ [Clarke and others. p. 39; emphasis in the original].

Mainstream economics characteristically argues that human wants are unlimited, that growth in production is necessary to satisfy those wants, and that the normative concept of need has no place in a value-free science. It follows that one principal measure of human well-being is GDP per capita. Personalist economics, on the other hand, argues that the premise of unlimited human wants is ill-advised because without the limit imposed by the virtue of moderation development as a person is impeded. Further, wants must be differentiated from needs if one is to tackle the problem of poverty. Indeed the two are differentiated in virtually all poverty research and with greater refinement as poverty researchers dig more deeply into the problem. Therefore, all economics, not just personalist economics, unavoidably is value-laden. It follows that the rate of poverty is a better measure of

¹ John Paul spoke of the difference between having and being in an earlier encyclical letter (see John Paul 1987, §28, wherein he calls attention to this difference as pointed out by Paul VI in Populorum Progressio).

² Defined as giving children “too much of what looks good, too soon, and for too long… It is the process of giving things to children to meet the adult’s needs, not the child’s.” [Clarke, Dawson, and Bredehoft, p. xvii]. It is a failure on the part of the adult to practice the virtue of moderation in providing for the child.
human well-being and of the performance of the economy than is GDP per capita, and represents a higher goal for an economic development process which is consistent with the development of human beings as human persons.

Waters [pp. 113-143] offers a concise account of the personalist\textsuperscript{1} theory of economic development which centers on the entrepreneur and draws heavily from Schumpeter’s insights regarding development, namely creative vision, funding, access to resources, dynamic competition, resistance, creative destruction, and the universality of cyclical behavior. Waters adds two other factors drawn from other sources: the natural working together of labor, management, and government, and the cooperation of workers, managers, and owners in the workplace.

We quote directly only the first part of Waters’ much longer but beautifully articulated argument which centers attention on the entrepreneur or in today’s language of personalist economics, the \textit{acting person}, the \textit{person in action}.\textsuperscript{2}

At the heart of economic reality is the change of old production functions and the creating of new ones. Initiating economic improvement is the triad of vision, innovation, and fund creation. Innovation or the launching of vision in the economy is the most vital. While the ideas and inventions (visions) are necessary, as is the third, financial support to permit access to scarce resources (capital), the most difficult work is in the promoting, organizing, and launching of technological and non-technological changes. It is the innovation that constitutes the creative economic activity and brings forth substantial differences in society [Waters, p 123].

There is more on the entrepreneur in the following section on work.

**HOW WORKING CHANGES THE PERSON WHO WORKS**

Two changes transpire in the workplace: (1) the transformation of resources into goods and services and (2) the development of the one who works. The first change is outward-directed in the objective sense. The second is inward-directed in the subjective sense. At times the work is done poorly and the outcome is goods and services that are defective. Sometimes the work is mind-numbing and the result is a human being whose development as a person has been arrested. While acknowledging the instrumental dimension of work (action at the second level), personalist economics sees work primarily in terms of the who that worker is becoming (action at the third level). The difference between mainstream economics and personalist economics is seeing the worker as an economic instrument rather than a human person.

\textsuperscript{1} At the time of his writing in the late 1980s personalist economics was a term not yet in use. Waters used the older, now dated term solidarist economics which in 1990s has been replaced by personalist economics.

\textsuperscript{2} J.M. Clark offers a different theory of economic development in which like Waters he rejects the determinateness of mainstream economics. Clark’s main objection is with the concept of static equilibrium [Gruchy, pp. 246-249]. Waters, on the other hand, objects principally to mainstream economics’ premise of the individual as the basic unit of economic analysis [Waters, pp. 114-120].
There are two dimensions to the process by which work changes the worker, is third-level action. Rightly organized, work provides opportunities for using one’s creative skills and talents and for being brought together with others in a common enterprise. The one reflects the need of the human person that originates in individuality while the other reveals the need that is rooted in sociality. The need to belong that inheres in human nature as social beings is the foundation to the right of workers to associate for the purpose of representing their interests to the employer. Workers have a right to associate, to form a union, because acting collectively is a more effective means for conferring on wages, hours, and working conditions than is acting alone, and therefore a better means for provisioning their need for income, their need to belong, and their need for work that is challenging. Exercising that right and bargaining collectively depend critically on the goodwill of the employer. It follows that workers also have a corollary right to strike in order to deal with an employer who is lacking in goodwill. At the same time, employers have a corresponding right to lockout employees who are lacking in goodwill.

John Paul’s recognition of the need to belong is embedded in his assertions that the fundamental dimension of human existence is co-existence (see John Paul 1994, p. 36), that a person grows through “increased sharing in a supportive community” (see John Paul 1991, § 41) and is implied in his call to “solidarity and common action” as a reaction against “the degradation of man as the subject of work” (see John Paul 1981, §8).

Elsewhere in Laborem Exercens John Paul explains what he means by “man as the subject of work”:

Man has to subdue the earth and dominate it, because as the “image of God” he is a person, that is to say, a subjective being capable of acting in a planned and rational way, capable of deciding about himself, and with a tendency to self-realization. As a person, man is therefore the subject of work. As a person he works, he performs various actions belonging to the work process; independently of their objective content these actions must all serve to realize his humanity, to fulfill the calling to be a person that is his by reason of his very humanity [John Paul 1981, §6; emphasis in the original].

Whereas mainstream economics recognizes work only in the objective sense, John Paul is unyielding in his argument that the subjective sense of work is the more important.

... the primary basis of the value of work is man himself, who is its subject ... in the final analysis it is always man who is the purpose of the work, whatever work it is that is done by man -- even if the common scale of values rates it as the merest “service,” as the most monotonous, even the most alienating work [John Paul 1981, §6; emphasis in the original].

In a lecture series at the University of Michigan in 1947 J.M. Clark took the same stance:

The most important product of industry is what it does to the lives of the people who
work in it; and for its own safety it needs to contribute to make well-balanced individuals whose social faculties are neither atrophied nor perverted [Clark 1948, p. 50].

However, it is with regard to the need for creative opportunities that John Paul is most eloquent, instructing not from social ethics but from theological doctrine, citing Genesis and Revelations.

The word of God’s revelation is profoundly marked by the fundamental truth that man, created in the image of God, shares by his work in the activity of the Creator and that, within the limits of his own human capabilities, man in a sense continues to develop that activity, and perfects it as he advances further and further in the discovery of the resources and values contained in the whole of creation [John Paul 1981, §25; emphasis in the original].

John Paul cites Gaudium et Spes to make clear that he means work not just of the most challenging and fulfilling kind but also work involving “even the most ordinary everyday activities... [wherein men and women] can justly consider that by their labor they are unfolding the Creator’s work...” [Gaudium et Spes quoted in John Paul 1981, §25; emphasis in the original].

Historically, human beings have been diminished as persons, have been objectified, by the practice of slavery which continues even today especially as regards to women and children who are forced into prostitution. Objectification in the workplace can take on a variety of forms: sexual harassment, starvation wages, excessive hours, unsafe working conditions, forced labor, termination without cause, suppression of union activities, discrimination, monopoly administration and disposal of the means of production, and the like. John Paul argues in effect that such practices reflect confusion in the workplace over the difference between person and object.

Everything contained in the concept of capital in the strict sense is only a collection of things. Man, as the subject of work, and independently of the work that he does -- man alone is a person [John Paul 1981, §12].

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” in which labor is considered only according to its economic purpose. This error in turn is connected to the error of materialism.

This fundamental error of thought can and must be called an error of materialism, in that economism directly or indirectly includes a conviction of the primacy and superiority of the material, and directly or indirectly places the spiritual and the personal (man’s activity, moral values and such matters) in a position of subordination to material reality. This is still not theoretical materialism in the full sense of the term, but it is certainly practical materialism, a materialism judged capable of satisfying man’s needs, not so much on the grounds of premises derived from materialist theory, as on the grounds of a particular way of evaluating things, and so on the grounds of a certain hierarchy of goods based on the greater immediate
attractiveness of what is material [John Paul 1981, §13; emphasis in the original].

To remedy the consequences of the error of economism, John Paul re-affirms the principle of the priority of labor over capital [John Paul 1981, §12].

While both labor and capital are factors of production, production is to serve the material needs of labor, and capital is merely a means toward that end. Meeting those needs -- physical need, the need to belong, the need for creative opportunities -- effectively puts an end to the objectifying practices enumerated above including starvation wages and termination without cause. Capital strictly defined by John Paul as a collection of things *per se* has no such needs.

In *Centesimus Annus* [§41] John Paul makes clear that the priority of labor over capital means that the needs of workers are not to be compromised for the sake of *maximum* returns and profits. This rule forces mainstream economists to re-think the profit-maximization rule. John Paul is saying, in effect, that the *profit-maximizing firm is an analytical and pedagogical anachronism*.

Work more so than consumption or leisure is crucial to understanding personhood and economic agency because if human sociality is not admitted in the workplace it will not be admitted in the marketplace or the household. And, seeing that for most adults work takes up more time and human energy than consumption or leisure, work is by far the most important economic activity giving shape and form to the human person. The nineteenth-century Jesuit poet Gerard Manley Hopkins [poem 57] put the matter in these simple words: “what I do is me.” We add the following: because the good or service I produce can be sold only when there is some gain for the buyer, “what I do is for others.” Sympathy or fellow-feeling is necessary to assure that the transaction is a positive-sum experience. Absent this virtue, the exchange can degenerate into a zero-sum, or worse yet, negative-sum experience.

Work and the persons who do the work change under the influence of the entrepreneur who introduces new products and services, sets up new processes of production, brings new materials into the production process, penetrates new markets, and initiates new business plans to run the economic enterprise. In that sense, the entrepreneur is the principal agent transforming the worker both as an instrument and as a person. In that sense, the entrepreneur sets in motion both second-level and third-level action.

The entrepreneur is the driving force behind the evolution of human communication from the oral and script stages into the electronic stage with its digital revolution because it is the entrepreneur who figures out how to transform a strictly technological advance in electronics into an economic gain, thereby making it possible to incorporate that advance into economic affairs. In that regard, the entrepreneur has played a key role in making economic agents more aware of others and of themselves and therefore in the development of personalism and the transformation of the economic agent from a human individual to a human person.
Because meeting and interacting with others were demanding and costly in the oral and even the script stage of human communication, economics more easily could construe humans as self-reliant, compelled to undertake work alone for whatever gains were associated with that labor, and inward-directed, aggressive, competitive individuals. When meeting (in real and virtual space) and interacting with others became more convenient and less expensive in the electronic stage, humans more readily can be seen along the other dimension of their nature as socially-reliant, open to working together especially on tasks that cannot be done as well or at all by the individual alone, and outward-directed, nurturing, cooperative persons.

Work is the principal 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.

**HOW LEISURE CHANGES THE PERSON WITH TIME TO SPARE**

Work is such a central human activity that economics defines two other states in terms of work. Unemployment is the generally involuntary and unwanted lack of work, a state in which work is missing. Leisure is the voluntary and wanted absence of work, a state in which work is not present.

By construing leisure as time spent not working, mainstream economics does not differentiate between lack of work and absence of work. Leisure and work are linked in zero-sum fashion: more of the one means less of the other. Implied in this construction is that leisure is desirable simply because it is free of work that is onerous. Defining leisure in terms of what it is not assures that economics has little to say about leisure and its effects on the human person.

To be analytically serviceable, leisure has to be defined in the context of what it is rather than what it is not. Gerard Stockhausen supplies us with the following:

> leisure ... [is] non-work that nourishes the health, happiness, and fulfillment of the whole human person. It is time and activity that is not driven by duty, accomplishment, or productivity, time and activity that celebrate being human rather than having and consuming material things. It thus includes such things as quiet time alone, “quality” time with family and friends, and engagement with the arts (Stockhausen, p. 1673).

Put more simply, leisure is third-level action that puts a person in contact with truth, goodness, and beauty or, sadly for human development, fabrication, wickedness, and ugliness.

From this perspective, leisure is energetic rather than lifeless, purposeful instead of aimless. More precisely, leisure is like work in the subjective sense of changing the person who works, and consumption in that it is activity which helps a human being become more fully a human person. There is a special linkage between consumption and third-level leisure activities in that those activities are not cost-free. A visit to a museum to view a special exhibit featuring items on loan from a world-class collection requires travel and other expenditures. The ticket price is only a portion of the total cost of taking the family to a major league baseball game. Though it might be shared or
borrowed later by others, a book to be read for enjoyment or edification was purchased by its original owner through a routine marketplace exchange. These leisure activities enhance the human person. In like fashion, a visit to a bordello, tickets to a match that turns riotous, the purchase of pornographic materials are third-level leisure activities that diminish the human person.

In a very real sense, humans are works of art in progress. They paint their own living portraits with third-level work, consumption, and leisure activities, becoming whole and complete, just as the artist creates a painting with brush and paints. And just as the artist may abandon the canvas before it is finished, humans may leave their own development arrested.

In the context of economic affairs, according to John Paul, there are two chief threats to human development: disordered work and consumption.

The historical experience of the West, for its part, shows that even if the Marxist analysis and its foundation of alienation are false, nevertheless alienation -- and the loss of the authentic meaning of life -- is a reality in Western societies too. This happens in consumerism, when people are ensnared in a web of false and superficial gratifications rather than being helped to experience their personhood in an authentic and concrete way. Alienation is found also in work when it is organized so as to ensure maximum returns and profits with no concern whether the worker, through his own labor, grows or diminishes as a person, either through increased sharing in a genuinely supportive community or through increased isolation in a maze of relationships marked by destructive competitiveness and estrangement, in which he is considered only a means and not an end (John Paul 1991, § 41).

Stereotypically both disorders are revealed, though not well understood, in the form of the workaholic and the compulsive consumer. To the one, working is everything; to the other, acquiring and having are everything. Neither one understands or values leisure. Both are like a canvas that a deranged artist has slashed with a knife, both are grotesque caricatures of what was meant to be. Drug abuse and pornography, John Paul says, reflect a human life in disarray through disordered consumption (John Paul 1991, § 36). Filling that void, repairing that torn canvas, is the purpose of leisure. In this regard, John Paul compares human work and leisure to the six days of God’s own work in creating the universe and His one day of rest (John Paul 1981, § 25).

Following John Paul, a well-ordered human person is one who 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 absolutely necessary to acquiring that knowledge and understanding. The challenge to the economic order and to economics 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, more than acquisitive beings. Humans are most especially ends in themselves, living works of art in progress who require leisure to become what they are meant to be: very nearly divine.¹ They are, in other words, creatures who above all else are meant to be more,  

¹ See John Paul 1995, § 84, paraphrasing the 8th Psalm, verses 5-6.
to develop the full potential of their personalities, rather than simply to have more.

CONSUMPTION, WORK, AND LEISURE: PERSONALIST ECONOMICS VS. MAINSTREAM ECONOMICS

Mainstream economics regards consumption as satisfying human wants and the prudent consumer as the one who maximizes the utility gotten from the available income. The concept of need is disregarded except when the issue of poverty is addressed and only then is it separated from consumer behavior. Whatever the consumer does with the goods and services purchased is strictly his/her own business because no one knows better than the consumer what will best satisfy his/her wants. For that reason, even when the food bought and consumed is virtually the same, there is no difference between having Thanksgiving dinner alone or spending it with family and friends. No difference between shopping for a suit, dress, or pair of shoes alone or in the company of another. No concept in the mainstream way of thinking that alone may mean loneliness and loneliness in turn can have a negative effect on the human spirit. This disregard for the human spirit derives from the premise of mainstream economics that the economic agent is an autonomous, utility-maximizing individual functioning mechanically as an embodied creature in a material, physical world where pleasure and pain are measured and compared in a decision-making process which is essentially passive. Anything relating to the human spirit is not economics even when it is tied closely to working or consuming.

Personalist economics holds fast to the view that consumers are beings with a body and a spirit -- an embodied spirit -- and that they meet the needs and satisfy the wants of the body and spirit through the goods and services they buy and consume in a decision-making process which is essentially active precisely because they are living, breathing, existential actualities, not utility-calculating machines. They truly are acting persons. For better or worse, the action undertaken often changes the person who acts. Routinely eating too much diminishes a person who in the extreme becomes known as a glutton. Regularly sharing the same food with others enhances a person who becomes known as a friend.

A muscle car is more than a vehicle for transporting a man’s body from place to place. A tuxedo is an article of clothing but when worn by a woman can be a fashion statement as well. A bottle of fine Italian wine shared with a companion at dinner can strengthen a friendship and please the palate. Though personalist economics admits there are many difficulties in measuring the effects of consumption on the human spirit those effects are every bit as real as the effects on the human body.

Further, personalist economics does not dismiss human need and separate poverty from consumer behavior. Rather, consumption not only satisfies human wants but also meets human needs. Since need is a normative concept, meeting need through consumption invariably involves value judgments as to what constitutes need. Thus there will be differences between researchers regarding how to define and measure the specific dimensions of need and for that reason researchers are well advised to state their specifics as clearly as possible. The disadvantage in doing economic analysis is that these differences make for differences in empirical results and therefore some uncertainty in the conclusions drawn from those results. The advantage is that consumer behavior is construed in a way
that makes sense to the typical consumer who instinctively knows the difference between his/her own personal needs and wants and factors both into the decision-making process. Further, combining needs and wants links consumer behavior to poverty by raising the question as to what society should do for those persons and families without sufficient income to meet their material needs.

Personalist economics views work as having two effects on the working person. First, it provides income to purchase the goods and services which are needed or desired. Second, it provides opportunities to (a) associate with others in the workplace and develop a sense of belonging to a group with shared aims, and (b) to apply and enhance creative talents and energies. Mainstream economics regards the first but not the second as within the domain of the discipline because the first effect is objective in nature representing what the worker contributes to the production of goods and services whereas the second effect is subjective representing what the work itself does to the person of the one who works. The objective side of work demands a human body. Put differently, virtually no work can be accomplished by anyone other than an embodied human. In that regard there is little to choose between mainstream economics and personalist economics. The subjective side of work responds to the needs of the human spirit but the spirit first must be embodied because without the body no work can be done and therefore no subjective effect can be brought forth. Here personalist economics clearly departs from mainstream economics.

The second effect can be positive or negative. To illustrate, discriminating in pay and promotion and assigning a person to work for which he/she is overqualified turn the subjective effect negative. Designing and implementing a pay and promotion scheme based squarely on performance and finding the best match between the work to be done and the skills and talents of the worker turn the subjective effect positive. The objective effect of work is tied ultimately to the goods and services produced. The subjective effect is linked to the human spirit and for that reason has an impact on the development of the worker as a person. Anyone who works, even those with good-paying, challenging jobs, knows the difference between a good day at work and a bad day. And that difference often is reflected in their performance and physical appearance.

Just as it did with the subjective dimension of work, mainstream economics sees leisure which it defines as time spent not working as outside the domain of economics. This unfortunate definition which is drilled into the heads of students of economics from the very beginning tells us nothing about leisure. Personalist economics, on the other hand, sees leisure in terms of both the human body and human spirit and as crucial to personal development. A coffee break and a power-nap at work re-energize the body. Similarly, a good night’s sleep allows the body to handle the demands of the following day. Bed rest after a surgical procedure helps heal the human body. A week in the mountains or at the seashore can infuse the human spirit with the beauty of the natural environment. An afternoon at a major league ball game with grandfather can instill in a youngster dreams of one day succeeding on the same field of play. Professional athletes at times describe their work as getting paid for *playing* a kids’ game. Leisure can be taken quite seriously as the continuation into adulthood of the play activity which is so vital to the development of children and what they are urged to do every day. In the end, leisure means setting aside time to care for the human body and spirit in ways other than the ones which are available through work and consumption.
Consumption, work, and leisure can be separated analytically but in practice they frequently are intertwined as three sets of pairs and a fourth set involving all three activities at once. The working lunch combines work and consumption. The three-day holiday weekend mingles consumption and leisure. Working after hours at home and at the same time watching a college football game merges working and re-creating. The working vacation brings together all three. These three economic activities have two things in common: (a) they involve both the human body and the human spirit and (b) they are subject to limits.

Certain limits inhere in economic affairs and others must be imposed because humans are embodied spirits. Human materiality assures certain physical limits regarding consumption and work. The human body can consume only so much in one sitting so to speak, and can work continuously only for some fixed number of hours without rest. In like fashion, capital equipment cannot be run continuously without maintenance before it breaks down. Further, without other limits on what and how much we consume, on how long and how hard we work, and how much we allow for or indulge in re-vitalizing leisure activities, limits deriving from moderation that reside quietly in the human spirit, our development as human persons is arrested or misdirected. Disregard those limits, and consumption becomes gluttony and obesity, work transforms into obsession and exhaustion, and leisure changes into escape and boredom. The practical virtues, especially moderation, provide useful and effective limits on consumption, work, and leisure, and their faithful practice contributes powerfully to the realization of the full potential of the human person.

To John Paul materiality matters importantly to human nature, and material means are necessary to meet human material needs. To a large extent, mainstream economics and modern culture agree. However, John Paul warns that material means will not satisfy the nonmaterial needs of humans, and condemns the “consumerism” of advanced western economies for perpetuating that false and dangerous value. Consumption is good, he says, unless it leads to a life spent in the enjoyment of material things as ends in themselves (John Paul 1991, §36). In mainstream economics, human wants are regarded as unlimited and having more is taken as essentially good. In personalist economics, having more matters less than being more. Acquiring more of the goods of the world is less important than developing more fully as a human person.
The subjective dimension of human work, according to John Paul and affirmed by personalist economics, is more important than the objective dimension. Further, human work to John Paul is the continuation of God’s Act of Creation which lasted six days and was followed by a day of rest (John Paul 1981, §25). In like fashion, humans require a seventh day of rest to consider what they have done and what they ought to be doing. In other words, humans require both work and leisure to become more fully the person they were meant to be and leisure has the positive connotation of input to that development. To the modern world, including the world of mainstream economics, leisure has only the negative connotation of time spent not working.

Because in personalist economics human beings are more important than mere things, labor is more important than capital. Indeed, humans alone have rights because they are persons, because they are endowed with an intelligence and free will that differentiate them from all other creatures. Aquinas calls them “the crown of creation,” a judgment shared by personalist economics. In the world of economic affairs and mainstream economics, intentionally and otherwise humans often are reduced from persons to things, objectified more and more in both the workplace and the marketplace.

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 and for that reason cannot be dismissed out of hand. Rather, each one has a dignity and worth beyond human measure. In mainstream economics and modern economic affairs, human value commonly is determined instrumentally. One’s own worth is determined by the value attached to one’s work. In personalist economics, this kind of valuing is superseded by the sacred dignity of every living, breathing human person.

Workers have rights in order to assure the preservation of their fundamental dignity as human persons and access to the means necessary for their material survival, such as the right to associate, the right to strike, the right to a safe workplace, the right to a day of rest. To some extent, mainstream economics and others engaged in economic affairs also affirm these rights but as legal rights, as flowing from the hand of government and therefore contingent. Personalist economics sees them as natural rights flowing from the hand of the Creator and therefore inalienable.

Humans are more than the one-dimensional self-interested, self-absorbed, and passive individuals of mainstream economics and contemporary western culture. They are the two-dimensional, active persons of personalist economics with an identity as separate and unique human beings never to be taken simply as a cog in a machine or as totally subordinate to the whole, and at the same time united in solidarity with family, company, neighborhood, region, nation, and all humankind. Human existence always is coexistence.

IN CONCLUSION
In mainstream thinking, homo economicus is subject to change in that the economic agent is capable of acquiring or losing the human capital which is embedded in his/her nature. Further, mainstream economics acknowledges that at times homo economicus acts altruistically, in accordance with the
needs and desires of others. Mainstream economics reconciles this kind of behavior with the self-centeredness of *homo economicus* by labeling it “enlightened self-interest.”

Even so, *homo economicus* overwhelmingly is never-changing because that (over-) simplifying proposition assures a predictability of behavior in economic affairs and in turn empirical findings from economic analysis about which there is greater (apparent) certainty. The economic agent of mainstream economics never changes in that *homo economicus* …

- is unique, solitary, autonomous, self-centered, and self-made,
- is privacy-protecting and commodity-acquiring,
- makes intra-personal comparisons,
- is utility-maximizing, free to choose and act, rational in all decision-making,
- is strictly want-satisfying, both foresighted and hind sighted,
- is self-reliant, and inward-directed,
- has worth determined entirely by what he/she contributes to economic affairs,
- is a self-contained, machine-like *individual being* whose nature is set forth by the philosophy of *individualism*,
- knows only “I / me / mine.”

*Homo economicus* is neither virtuous nor vicious and therefore never…

- caring or heartless  
- trustworthy or inconstant  
- loyal or treacherous
- just or unjust  
- faithful or deceitful  
- forgiving or merciless
- grateful or resentful  
- kind or envious  
- diligent or lazy
- loving or loved  
- moderate or self-indulgent  
- kind or mean-spirited

In decision-making *homo economicus* is never …

- conflicted or confused  
- hesitant or uncertain

Notwithstanding Smith’s *Theory of Moral Sentiments*, *homo economicus* is never …

- benevolent, generous, or sympathetic

For some time we referred to the economic agent of personalist economics as *homo socioecononomicus* (see O’Boyle, pp. 286-313). We are replacing that term with the *acting person* -- the *person in action* -- for two reasons. First, the literature has become cluttered with similar terms such as *homo reciprocans*, *homo politicus*, *homo sociologicus*, *homo hobbesianus*, *homo darwinianus* and others which by and large mainstream economics has not taken seriously. Using the *acting person*, we hope, avoids the problem of being thrown together with those terms and then being thrown out with them. Second, *the acting person/person in action* connects economic agency to human action in economic affairs, notably work, consumption, and leisure, that unmistakably changes the economic agent who in acting virtuously or viciously accumulates or depletes personalist capital, and thereby is
more effective and more highly valued as an agent or less effective and less highly valued.

The *acting person/person in action* is *ever*-changing in the sense that the economic agent of personalist economics …

- is unique and alike, solitary and communal, autonomous and dependent, self-centered and other-centered, self-made and culture-bound,
- is privacy protecting and company-seeking, commodity acquiring and gift-giving, makes intra-personal and inter-personal comparisons,
- is utility-maximizing at times and utility-satisficing at other times, free to choose and act but accountable for his/her choices, rational at times and emotional at other times,
- is usually need-fulfilling before want-satisfying, both foresighted and hind sighted, is self-reliant and inward-directed and at once socially-reliant and outward-directed,
- has worth that ultimately derives not from what he/she contributes to economic affairs but from who he/she is -- not an instrument, object, slave, or even an individual -- a person made by the Creator to be nearly divine,¹
- is a living, breathing existential actuality, a *person in action*, an individual being and a social being whose nature is illuminated by the philosophy of *personalism*, a divided self who often must resolve conflicts that arise between his/her individuality and sociality.
- knows both “I / me / mine” and “we / us / ours.”

The *acting person* can be either ….

- caring or heartless
- loyal or treacherous
- generous or greedy
- grateful or resentful
- diligent or lazy
- loving or loved
- trustworthy or inconstant
- just or unjust
- forgiving or merciless
- altruistic or egoistic
- loving or loved
- grateful or resentful
- benevolent or mean
- faithful or deceitful
- sympathetic or insensitive
- kind or mean-spirited
- moderate or self-indulgent

In decision-making the *person in action* sometimes is …

- conflicted or confused
- hesitant or uncertain

Finally, and most importantly, mainstream economics asserts that in the end the economic agent, *homo economicus*, maximizes utility and profit and the economy functions best when it reaches Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably

¹ In addition to John Paul, §84, 8th Psalm, verses 5-6, see also John Paul II, *Evangelium Vitae*, §2, 1995, available at http://www.vatican.va/holy_father/john_paul_ii/encyclicals/. John Paul II repeats this theme that human beings are very nearly divine in his *Memory and Identity* [pp. 98-99].

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consists in having more. Personalist economics, in contrast, claims that most fundamentally the economy functions best when the economic agent, the *acting person*, maximizes personalist capital thereby enhancing him/herself as a human person and rendering him/herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the assertion that the good always inheres in being more.
References


PART II
ORGANIZING ECONOMIC AFFAIRS AROUND JUSTICE, SUBSIDIARITY, AND THE ACTING PERSON
CHAPTER FIVE

PRINCIPLES OF ECONOMIC JUSTICE APPLIED IN PRODUCT, RESOURCE, AND FINANCIAL MARKETS

Justice is the virtue or good habit of rendering to another that which is owed. In economic affairs there are three principles of justice that apply: the principle of equivalence, the principle of distributive justice, and the principle of contributive justice. We call the three principles of economic justice because they apply strictly in the economic order. Other principles of justice as for example in criminal affairs with no direct ties to economic affairs as in the case of child or spouse abuse or treason are not our concern here.

There are three principles of economic justice because there are only three modes of human interaction in economic affairs: person to person, superior to subordinate, and member to group. The principle of equivalence sets forth the duty of buyer to seller in the product market and worker and employer in the resource market. The principle of distributive justice defines the duties of the superior to his/her subordinates whether that interaction takes place in the product market or the resource market. Finally, the principle of contributive justice sets down the duties of the member to the group in interactions occurring in the resource market or the product market.

Economic Gain: Profits, Consumer Surplus, and Economic Rent.
Before moving on to the principle of equivalence, it is essential to address first what happens in the exchange process. Every product market and resource market 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.

To illustrate, a person shopping for shoes comes across a pair priced at $118. In deciding whether to purchase those shoes that person routinely asks the question ‘Are these shoes really worth $118 to me?’ If the answer is affirmative, that person actually purchases the shoes. If the answer is negative, he/she turns away. If that person is not sure, he/she turns away but may return later to buy the shoes provided they really are worth $118. This positive-sum outcome does not apply in financial market exchange and for that reason we take up justice in financial markets separately toward the end of this chapter.

As with mainstream economics, personalist economics differentiates between exchange value and use value. Exchange value is what is given up for the good or service acquired through exchange. Use value is what is gotten, that is the usefulness of the good or service to the person who acquires it.

Under competitive market conditions, exchange value should not vary from one person to the next. The price paid for the same dog food in a supermarket is the same for everyone buying that brand of dog food there. However, use value is not the same for everyone who buys that dog food because
some persons are more deeply attached to their dogs and derive greater pleasure from feeding and caring for them than do others. While exchange value is determined by market conditions at the time and place of the exchange, use value is determined by the value systems of the uniquely different persons involved in the exchange. Exchange value is an objective piece of information. Use value, on the other hand, is a subjective human experience. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up).

Without that gain, the exchange cannot be carried out. However, without a limit to the extent of that gain and its origins, some persons in the exchange process are able to take more than their due while others are left with less. Mainstream economics brushes aside the problem of exploitation and victimization with the invisible hand argument. Every economic agent in the pursuit of his/her own self-interest serves the good of all through the invisible hand of the market. Introducing justice into economic affairs is unnecessary and threatens the value-free nature of mainstream economic science. Personalist economics rejects the invisible hand on grounds that its appeal to magic and rhetoric is no substitute for the call of justice to reason and substance. Personalist economics accepts a value-laden economics as the price for aligning the study of economics more closely with economic reality.

In the resource market, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the clerk’s labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker’s profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more useful than the time and effort involved in working. Without that gain (known among economists as economic rent), the clerk would not accept the job.

The gain to the worker or the owner of natural resources that are used in the production process may be enhanced further by the generous employer/producer who pays more (adds more to economic rent) than is absolutely required perhaps in the expectation that his/her generosity will be repaid by more diligent workers and more careful suppliers, thereby adding to the employer’s profits. The model employee or supplier is one who contributes more to profits than is normally expected.

In the product market, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided what is gotten (the price paid by the consumer) is more useful than what is given up (the cost to produce the bread), thereby adding to the baker’s profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker’s customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer (consumer surplus) can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer’s gain is greater than initially expected.

Thus, profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is (1) the gain that comes from the producer’s buying inputs in the resource market for use in the production process, and (2) the gain that derives from selling the.
FIGURE 5.1 ECONOMIC GAIN: WHAT IS GOTTEN THROUGH EXCHANGE IS MORE HIGHLY VALUED THAN WHAT IS GIVEN UP

buyer’s gain (consumer surplus): (d) is more highly valued than (c)

and

seller’s gain (profit): (c) is more highly valued than (d)

producer’s gain (profit): (b) is more highly valued than (a)

and

worker/resource supplier’s gain (economic rent): (a) is more highly valued than (b)

Producer profit is determined by two economic factors: the cost of producing the good or service and the price at which it sells.
finished goods in the product market. Thus the producer’s profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price. However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains—profits, economic rent, and consumer surplus—suggests that they are incidental to the exchange process, the hard reality is that all three gains are absolutely necessary to that process. In their absence, exchange tends to break down. See Figure 5.1.

Simply put, whether we are talking about a buyer or seller, an employer or employee, or for that matter any other type of economic agents, exchange takes place when there is economic gain (when it is worth it) for both parties involved. On the other hand, exchange does not place when there is no economic gain (when it is not worth it) for one or both of the parties involved.

Notice, however, that offering a gift to a loved one or friend differs from an exchange between a buyer and seller. The gift is given without demanding anything in return though the culture may encourage reciprocity, that is the exchange of gifts.

There must be limits to profits, consumer surplus, and economic rent in order to prevent one party from taking advantage of another and to assure that market exchange serves all economic agents fairly and effectively and not just those with the power and will to turn gain into excess. Later in this chapter we will see more specifically that those limits are grounded in the duties that economic agents owe one another under the principle of equivalence, the principle of distributive justice, and the principle of contributive justice.

**PRINCIPLE OF EQUIVALENCE**

The principle of equivalence states that buyer and seller in the product market and worker and employer in the resource market have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to give up possession of the good or service in question. For the buyer, the burden is to give up possession of the money necessary to take possession of that good or service. For the worker, the burden is performing the work required by the employer. For the employer, the burden is paying the worker the wage to which they agreed.

At first glance, exchanging things of equal value implies that there is no gain involved. On closer examination we see that this is not the case. Exchanging things of equal value means that what is exchanged is of equal exchange value, not equal use value. As we indicated previously, exchange value refers to (a) the price paid to purchase a good or service and (b) the wage or price paid to hire a worker or natural resource to produce that good or service. Use value is what is gotten, that is the usefulness of the good or service or resource to the person who acquires it. The two taken together
result in economic gain under the following condition:

\[
\text{gain is realized when use value } > \text{ exchange value.}
\]

Whereas use value cannot be influenced by the other party to an exchange, exchange value at times can be determined directly by the other party. In those cases, restraint may be necessary. However, when a market is reasonably 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. Competition in other words reduces the control that any single buyer or seller has over price, keeps the market price close to the cost of production, and allows a reasonable profit margin but not undue profit. Thus there may be little need for personal restraint. Gain under these circumstances can be represented as follows:

\[
\text{gain is justified when use value } > \text{ exchange value restrained by competition.}
\]

A problem arises, however, when the market does not impose this restraint, and agents are free to act, more or less, without restraint. Action of this type can occur when the producer fixes the price through a cartel or when the buyer is simply ill-informed about the market price and overvalues the product or service offered for sale. In such cases, the gain of the seller is ill-gotten because it is based on taking advantage of the buyer. Unrestrained action may involve a buyer who has an opportunity to enhance his/her gain when the seller is unaware of the true value of the product or service offered for sale. This could happen, for example, in a flea market where the seller offers a book for sale at a low price unaware that the book is a very valuable first edition, or when a widow offers property for sale which she has grossly and innocently undervalued. The principle of equivalence in all such cases informs both parties that the only justifiable gain is one that does not deprive the other party of the gain that is rightfully his/hers. The following simplification expresses the nature of the gain that is justified under these conditions:

\[
\text{gain is justified when use value } > \text{ exchange value restrained by faithful adherence to the principle of equivalence in a situation where competition alone does not provide the necessary restraint.}
\]

Two other examples -- one involving the product market, the other concerning the resource market -- may be instructive in driving home this argument. A market price that is determined entirely by the producer -- in the extreme by a monopolist -- violates the principle of equivalence because the margin of profit inflates the price and effectively manipulates exchange value, yielding ill-gotten gain for the monopolist. In this case, the buyer who needs the monopolist’s product or service has no option other than to buy from the producer who controls the price. The same problem arises in a labor market when a labor union imposes wages much higher than the going rate on an employer who in a closed-shop state\(^1\) must hire his/her workers from the union. It follows that the principle of equivalence is supported by and indeed justifies government interventionist policies which encourage competition by, for instance, breaking up firms that dominate a market and which punish noncompetitive practices such as collusive price fixing.

\(^1\) A closed shop state is one that compels the employer to hire workers only through the union.
From time to time we may not know precisely the exchange value of a specific item such as a Rolex watch but we very likely know that it does not sell for the same price as a Timex watch. Anyone attempting to sell a watch that is represented as an authentic Rolex for, say, $49 should be suspected of (1) selling a Rolex watch that is stolen, (2) selling a watch that actually is a counterfeit or a “knockoff,” or (3) selling a genuine Rolex but having no real appreciation for its true worth. The principle of equivalence means that selling stolen goods is unjust because the seller has no right to sell what does not belong to him/her and the buyer has no right to buy and take possession of a watch that belongs to someone else. Indeed, such practices are illegal precisely because they are unjust.

Misrepresenting a “knockoff” as the genuine article is unfair because the seller is deliberately deceiving the buyer as to its exchange value. Finally, and with one exception, buying a good at a price well below its current market price is unjust because the buyer has no right to exploit the seller who is unaware of the watch’s real value. There is, however, no such exploitation when the seller is fully informed as to the good’s real value and freely sells it for less. In that case, the good exchanged is in part a gift.

There are other sources of information about what equal means in a product market or resource market exchange. They include information available through family members, friends, co-workers, neighbors, and persons who consult for a fee. There are published sources of information as well such as *Consumer Reports*, newspaper and classified advertising, and electronic exchanges such as E-Bay.

At times, the things exchanged at the very moment the exchange is executed are not of equal value, such as when a house is sold and the buyer makes only partial payment in cash but takes possession of the entire house at the time of closing. To simplify this example, we assume that the buyer does not obtain a mortgage from a third-party lender such as a bank. Rather the seller offers to lend the buyer the unpaid balance by allowing the buyer to make regular payments over time until the balance is paid in full. Notice at closing, the buyer’s immediate burden is to make partial payment in cash to the seller. The seller’s burden is to surrender the whole house, and accept the buyer’s written promise to pay the balance in the future. Under those circumstances, the seller faces the risk that the buyer may not be faithful to his/her promise to make payments in the future until the balance is paid in full. And the seller must wait until payments are made and at closing forgoes the use of that money had he/she insisted instead on payment in full at that time. Consequently, the seller/lender is justified in requiring the buyer/borrower to repay more than the amount of money that was borrowed. Indeed, the seller/lender is justified in charging interest in order to equalize the burdens involved.

The precise amount of interest that equalizes the burden is problematical. However, we know by experience that a rate of interest of 100 percent is excessive because it imposes an undue burden on the buyer/borrower. Similarly, a 50 percent rate of interest is excessively burdensome. However, in late 1980 banks across the United States were charging their most credit worthy customers an average of 21.5 percent on loans [Federal Reserve System, p. 3] and much more for other higher-risk borrowers. Today, credit card companies commonly charge 18 percent annual interest and, even
though some cardholders are not able to pay their credit charges, most cardholders do pay what they owe. We conclude that 25 percent is a reasonable upper limit on the prime rate in a recent historical context and in the sense that it just barely satisfies the requirements of the principle of equivalence.

**Common Expressions.**

Some common expressions for the principle of equivalence in the product market, involving buyer and seller, are the money-back guarantee, the merchant’s refusal to accept a third-party check, and the buyer’s experience of getting his/her money’s worth. The money-back guarantee is the seller’s recognition that at times an honest mistake has been made in routine transactions, whether the fault lies with the buyer or the seller, and that the things exchanged are not of equal value. Merchants who depend on repeat business understand that the money-back guarantee is good for their business even though they might not understand consciously that they are being faithful to the demands of the principle of equivalence. Shopkeepers often refuse the third-party check because they are fearful that the check has been stolen by the third party to whom it has been made payable and that the person who issued the check has put a stop payment order on that check with his/her bank, rendering it worthless. “Got my money’s worth” is a common expression for a buyer who has entered an exchange with a seller and actually received more than he/she bargained for. In the workplace, the common expression “full day’s work for a full day’s pay” is a reminder of the worker’s obligation under the principle of equivalence. Reversing the language to “full day’s pay for a full day’s work” underscores the employer’s duty to the worker.

**Violations.**

There are several specific ways in which the principle of equivalence may be violated in the product market. Shoplifting is one, and issuing a bad check is another. Loan sharking -- charging excessive interest -- and price gouging that may take place in an emergency such as a hurricane are two more examples. Counterfeiting, whether it involves paper currency or “knockoffs” violates the principle of equivalence as does the bait and switch scheme. Bait and switch is the practice of a merchant attracting customers into his/her store by offering an item at a very attractive price, telling customers as they enter the store that the item is sold out, switching them to a more expensive substitute item, and high-pressuring them into buying the more expensive item.

In the resource market there are several ways in which the principle of equivalence may be violated. We have enumerated five specific instances: expense padding, sweatshop, embezzling, pilfering, and featherbedding. All violate the principle of equivalence either regarding the duty to exchange things of equal value or to impose equal burdens on one another.

Expense padding means seeking reimbursement from your employer for personal expenses incurred when you have been traveling on official business. Or it may be seeking reimbursement for legitimate business expenses but those expenses have been inflated or padded. A sweatshop is an employer who abuses his/her workers in terms of wages, hours, or working conditions. Paying less than the minimum wage or the wage agreed to, forcing employees to work very long hours without rest or compensation, operating a workplace that violates the local building code or that is generally unsafe are ways in which an employer “sweats” his employees in order to reduce labor costs and add
to profits.

Pilfering and embezzling are ethical twins. Pilfering happens when an employee steals supplies or merchandise from his/her employer. Embezzling takes place when an employee takes cash from his/her employer. Featherbedding occurs when an employee reports to work but does not perform his/her assigned duties. Instead the employee occupies him/herself with personal business such as surfing the internet, playing solitaire on the computer, balancing the personal checkbook, reading the newspaper, generally “schmoozing” with other employees, and the like. Featherbedding is an employee failing to in the obligation to perform a full day’s work for a full day’s pay. “Ripped off” often is used to express one’s anger at being exploited and denied one’s due under the principle of equivalence.

**PRINCIPLE OF DISTRIBUTIVE JUSTICE**

The second principle of justice -- distributive justice -- defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens of the group under his/her supervision among its members in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees. Single parents in general shoulder heavier child care responsibilities than married parents. Persons of different faiths may observe different holy days. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children. A strict orthodox Jew may not be required to work on Saturday, the Sabbath in his/her religion, whereas persons of other faiths might have to work on that day.

*Discrimination and False Stereotyping.*

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have “less upside potential” than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Immigrant workers may be treated differently because they dress differently or speak with heavy accents. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

The Civil Rights Act of 1964 accorded special legal protection against discriminatory practices to women, African Americans, native Americans, Jews and persons of other faiths, and persons born in other countries. In 1968 persons 40 years of age or older were included in the “protected class” through the Age Discrimination in Employment Act. Twenty-two years later the Americans with Disabilities Act included disabled persons in the protected class.
Even so, false stereotyping is the means by which discrimination persists and flourishes today in the United States. By assigning negative characteristics to a person based on what is taken to be common characteristics of the minority group to which that person belongs, false stereotyping essentially blames the victim for certain character defects and thereby rationalizes treating that person differently. Thus a specific minority person is branded as shiftless, boisterous, drunken, or is labeled as practicing odd religious rituals, having too many babies, speaking a foreign language, enjoying strange foods, emitting a body odor or foul breath, wearing bizarre clothing, and the like. For those reasons and others, it becomes much easier to treat that minority person differently than others. Our language itself conveys and reinforces such false stereotypes: the “n” word, the “b” word, “coon ---,” “dago,” “gook,” “kraut,” “kike, “redneck,” hick.” False stereotyping is especially insidious because until it is exposed false stereotyping attributes the discrimination to the victim rather than the perpetrator, justifying the discrimination on the basis of an alleged defect in the character of the victim.

Discrimination and the government intervention required to address it are evidence that the law of nature – each autonomous economic agent in the pursuit of his/her own self interest also serves the common good through the invisible hand -- is not always sufficient to resolve important conflicts in economic affairs.

Two especially noteworthy violations of distributive justice are kickbacks and harassment. A kickback is the ethical equivalent of a bribe. A bribe is a payment to a superior in the expectation of special treatment. The payment precedes the special treatment. A kickback is a payment for special treatment wherein the payment follows the special treatment. A contractor bribing a state highway official in order to get privileged treatment in a contract award process makes payment beforehand. A contractor kicking back to a highway official promises beforehand to make payment after the deal has been closed. Harassment is the practice of a superior exacting special sexual favors from a subordinate, or touching or addressing him/her in ways that are disrespectful in exchange for a favorable performance evaluation, a raise, a promotion, job assignment, or the like.

Common Expressions.

“Equal pay for equal work” is a requirement under distributive justice. It means that persons doing the same work, with the same on-the-job-performance of their assigned duties, are to be paid the same wages. Note that “equal pay for equal work” is not the same as “a full day’s pay for a full day’s work” that is the employer’s duty under the principle of equivalence.

“Equal opportunity” too is a requirement under distributive justice. It means that persons of equal experience and qualifications are to be afforded the same chance of being hired or promoted. “Affirmative action” is controversial because some argue that it is necessary and others assert that it is reverse discrimination. It is not possible to render an informed opinion about affirmative action in the abstract. In other words, it is futile to search for a argument that settles this matter once and for all. Instead affirmative action decisions must be judged for their ethical content on a case by case basis because the circumstances will differ from one case to another.
The principle of the double effect (see Grisez and Shaw, pp.138-146) is instructive regarding affirmative action because affirmative action -- the hiring and promoting of persons in the protected classes over others -- has two effects, one positive and one negative. The positive effect is the good that is done for the person(s) hired or promoted. The negative effect is the harm that is experienced by those who are passed over in the hiring or promotion process. The principle of the double effect says that: (1) the good effect must be greater than the bad effect, otherwise the superior/decision maker is doing more harm than good; (2) the bad effect must not be intended. That is, the superior/decision maker must not intend to bring harm to the person(s) being passed over, but recognizes that there is no way to hire or promote one or two from an applicant pool without passing over everyone else.

The principle of distributive justice has application in the product market too, but here the issues are not nearly as dramatic as in the resource market. In the product market, it is the merchant or shopkeeper who is the superior because he/she is the one who must treat his/her customers evenhandedly, without favoring some at the expense of others. There are several ways in which this is done. A merchant who makes rain checks available to his/her customers is saying in effect that when an item is put on sale at a very favorable price, he/she will treat all customers alike even those who come to the store after the supply of that item has been exhausted. Under those circumstances, the merchant re-orders the item in such quantities to satisfy all customers who have been issued a rain check. “Limit 3 to a customer” tells all customers that everyone is entitled to purchase no more than three of a specific item on sale so that one customer will not buy the entire available supply. “Everyday low prices” indicates that the store does not raise and lower prices from one day to the next so that every shopper has access to the item at the lowest price possible whenever that shopper enters the store. “Sale price effective as long as supplies last” tells customers when the item is put on sale that customers who delay in coming to the store may be disappointed in finding that the item has been sold out.

The key to understanding all such practices as meeting the merchant’s obligations under the principle of distributive justice is that while the specific terms of sale differ across these practices once a specific practice is put in place there is no difference in the way those terms are applied to any customer. Further, though some customers may not be able to take advantage of the favorable opportunities afforded by the merchant, due perhaps to their lack of transportation, their infirmities or disabilities, their being away from home on business, the merchant’s duties under distributive justice extend only to those who actually enter the store, provided the merchant has made an effort to properly inform his/her customers of the opportunities and to maintain the usual store operating hours.

**PRINCIPLE OF CONTRIBUTIVE JUSTICE**

The third and last principle of economic justice is contributive justice that lays down the obligation of the member to the group to that that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues is the usual requirement for the persons joining and remaining active in a membership organization. Failure to pay those dues
typically reduces a person to inactive membership status enjoying fewer or even little benefits of membership as compared to those in good standing.

**Common Expressions.**

Of the three principles of economic justice, contributive justice is least familiar in the United States because Americans think of themselves as individuals first and indeed have a high regard for “rugged individualism.” For that reason, there are only weak examples of common expressions for contributive justice in the resource market and the product market. In the workplace, where employees commonly work in groups or teams, expressions such as “doing my fair share,” “pulling my load,” and “paying my dues” are sometimes heard. There are even greater problems in seeing contributive justice faithfully practiced in the product market.

Even so, there are certain expectations when persons come together whether for a concert, ball game, or to enter a flow of traffic. The person who arrives last in a ticket line or traffic line is expected to wait his/her turn and not cut into the line. To do otherwise is disrespectful of those who have been waiting and sets an example for others to do the same in which case pushing, shoving, and cutting off other cars may become the rule rather than the exception. A general loss of civility may follow that is destructive of a sense of community.

**Violations.**

When it comes to violations of the principle of contributive justice, however, there are several powerful examples in the product market and the resource market. In the resource market, industrial spying and sabotage violates contributive justice because the person who appears to be a loyal and productive member of one business establishment actually is faithful to a rival organization and seeks to undermine the effectiveness of the first establishment by stealing secrets and disrupting work. Is it a violation to hire a person from a rival establishment and then pick his/her brain for whatever information he/she might be able to share with the new employer? It does, if they surrender proprietary information, that is information to that the former employer can claim a clear property right such as a secret formula for making a product.

Computer tampering violates contributive justice because the persons who use a common resource such as the internet are expected to respect the work and files of others using that resource. Otherwise, confusion and destruction reign, and the internet becomes a less effective tool for all who use it. Persons who provoke trouble on the job by spreading rumors, by exaggerating the faults of others, by complaining constantly about supervisors and working conditions violate contributive justice because they tear down the organization making it less effective and less successful in day-to-day operations.

Product tampering is the moral equivalent of computer tampering. Tampering with a product is harmful to everyone who uses that product, because it makes them fearful that the product is unsafe

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1 See Roth-Douquet and Schaeffer for an extended commentary on the general failure of American citizens to take seriously their obligation under contributive justice to serve their country especially by serving in the armed forces.
to use. That in turn can have a powerful negative effect on the company that makes that product. Insurance fraud violates contributive justice because if a fraudulent claim is not detected by the insurance company, payment is made to the insured party that drives up the costs of the insurer who then may pass those additional costs on to all policy holders in the form of higher premiums. The Coalition Against Insurance Fraud estimates that insurance fraud costs Americans about $80 billion every year or $950 per family [Coalition, p. 1].

Insider trading is the practice of persons within a corporate organization whose shares of stock are publicly traded on a stock exchange using information that is confidential and not available to the trading public in order to buy or sell shares in that corporation for personal gain. Insider trading is morally the same as playing cards with a marked deck. The gains achieved by the insiders come at the expense of other traders who do not have access to that confidential information and therefore are buying shares that soon afterward will fall in value or are selling shares that later will rise in value. The federal Securities and Exchange Commission is charged with the responsibility of monitoring trades made by senior corporate executives involving shares of stock in their own corporation in order to detect and punish insider trading.¹ Unrestrained insider trading undermines the effectiveness of a stock exchange because in effect the big fish are eating the little fish.

Dumping involves the sale of a product made in one country in another country in circumstances where it is clear that the intent is not to compete but to destroy. An example will help illustrate the practice. The table below provides information on two companies manufacturing and selling DVD players, the one is American and the other is, say, Taiwanese. The American company sells its product in the U.S. market at $205 retail, and earns a profit of $60 per unit sold because its unit cost of production is $145. The Taiwanese company in Taiwan sells an equivalent DVD player at $180 and achieves a profit of $80 per unit sold because its unit cost of production is $100.

If the Taiwanese company begins selling in the U.S. market at the same price that it charges its customers in Taiwan, the U.S. company is put at a competitive disadvantage because its price is $25 higher. The U.S. company could become competitive again by matching the $180 price of the made-

¹ Bill Gates, for example, owns 1.163 billion shares of Microsoft [Microsoft, p. 5]. A one-cent fluctuation in the share price of Microsoft means a loss or gain for Gates of approximately $11,630,000.
in-Taiwan DVD by taking a smaller profit on every unit sold or by reducing the cost of production in order to protect its $60 profit margin. To this point, there is nothing ethically untoward. This is the normal, everyday price competition between two rival firms. Indeed, there is nothing untoward even if the Taiwanese were to drop its unit price to $100 completely wiping out its profit margin. The U.S. company may find it very difficult to match that lower price, and may even be driven out of the DVD manufacturing business. This is “hardball” competition.

Dumping occurs when the Taiwanese firm sets its price in the United States below its own cost of production, thereby losing money on every unit sold. It is able to do this if it has earned profits in the past and has retained some of those profits in the form of cash on hand. The losses that the company in Taiwan takes on every unit sold reduces its cash on hand but does not drive it out of business. It is able to continue operating and paying for the resources that it uses in the production process in part from sales revenues and the rest from cash on hand. Or it may be subsidized by its national government in order to expand its operations, thereby providing more jobs for workers, more opportunities for local suppliers, and greater profits for its shareholders. This practice, selling a product in another country below the cost of production, is dumping. Its purpose is not to compete with rivals but to destroy them in order to dominate the market and then be able to run up the price to the disadvantage of U.S. buyers of DVD players. The U.S. company that has been attacked this way can sue the Taiwanese company to stop dumping and to require payment for any financial damages that it might have suffered.

Under the Tariff Act of 1930, U.S. industries may petition the federal government for relief from imports that are sold in the United States at less than fair value (“dumped”) or that benefit from subsidies provided by foreign governments. The U.S. Department of Commerce determines whether dumping or subsidizing exists and the margin of dumping or amount of subsidy. The U.S. International Trade Commission determines whether there is material injury or threat of injury to the domestic industry due to dumped or subsidized imports. In 2003 the Commission found evidence of dumping or subsidized imports with regard to, for example, lawn and garden fence posts produced in China, polyvinyl alcohol from Japan, and frozen fish fillets from Vietnam [U.S. International Trade Commission, pp 1-12].

Tax evasion¹ – the deliberate effort to not pay the taxes owed under tax code – violates the principle of contributive justice because when evasion is successful other citizens are forced to make up the difference either in the form of reduced spending, higher taxes, or increased public indebtedness. Litter, trash, and environmental pollution are problems in contributive justice in that they are destructive of the air we breathe, the water we drink, and the wonders of nature we enjoy. It follows that every member of the community has an obligation in contributive justice to limit such destructive practices in order to help preserve those endowments of nature that are vital to the health and well-being of all living creatures. In general, violations of contributive justice are destructive of a sense of community.

¹ Tax avoidance is an entirely different matter. Avoidance means arranging one’s income in a way that conforms to the tax code but reduces the amount owed in taxes.
As stated previously, limits on the amount of gain in the form of profits, consumer surplus, and economic rent are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of equivalence, distributive justice, and contributive justice. Specifically, the principle of equivalence limits ill-gotten or excessive gain because what is gotten and what is given up in the exchange are what were freely and openly agreed to before the exchange took place. For example, the ill-gotten gain for the employer who operates a sweatshop is the added profits from denying his/her workers what is due them. The ill-gotten gain for the employee who embezzles is money that rightfully belongs to the employer. Similarly, the principle of distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly. Finally, the principle of contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

**JUSTICE IN WAGE AND SALARY ADMINISTRATION**

All three principles of economic justice are directly relevant to the problem of wage and salary administration. For the persons who are responsible for sorting through the issues involved in wage and salary administration, there are two main tasks: evaluating performance and linking pay to performance. In this regard, there are three central questions that must be addressed. First, how much does the worker acting alone contribute to the assigned tasks, and how much is that work worth? Second, how much are others being paid for the same work? Third, how much does the worker contribute as a member to the success of the group or team to that he/she is assigned, and how much is that contribution worth?

**Performance Evaluation.**

Performance evaluation involves the careful, honest, and comprehensive evaluation of the amount and quality of the assigned work that the subordinate has carried out over a given period of time, the last week, month, quarter, year. Supervisors are expected to conduct performance evaluations of those persons who are known as “direct reports,” that is they report directly to that supervisor.

To the extent possible, evaluation should be quantifiable but for many professional workers the nature of their work does not always lend itself well to strict quantification. Inevitably, therefore, performance evaluation involves judgment on the part of the supervisor. There are two procedures that help reduce the arbitrariness in making judgments. First, the subordinate prepares his/her own performance evaluation and submits it to the superior for review and approval. Second, the
performance evaluations conducted by the supervisor are subject to review by the person to whom the supervisor reports.

The best way to assure that performance evaluation is done properly is to select the right persons to serve in supervisory positions and train them well for the difficult task at hand. The mere fact that a supervisor may have done the very same assigned tasks as the person whom he/she is evaluating is no assurance that performance evaluation will be conducted carefully, honestly, and comprehensively. Ultimately, the supervisor must be a person of integrity.

**Employer’s Duties.**

As to the problem of linking pay to performance, it is necessary to address the problem first from the perspective of the employer/supervisor and then from the perspective of the employee. The employer/supervisor has two obligations drawn from the principle of equivalence and the principle of distributive justice. In common-expression language, under the principle of equivalence the employer/supervisor has a duty to the employee for “a full day’s pay for a full day’s work.” Under the principle of distributive justice, the employer/supervisor has an obligation for “equal pay for equal work.” Failing with regard to the first duty is in effect to break the employment contract and the wages and work agreed to in that contract. Failing with the regard to the second duty is discriminatory. By meeting his/her obligations under the principle of equivalence, the employer in effect affirms his/her own individuality and the individuality of the worker. Similarly, by carrying out his/her duties as set forth in the principle of distributive justice, the employer affirms her/her own sociality and the sociality of the worker.

**Employee’s Duties.**

The employee also has two obligations, one drawn from the principle of equivalence and the other from contributive justice. “Full day’s work for a full day’s pay” is what the employee owes the employer/supervisor under the principle of equivalence, and as with the employer/supervisor, any failure effectively breaks the employment contract. The employee’s second duty is to “do his/her fair share,” “pay his/her dues,” that is to contribute positively to the success of the group or team to that he/she has been assigned. This duty is less sharply defined than the first. Much depends on the circumstances at the moment in the resource market and the product market. More may be required of a person as a member of the team when the company is facing a very difficult deadline in making delivery to a customer, or when the necessary supplies for production are not readily available, or when someone on the team is sick or otherwise absent from work. Further, more may be required when the company is on the brink of financial failure. In that sense, the principle of contributive justice requires a member of the group or team to do all that is required for group success provided what is required is reasonable. Thus, judgment inevitably is a part of any decision as to one’s duty under the principle of contributive justice. As we have just seen with the employer, by meeting his/her obligations under the principle of equivalence, the worker validates his/her own individuality and the individuality of the employer, and by fulfilling his/her duties under the principle of contributive justice, the worker authenticates his/own sociality and the sociality of everyone else in the group. See Figure 5.2 for a summary of the foregoing.
**Linking Pay to Performance.**
Pay at the time of hire often is driven by market conditions. Paying less than the market rate is an option provided the employer accepts being less competitive in the market for scarce labor resources. Paying more makes the employer more competitive in the labor market but can increase the cost of production and thereby squeeze profit margins especially if other workers in his/her employ are successful in demanding equal pay for equal work.

Paying each worker according to the value of the labor services contributed is an obvious requirement. Paying them for company performance is strictly an option. Two examples illustrate how structuring pay to company performance can be implemented. In a petroleum refinery safety is

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**FIGURE 5.2 WAGE AND SALARY ADMINISTRATION**

Wage and Salary Administration Involves All Three Principles of Economic Justice Simultaneously To Address Three Central Questions:

1. How much work does this person (do I) do acting alone, and how much is that work worth?
2. How much are others being paid for the same work?
3. How much does this person (do I) contribute to the work done as a member of the team, and how much is that work worth?

- For the employer/supervisor the obligation is two-fold:
  
  1. from the principle of *equivalence* to exchange things of equal value and impose equal burdens on the employee/worker:

     *a full day’s pay for a full day’s work, affirming human individuality*

  2. from the principle of *distributive justice* to distribute the benefits and the burdens of the work in some equal fashion among all employees/workers:

     *equal pay for equal work, affirming human sociality*

- For the employee/worker the obligation is two-fold:

  1. from the principle of *equivalence* to exchange things of equal value and impose equal burdens on the employer/supervisor:

     *a full day’s work for a full day’s pay, affirming human individuality*

  2. from the principle of *contributive justice* to contribute to the maintenance and support of the work group:

     *doing my fair share; paying my dues, affirming human sociality*
an important daily issue in the operation of the facility. Improving safety enhances company performance, including profits, by reducing lost labor time. Accordingly, the refinery may decide to reward improvements in safety by setting different lost labor time standards for different work teams with different exposure to risk in the facility, and rewarding everyone on the team on a quarterly basis for which actual lost labor time is below the applicable standard for that team. The rewards can be cash or unkind. A system of unkind rewards can be devised using a gift catalog in which everyone eligible for a reward is allowed to choose an item from the catalog such as a stadium seat, a windbreaker, or a single setting of flatware.

In a physician’s practice, the collection rate – the percentage of the amount that is billed for services rendered which is actually collected – is a powerful contributing factor in the practice’s financial success. Increasing the collection rate therefore directly enhances the financial performance of the practice. Paying every nonphysician employee including, for example, the nurse, receptionist, and secretary a cash bonus for a monthly collection rate that is above some minimum standard such as 90 percent, with greater bonuses tied to higher collection rates, can provide the needed motivation for improving staff performance of those assignments that contribute to a better experience for the patient and therefore a greater willingness on the part of the patient to pay what is owed in full and on time.

Experience has demonstrated time and time again that limits are necessary to assure that competition and cooperation do not get out of hand. Typically these limits are embodied in laws that have been enacted in response to some abuse such as dumping, embezzling, and harassment. In the absence of limits economic affairs tend to degenerate into conflict, chaos, and exploitation. Ultimately it is the faithful practice of the principle of equivalence, the principle of distributive justice, and the principle of contributive justice that determine what limits are required to assure that economic affairs are amicable, orderly, and mutually advantageous, and are likely to remain so.

**JUSTICE IN FINANCIAL MARKETS**

There is a profoundly important difference in the way economic agents function in product and resource markets – the so-called real economy -- and in financial markets. In the real economy, as we have just observed, buying and selling is based on the positive-sum premise that every person engaged in a given exchange achieves a gain. Without that gain, exchange collapses. Buying and selling typically take place under conditions of certainty and transparency to help assure that justice is served.

In the financial sector investing, hedging, and speculating are based on the zero-sum premise that one agent’s gain is another’s loss. Investors, hedgers and speculators are driven by the uncertainty and risk associated with future price movements. Hedgers are risk-averting; they avoid risk at the expense of the greater gains possible. Speculators are risk-seeking; they take on risk for the greater gains possible. Investors can be risk-averting, risk-seeking, or both. Often all three types – hedgers, speculators, investors -- are referred to as traders. We do not employ that language herein, preferring instead investor, hedger, and speculator in order to convey our meaning more clearly.
In the following we address buying and selling in the real economy and investing, hedging, and speculating in the financial sector in order to better understand how they are alike and how they differ. Our purpose is not to exam these activities to the finest detail but to underscore the difference between positive-sum and zero-sum activities and the role of justice in the real economy and the financial sector.

**Futures Contracts.**
A futures contract is a legally-binding commitment to buy or sell a specific commodity such as wheat or oil or financial product based on the S&P index or DJIA index or the like for a fixed price on a specific date in the future. Hedgers are producers and users of commodities who are risk-averse regarding future prices [Daniels Trading, p. 2]. Both try to reduce that risk by signing futures contracts that call for the producer to sell the commodity at a fixed price and deliver it on a given date in the future to the user who must buy that commodity at that price and take delivery on that date. Producers win and users lose when the price of the commodity on the delivery date is below the agreed price as specified in the contract. Users win and producers lose when the price on the date of delivery is above the price specified in the contract.

Even though the futures contract on the date of delivery is a zero-sum agreement in which one party eventually wins and the other loses, justice is served as long as they understand in full and accept without reservation the terms of the contract when they commit themselves contractually. In other words, a futures contract meets the demands of justice when the terms are transparent and the parties are free to act. Under the principle of equivalence they are exchanging things of equal value – a clearly stated price for a clearly specified commodity or financial product -- and imposing equal burdens on one another – the uncertainty and risk involved in future price movements over which neither one has any control. If, however, one of the parties has control over prices in the future, justice is not served because uncertainty and risk are much lower for the one who controls those prices and therefore that party is not imposing equal burdens on the other. In strictly ethical terms, that contract is unjust and not binding.

A futures contract can be bought and sold multiple times just as a stock can be bought and sold time after time on the New York Stock Exchange and the NASDAQ. Thus the holder of a futures contract can transfer the risk to someone else in exchange for cash. Speculators buy and sell futures contracts through commodity exchanges but are neither producers nor users of the underlying commodities. Unlike hedgers, speculators are risk seeking with regard to future changes in commodity prices [Daniels Trading, p. 2]. They buy commodity contracts which they regard as undervalued today because they expect the future price of the underlying commodity will be higher than the commodity price set forth in that contract and therefore they can expect to sell that contract in the future at a higher price than what they paid for it. They sell commodity contracts they regard as overvalued today because they expect the future price of the underlying commodity will be lower than the commodity price set forth in that contract and for that reason the contract itself will sell at a lower price in the future. Speculators win whenever they have predicted future price movements correctly. Otherwise they lose. Unlike hedgers, speculators cannot afford to be obligated under the terms of a contract on its date of delivery because they are in no position to deliver the underlying commodity.
nor can they take delivery because they have no use for it.

For a futures contract based on a financial product such as the S&P index, the buyer of that contract experiences a gain when the index rises and a loss when it falls. Specifically, a change of one index point in the S&P index represents a gain or loss of $250.\textsuperscript{1} If at the end of the trading day, for example, the index rises by 20 points the person who has purchased that contract captures a $5,000 gain and the person who sold that contract must transfer $5,000 to the account of the person who purchased it. If the index falls, the purchaser must transfer to the seller’s account $250 for each point the index has fallen. This kind of futures contract is bought and sold on either the Chicago Board of Trade or the Chicago Mercantile Exchange and provides agents in that market with valuable information that helps inform their decision-making for the day.

The CBOT and the CME are not the only futures contract exchanges in the United States. The New York Mercantile Exchange specializes in oil futures contracts. The New York Board of Trade provides a market for cocoa, coffee, cotton, orange juice, and sugar. Other futures exchanges operate in London, Tokyo, Sydney, Singapore, and elsewhere [Wikipedia, p. 6].

The pejorative inference in the name notwithstanding, speculators provide an important service to daily commodity and financial markets. Speculators, especially those who are specialists in a specific commodity or financial product such as corn or the euro focus attention on future price movements. They are in fact specialists in future price expectations who put at risk their own money on the basis of their analysis of those expectations. Future price expectations in turn influence the daily market price from both the demand side and the supply side.

On the demand side, consumers who expect prices to rise in the future are likely to buy today in order to avoid those future price increases. Conversely, consumers who expect prices in the future to fall are likely to postpone current spending in order to take advantage of the lower expected prices in the future. On the supply side, producers who expect higher prices in the future are likely to hold back current production in order to sell more when prices are higher. Producers who expect prices to fall in the future are likely to sell more in order to take advantage of those higher prices.

By following exchange activities relating to the buying and selling of futures contracts, consumers and producers are better informed regarding future price expectations. Whenever the price of a futures contract itself (not the agreed price as set forth in that contract) for a specific commodity or financial product is falling consumers and producers can expect the price of that commodity or financial product to fall in the future and can adjust their current buying and selling accordingly. When the price of such a contract is rising consumers and producers can expect the price of the underlying commodity to rise in the future and can apply that information to their own current market decision-making.

\textsuperscript{1} The dollar gain/loss for every point change in the DJIA is $10; for the NASDAQ it is $100 [Investopedia, p. 1]
By informing consumers and producers in their day-to-day market decision-making, speculators help determine current market prices.

**Options and Forward Contracts.**
An options contract is similar to a futures contract except that the person holding such a contract has the option of meeting his/her obligations as set forth in the contract or backing out. As with futures contracts, option contracts are exchange-traded. An option to sell a futures contract is called a *put*. An option to buy a futures contract is known as a *call*.

A forward contract is like a futures contract but is more complex. To reduce the risk of a very large gain/loss on the date of delivery, a futures contract is re-balanced every day to the daily spot price of a futures contract with the same agreed price on delivery and the same underlying asset. This practice, known as “marked to market,” reduces the risk that there will be a very large gain/loss on delivery date because the loser on a daily basis must transfer monies to the margin account of the winner. A forward contract is not re-balanced and therefore exposes the contracted parties to a large gain for the one and a large loss for the other on the date of delivery. Thus there is a credit risk associated with a forward contract in that the seller/producer may not be able to deliver the underlying commodity and the buyer/user may not be able to make payment in full at delivery. Futures contracts are exchanged traded whereas forward contracts are bought and sold over the counter. This difference means that futures contracts are much more standardized than forward contracts.

The risk of failure on the part of the producer or the user of a futures contract on delivery date is borne by the exchange thereby limiting credit risk in futures contracts. To illustrate, participants in the New York Mercantile Exchange are required to maintain accounts with deposits sufficient to cover any losses they may experience. The NYMEX has a $150 million guarantee fund backed by all member firms and a $100 million default insurance policy [NYMEX 2006, p.1].

**Currency Trading.**
The currency market is a financial market where currencies are bought and sold in anticipation of the gain from holding one currency versus another. Currencies are bought and sold through brokers or market makers who provide access to the currency market which is a network of world banks that buy and sell currencies electronically and through that activity *which can be rough and tumble provide the essential service of setting currency exchange rates*.

If, for example, the U.S. dollar exchanges today for 105 yen and a currency speculator expects that the dollar will exchange for 120 yen next week, that speculator would sell yen and buy dollars today in anticipation of the gain of 15 yen for each dollar sold and exchanged for 120 yen next week. The speculator who anticipates the change in the rate of exchange correctly and buys or sells accordingly

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1 The NYMEX has a $200 million guarantee fund and a $115 million default insurance policy [NYMEX, no date, p.2].
captures the gain. Any speculator on the other side of that buying or selling activity who in effect anticipated the rate of exchange incorrectly suffers the loss. Key to this zero-sum outcome is that the currencies are being bought and sold not for the purpose of exchanging that money for some good or service but for the expected gain in the exchange process itself. The use value/exchange value calculus of buying and selling does not apply to speculating. For currency speculators gain and loss originate in the difference in the exchange rate (the currency’s price or exchange value) from one point in time to another.

Just as we observed with future prices for commodities, a person actively engaged in buying and selling currencies can hedge against changing currency prices in the future by turning to a futures contract, an options contract, or a forward contract.

Stock Trading.
Daily economic affairs are not as cut and dried as conventional economic theory suggests. Buying and selling, investing hedging, and speculating can be separated in the abstract but not always in day-to-day economic activity. Actually purchasing shares of stock in a given corporation today is buying and selling in the sense that gain is involved for both the buyer and seller. Certainty, transparency, and reduced risk attend the trade when the sale is executed because there is a clear, accessible record of the performance of that corporation.

However, neither the buyer nor the seller of those shares knows for certain what they will yield in terms of dividend stream and share price in the future. Uncertainty, obscurity, and elevated risk attend the holding of those shares in the future. The person holding them to support retirement well into the future is an investor when he/she expects a long-term gain based on dividends and the share price. The person who deliberately buys only shares in corporations will a rock-solid record of paying dividends and slow but steady growth in share price is a hedger. On the other hand, the person who buys shares in corporations with an erratic performance record or no record whatsoever is a speculator.

Whatever the buyer’s underlying purpose in these stock purchases, the practice is known as “buying long” and is based on the simple premise that the stock is undervalued and will increase in price in the future. “Selling short,” on the other hand, is based on the premise that the stock is overvalued and will decrease in price in the future. Selling short is the practice of paying another person a fee to borrow his/her shares with the promise to replace them at a given date in the future, selling those shares immediately, and replacing them as required at the share price on that given date. The person selling short pockets a gain if the future price is lower and takes a loss if the price is higher. Day traders are speculators. So too are those who financially back a theatrical production in the hope that it will have a long and rewarding run on Broadway.

Even so, as we noted already with futures contracts, selling short is not unjust as long as the terms of the contract are transparent and the parties are free to act. If, however, one of the parties has control over the share price in the future, justice is not served because uncertainty and risk are much lower for the one who controls that price and therefore that party is imposing an unequal burden on the
other. In strictly ethical terms, that contract is unjust and not binding.

Although it is not defined in the federal securities laws or SRO\(^1\) rules, “naked” short selling is the practice of selling short without first having borrowed the shares. Not being able to borrow the necessary shares could happen in the case of a small company with only a few outstanding shares. Under Securities and Exchange Commission rules the seller is allowed three days to deliver the shares to the buyer before that seller is reported for failure to deliver. A sudden increase in failure-to-deliver reports involving the shares of a specific firm suggests some irregularity in the trading of those shares.

Though not illegal per se, naked short selling according to the SEC could be a sham or abusive practice in certain instances [\textit{Federal Register}, pp. 48009, 48028] as when a broker-dealer lends the same shares to different short sellers. This abuse can happen because shares typically are transferred electronically and no registered stock certificates ever change hands. Thus, under its emergency rule making authority, the SEC can declare naked short selling legal for some and illegal for others depending on how the Commission responds to changing market conditions and the behavior of lenders and sellers especially when major financial stocks are severely threatened. In July 2008, for example, the SEC exempted market makers from a new rule which otherwise prohibits naked short selling of the shares of 17 Wall Street banks along with the two government mortgage guarantors Fannie Mae and Freddie Mac [\textit{Forbes}, not paginated]. Market-makers buy and sell shares in order to match buy/sell orders and thereby help stabilize the market.

Naked short selling with the deliberate intent to drive the share price down is illegal. It is unjust because the seller, hoping to capture an ill-gotten gain, necessarily conceals his intent from the lender and thereby violates both the transparency rule and the price control rule. Naked short selling in which the seller has no intention of ever delivering the shares is unethical because it violates the transparency rule. Proving such ill intent, that the transparency rule or price control rule has been violated intentionally, makes enforcement difficult and leads at times to the SEC being accused of not doing its job.

\textit{Real Estate.}

Apart from those who buy a house to make it their home and expect to stay there for a long time, a house or similar property can be purchased for the purpose of investing, hedging, or speculating. An investor expects the property to increase in value in the long term and plans to hold it in anticipation of that long-term gain. A hedger purchases the property because other types of investments such as equities and commodities are too risky at the moment. A speculator acquires the property in the expectation of the gain to be made over the short term in a market where property prices are rising rapidly. “Flipping” a house is speculative behavior in that the house is held only long enough to make some improvements which at times can be more superficial than substantial and are expected to increase its resale value by more than the cost of those improvements.

\footnote{An SRO is a self-regulatory organization such as the New York Stock Exchange.}
The key to setting apart buying and selling in the real economy from investing, hedging, and speculating in the financial sector is found in what is being purchased and why it is being acquired. With the exception of hoarding, a bunch of bananas, a box of cereal, a gallon of gas for one’s car are consumables in which the buyer and the seller have carried out the use value/exchange value calculus and have decided there is gain for both in the exchange process. Similarly, labor and physical resources are consumables in the sense that they are consumed, used up, in the production process and are subject to the same calculus. Thus, buying and selling in the real economy are positive-sum activities.

A real estate holding, a share of stock, an oil futures contract are assets, things of value, which are acquired not for their use value but with the expectation that they will increase in exchange value in the future and can be cast off when that expectation does not materialize. The person who pays for an asset which appreciates in value enjoys a gain. The person who exchanges that asset for cash takes a loss. Investing, hedging, and speculating in the financial sector are zero-sum activities.

A home is a special case. It is both a consumable and an asset. As a consumable, it is subject to the use value/exchange value calculus and buying/selling is based on the positive-sum premise. As an asset, it is acquired with the expectation that it will increase in value over time and therefore is based on the zero-sum premise. The new owner seizes the gain, and the former owner relinquishes that gain, if the house appreciates in value. If the house depreciates in value, the new owner is the loser and the former owner is the winner.

*Hoarding and Casino Gambling.*

Though not contractual in nature, hoarding is a form of hedging in that the buyer is betting that an expected shortage of a commodity will drive the price higher and therefore decides to purchase more of that commodity today than usual in order to avoid both the shortage and the anticipated higher price. The buyer who hoards suffers a loss if the future price is lower than today’s price and the seller captures a gain. If, on the other hand, the anticipated higher price materializes the seller suffers a loss by selling today and the buyer captures a gain by getting the commodity at today’s lower price.

Casino gambling is a form of speculation in which the gambler initiates an exchange involving a relatively small amount of money that is wagered in the expectation that there will be a very substantial payoff. Risk, uncertainty, and obscurity attend every gambling play in which the experienced gambler is likely to know how to reduce the risk – by playing blackjack for instance instead of the slot machines, by counting cards at the blackjack table – but is not able to eliminate uncertainty, obscurity, or risk entirely. Unlike buying and selling in the real economy, what is given up in casino gambling is clear and assured, what is gotten in return is not. The betting outcome is nearly instantaneous in a casino where gamblers are enticed to recoup their losses by continuing to bet even though it is well-known that the odds overwhelmingly favor the house.
References


CHAPTER SIX

THE FUNCTIONAL ECONOMY:
A COMPLEX HUMAN CONSTRUCT

Our extended discussion of the three principles of economic justice in Chapter Five has not addressed directly questions as to how those principles are connected to the five processes that are characteristic of a market economy and the three principles by which the entire system is organized. Chapter Six begins with a discussion of the five economic processes.

FIVE ECONOMIC PROCESSES

Five distinct economic processes characterize the market system and economic affairs: production, distribution, exchange, consumption, and investment. Economic resources – natural and human – along with financial resources and the entrepreneur are used across all five processes either directly or indirectly. Production involves the transformation of resources into consumer, capital, and public goods and services. Distribution moves those goods and services through space and time from the workplace to the marketplace. Exchange involves the transfer of the ownership of the goods and services from the producer to the user.

The principle of efficiency helps us measure the performance of a business enterprise on the basis of how well it uses economic resources. The principle is stated as follows: maximum efficiency is achieved by a business enterprise when it achieves maximum output of a good or service from a fixed or given amount of resources. Or the principle may be stated in this manner: maximum efficiency is achieved by a business enterprise when it produces a given or fixed amount of output from a minimum amount of resources. To illustrate, fuel efficiency is measured in terms of miles per gallon. The most fuel efficient car is one that gets the most miles from a gallon of gas. Notice that the principle of efficiency is misstated in the following: maximum efficiency is reached when maximum output is obtained from the minimum amount of resources.

Consumption is the fourth process in which private goods and services are used to satisfy a want or meet a need. A need is something required. Insulin is required by diabetics. Personally, I need eyeglasses; many others do not. A want is something desired. For me, a new BMW convertible is a want but not a need. Needs and wants differ from person to person because human beings either in terms of the body or the spirit are magnificently different. And needs and wants inhere not in the good or service itself, although we may use language that suggests as much, but in the human person. The critical word in “I need eyeglasses” is “I.” Consumption also involves the utilization of public goods and services to meet needs that cannot be met at all or cannot be met as effectively by private goods and services.
FIGURE 6.1 NEEDS & WANTS OF THE HUMAN BODY & SPIRIT MET/SATISFIED THROUGH WORK & CONSUMPTION

PRODUCER/WORKER/ENTREPRENEUR use NATURAL, LABOR, FINANCIAL, and OTHER RESOURCES in …

PRODUCTION → DISTRIBUTION → EXCHANGE → CONSUMPTION consumer & public G/S → INVESTMENT capital & public G/S

Transformation Movement Transfer Utilization responding to …

INCOME, BELONGING, and SUSTENANCE, REST, CREATIVE WORK OPPORTUNITIES TRUTH, GOODNESS, and BEAUTY

met and satisfied through work met and satisfied through consumption

respecting human differences, the economic processes of production, distribution, exchange, consumption, and investment are activated by …

COMPETITION ♂ and COOPERATION ♀ …

are limited by … GROUP INTERVENTION

embracing:
FREEDOM practicing:
EQUIVALENCE

COMPETITION ♂ and COOPERATION ♀ …

are limited by … GROUP INTERVENTION

embracing:
COMMUNITY practicing:
CONTRIBUTIVE JUSTICE

COMPETITION ♂ and COOPERATION ♀ …

are limited by … GROUP INTERVENTION

embracing:
EQUALITY practicing:
DISTRIBUTIVE JUSTICE

G/S: goods and services
Investment is two dimensional, involving both capital goods and services and public goods and services. The entrepreneur initiates and directs investment in capital goods and services that are deployed to enhance efficiency in production, distribution, and exchange (more about the entrepreneur later in this chapter). The public official with the consent of the public directs investment in public goods and services to improve the infrastructure (fundamental structure) of the economy in order to better provision those common needs that derive from persons and families living together in communities. Examples of such public investment include expenditures on highway systems, seaports, airports, sewer and water systems, public elementary and secondary schools, state universities, public hospitals and clinics. See Figure 6.1.

Humans work for the income that they earn and importantly in order to meet their need to belong that originates in their human sociality and their need for opportunities to make use of their creative talents that originate in their human individuality. Mainstream economics addresses work as a source of income but ignores work in terms of belonging and human creativity. Consumption is critically important because it provides the goods and services, such as food, shelter, clothing, medical care, necessary to sustain human life and restore human vitality through rest. Consumption of goods and services serve an additional purpose overlooked by mainstream economics. They are necessary to the experience of encountering truth, goodness, and beauty, the needs of the human spirit. For example, to experience the beauty of the Golden Gate Bridge it is necessary to travel to San Francisco and to purchase certain goods and services along the way in order to make that trip possible. A university education requires years of considerable expenditures on goods and services in order to take hold of the truth either narrowly defined in terms of specific professional skills such as accounting or chemical engineering or much more broadly construed in terms of understanding the human condition.

THREE ORGANIZING PRINCIPLES
Production, distribution, exchange, consumption, and investment are organized by three principles: competition, cooperation, and intervention. The first two are activating principles supplying energy to economic affairs in the same way that the engines of a twin-engine aircraft provide the power for lift. The third organizing principle – intervention – operates in the limiting mode acting as a force to limit certain abuses that may attend vigorous competition and cooperation. For example, intervention on the part of a public body or private organization is necessary to restrain the suicidal price wars (dumping when at least one of the competitors is a foreign company) that sometimes happen when competition gets out of hand. Cooperation must be constrained or limited lest it degenerate into price fixing and collusion, that is an agreement on the part of the producers of a given product or service to fix the price and divide up the market in order to exploit the consumer.

In terms of our analogy of the economy as a twin-engine aircraft, intervention that limits competition and cooperation may be represented as the control surfaces of the aircraft, the rudder and the flaps for example. The entrepreneur/pilot is not able to handle the aircraft safely, to set it on a course and reach its destination predictably, without those control surfaces.
Competition is the human disposition to undertake certain tasks alone. Cooperation is the human disposition to undertake certain tasks collectively because they cannot be done at all or as well by working alone. Some humans are more generously endowed with the competitive disposition. Michael Jordan in his prime for sure was one. Others are more disposed to cooperation. Consider how often the now retired John Stockton and Karl Malone of the Utah Jazz executed the “pick and roll” in defeating their opponents.

In American culture men tend to be more aggressive and competitive because they learn as little boys that those characteristics are important to establishing their manhood. Women are inclined to be more cooperative in part because their bodies are made for nurturing human life and in part because little girls are not encouraged to engage in the rough and tumble play of little boys. Our language conveys and reinforces those stereotypes. A man with too little competitive drive is called a “wimp.” A woman with too much competitive energy is known as a “b----.” Boys and girls like this often are called “sissies” and “tomboys.”

That is not to say or imply that women cannot learn to be competitive and that men cannot take on the nurturing role. Indeed, American culture at least over the last 40 years when the sexual revolution began has been changing the stereotypes of what a little boy should be and what a little girl should be. And as a consequence, men and women alike are aggressive and competitive at times and nurturing and cooperative at other times. The balance between those dispositions differs from one woman to the next, and one man to the next.

Competition requires aggressive behavior and to the extent that men typically are aggressive competition is more masculine. Cooperation requires nurturing and insofar as women are nurturing cooperation is more feminine. In Figure 5.1 we have indicated this association between the two activating principles of competition and cooperation and masculinity and femininity with the male (♂) and the female (♀) symbols.

The Linux operating system is especially instructive because it derives its energy directly and powerfully from both competition and cooperation. The Linux system is based on open-source programming that is continuously developed and improved by volunteer (unpaid) programmers who are linked via the internet and whose work is evaluated by Finnish originator Linus Torvalds before it is incorporated into any system updates. Linux runs on equipment ranging from supercomputers to cell phones, and can be downloaded free though typically it is purchased by end users who are buying an entire package including applications and required service. Installed in servers, Linux competes with Microsoft’s Windows and Sun Microsystems’ Solaris on purchase price, computing speed, and operating cost. Linux took over the No. 2 position in the server market, displacing Apple’s Macintosh software in 2003. Today Linux’s share of the server market is 24 percent and is expected to reach 33 percent by 2007. Windows has fallen from a 94 percent share of the server market and likely will fall to 59 percent by 2007 [Business Week, 2003, p. 78ff; 2004, pp. 106, 108; 2005, p. 63].
The limiting principle of intervention can be operationalized in the form of a public agency or a private group. For example, the U.S. Department of Labor enforces the federal minimum wage limiting employers to paying their workers no less than the minimum. Private industry groups have intervened many times over the years to forge agreement on standards for specific items such as standard sizes for shoes, clothing, and tires, standard grades to identify different quality lumber and cuts of beef, standard factors to identify differences in insulation material and sunscreen. And professional societies such as for lawyers, accountants, and engineers establish standards of professional practice and ethical conduct for their members. The effect of these standards is to limit producer/professional freedom to create his/her own standards that if carried through by every producer/professional would lead to confusion and possibly chaos.

THREE SOCIAL VALUES, THREE PRINCIPLES OF JUSTICE

However, the effective utilization of the three organizing principles of competition, cooperation, and intervention requires the affirmation of a particular value across society, or what we call a social value. Competition clearly depends on society valuing freedom because how does competition come into play if human beings do not enjoy the freedom necessary to compete? Cooperation depends on the social value of community in the sense that tasks will not be undertaken collectively if the persons who are assigned those tasks are not willing to come together as a community and work as one. Indeed many U.S. companies refer to themselves as families as a way of reinforcing that social value and breathing more life into cooperation. The very successful 1979 Pittsburgh Pirates deliberately chose We Are Family as the theme song for their season as a way of reminding every player of the importance of playing as a team.

Intervention depends on the social value of equality if that intervention is to be successful and long-lasting. Notice the longstanding criticism of the U.S. internal revenue code that taxes more heavily a man and wife filing a joint return than it taxes a man and a woman living together but not married and filing separately who in all other relevant respects are alike. Notice the inherent denial of human equality along gender lines in certain Muslim countries, and the inequality enforced by apartheid in other countries, and how that kind of intervention to limit human activities discredits all interventionism on the part of the governments of those countries.

But there is a price to pay for each of the three social values of freedom, community, and equality. Each one depends on a human beings faithfully practicing one of the three principles of economic justice. Freedom is undermined when the principle of equivalence is violated because persons who have been “ripped off” lose some of their freedom to act and compete in economic affairs. Community cannot exist without the contributions of their members, without faithful adherence to the principle of contributive justice. Equality is denied when the principle of distributive justice is flaunted by, say, public officials who discriminate against some and play favorites with others.

THE ENTREPRENEUR

The entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change in the workplace and in the marketplace. We prefer to identify the entrepreneur as the two-dimensional acting person, as opposed to simply the one-dimensional homo-economicus, because the
The entrepreneur is a real, living, breathing person engaged in human action in economic affairs and not some totally self-interested, self-absorbed, completely rational calculating machine with neither the time nor the interest in the romantic. In terms of our analogy to the twin-engine aircraft, we note that there is a profound difference between the human pilot with a mind and a heart, possessing both intelligence and emotions, and the auto-pilot that has neither mind nor heart and for which intelligence is entirely programmed.

The entrepreneur triggers change in the following five ways. In the marketplace, the entrepreneur initiates two types of change: the introduction of a new good or service and the penetration of a new market. In the workplace, the entrepreneur brings about three kinds of change: the utilization of different materials in the production process, the introduction of a new process of production, the development of a new way of organizing, managing, administering the business enterprise. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the process of production.

The masculine-feminine dimensions of human nature play a role here too. The masculine gender trait that rests on human individuality is vital to success in marketplace innovations because the marketplace is a competitive forum wherein human beings clash and compete for the rewards that follow from beating their rivals. The feminine gender trait that is grounded in human sociality is vital to success in the workplace because the workplace is a cooperative environment wherein humans must work together to accomplish their common objectives. Because entrepreneurial change often involves more than one type at once, both gender traits may be vital to the successful implementation of the entrepreneur’s ideas.

Entrepreneurs are persistent. Indeed, Schumpeter identifies persistence as the key personal trait of the entrepreneur, setting him/her apart from others. The entrepreneur is dogged in the pursuit of his/her innovational ideas, and simply does not give up in the face of opposition. Entrepreneurs are visionary in the sense that they see opportunities and possibilities where others see nothing beyond the present. Large established companies resist entrepreneurial change in a way that is reminiscent of Newton’s third principle of motion: for every action there is an equal and opposite reaction. Thus entrepreneurs often are associated with small companies including firms that they themselves established specifically to implement their innovational ideas. They are driven at times by the survival needs of the company, but are not always successful. However, they are more likely to accept the risk of failing and to try again in a culture where failure in business does not spell personal failure. Bankruptcy relief and “the golden parachute” are two ways in which the American culture encourages the entrepreneur to try again.

Unlike accountants, musicians, veterinarians, and other professional persons, the entrepreneur is not required to master a body of knowledge and demonstrate a certain set of skills. There is no designated educational pathway to becoming an entrepreneur, although entrepreneurial skills can be enhanced through formal education and training, and by entrepreneurial role models such as an older member of the family or a supervisor. There is no profession known as “entrepreneur” and no professional membership organization for entrepreneurs to join.
The entrepreneur is the pilot of the economy who decides where the economy is headed, following in general one of five flight plans, but capable of departing from that flight plan as circumstance require or allow, at times flying directly into heavy weather to deliver the payload. By making credit available to the entrepreneur through the loan process, the private commercial banker provides the fuel necessary to power the economy’s twin engines of cooperation and competition.

To change the analogy, the typical business enterprise is like the human cell that must divide and separate in order to survive. In order for a company to prosper and endure, someone must be entrepreneurial. Failing to innovate assures its ultimate demise.

Successful entrepreneurs engage in a dynamic process that has two major effects. First, they create new business enterprises, new jobs, new resource requirements that translate into new opportunities for workers, resource holders, suppliers, investors, and communities. At the same time, they destroy old business enterprises, old jobs, established supplier networks that translate into financial hardship or ruin for other workers, resource holders, investors, and communities. This process Joseph Schumpeter called “creative destruction.”

As a matter of conscience, the successful entrepreneur must weigh the negative aspects of innovation against its positive aspects. In this regard, the principle of the double effect comes into play and sets limits on what the entrepreneur should do. The destructive, negative effects must not be greater than the creative, positive effects, and the entrepreneur must not intend the destructive effects as a way of singling out certain persons or organizations for punishment.

In American culture, however, the entrepreneur it seems is not held to account if his/her initiatives do not measure up to these ethical standards. Did Sam Walton regret what Wal-Mart did to Sears and to many small town families businesses? Did the two men behind the original Apple computer -- Steve Jobs and Steve Wozniak -- shed a tear for the havoc they visited on IBM? Does Ted Turner lose sleep at night for the damage that CNN did to the 6PM network news?
References


CHAPTER SEVEN

THE PRINCIPLE OF SUBSIDIARITY IN ECONOMIC AFFAIRS

Societies are constructed around functional elements or units of different size and strength. The largest and strongest element in American society is the federal government. The smallest and weakest is the human person. Between those two elements are four other basic functional elements: state governments, local governments, private organizations such as businesses, unions, trade associations, and families. Within this set, state governments in general are the larger and stronger elements, while families are the smaller and weaker.

Subsidiarity states that (1) larger, stronger elements of society should not take over the functions of smaller, weaker elements, but instead (2) should help the smaller, weaker elements function more effectively. Abraham Lincoln’s formulation of this principle was:

In all that the people can individually do as well for themselves, the government ought not to interfere [McGinnis, p. 41].

Article 3b of the Maastricht Treaty reflects how the principle of subsidiarity informs decision-making in the European Union.

The principle that decisions should be taken as close to the citizen as possible has become an overriding one in the last few years [European Communities, p. 14].

The principle of subsidiarity reinforces the democratic principle by widening opportunities for smaller less powerful functional elements in the economic order to participate in decision-making processes that bear upon their well-being, thereby limiting the abuse of highly decentralized decision-making that misconstrues the problem or the proper remedy and identifying the remedy that in fact works best.

SUBSIDIARITY AND THE FIVE ECONOMIC PROCESSES
The principle of subsidiarity applies to all five economic processes: production, distribution, exchange, consumption, and investment.

Production, Distribution, and Exchange.
With regard to these three processes, subsidiarity addresses the following two questions. When should a business enterprise be privately owned and managed and when should it be publicly owned and managed? When should intervention to limit competition and cooperation that is running out of control be undertaken by a private organization and when more appropriately should a public agency intervene?
Subsidiarity means, for example, if a private company is fully capable of producing electric power, there is no need for power generation to be directly in the hands of the government. Instead, the government might offer the private company tax credits on its investments in new power generation facilities, in order to help that company bring that power on line. It also means that if distribution can be handled effectively by private rail carriers, barge lines, or trucking companies, government in general ought not to interfere in their affairs, except for such public functions as providing for safe railroad crossings and maintaining ship channels and highways. In like manner, if the private establishments operating securities exchanges ordinarily need no assistance to function in an effective manner, there is no compelling reason for the public sector to take control of those exchanges unless a trading crisis arises that calls for swift action on the part of the central banking authority or some other regulatory body.

By affirming a strong preference for private enterprise compared to public enterprise, the principle of subsidiarity effectively decentralizes ownership and control of economic activities that in turn (1) lead to a greater diversity of goods and services produced because entrepreneurs have a freer hand; (2) a smaller risk that large-scale mistakes will be made because in general private enterprises are smaller than public enterprises; and (3) private enterprises will be more responsive to their customers because they are driven by the profit motive. The key concern in this regard is efficiency in utilizing resources and in meeting needs and satisfying wants.

**Investment.**

The entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change through the investment process. Whenever the entrepreneur is successful, given a strong preference for private enterprise reflected in the principle of subsidiarity, the need for public-sector intervention and the scope of public enterprise likely are reduced. The key issues for the entrepreneur are freedom from excessive government control and freedom to risk investing in new ideas. Bankruptcy relief is, in effect, the *subsidium* that helps the entrepreneur start over and is preferable to government taking charge of a failing business.

**Consumption.**

In the United States, an estimated 12.7 percent of the population or approximately 37.0 million persons were classified as poor in 2004 [Census Bureau, p. 9]. From the very start, it is necessary to differentiate (1) those poor persons who use their resources responsibly and still do not have enough to meet their needs from (2) others who use their resources irresponsibly. Because assisting the irresponsible simply enables them to continue acting irresponsibly, it is important to do whatever is possible to restrict them from getting assistance.

Just as we had seen that the principle of subsidiarity is helpful in sorting out the issue of private versus public ownership and control of production, distribution, exchange, and investment, subsidiarity is helpful in reaching a decision as to where in the social order the source of assistance for the needy should be located. Subsidiarity states that assistance should be located as close as possible to the persons and families in need. This decentralization helps limit two abuses. First, it helps reduce the abuse of persons applying for assistance who are not needy or who are irresponsible
because, by being closer, the agency likely is better informed and better able to identify abusers. Second, it helps remedy the problem of the program staffer who is abusive to applicants, demeaning and belittling them, because with the agency closer at hand the applicant finds it easier to complain to the supervisor about the abusive staffer, and to bring the problem to a successful resolution.

There are two benefits that flow from organizing assistance in a decentralized manner. First, applicants are more likely to participate in re-shaping the assistance program because they are closer to the administrative control of the program, thereby reinforcing the democratic principle that everyone should participate in the decisions that affect their lives. Second, a decentralized system allows for the development of different programs, and with the passage of time the emergence of a consensus as to the ones that work best.

In selling to the poor the firm has a special duty under the principle of subsidiarity that 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 well-to-do customers do not need such assistance, subsidiarity applies when one is selling to the poor but not to better-circumstanced customers. A firm that encourages the poor to buy things that are not needed, or that are beyond their means, or worse yet that are harmful violates both subsidiarity and contributive justice and thereby abuses not only the poor but the rest of society as well. Tobacco companies exemplify this kind of double abuse. Casinos are another. And to some extent so too are retailers who sell apparel, furniture, and consumer electronics on credit in poor neighborhoods.

The firm has a duty in subsidiarity not to force its poor customers to turn to others -- friends, relatives, public agencies -- for help in meeting need worsened by the firm’s marketing and selling tactics. That duty may be set forth and affirmed by various means at its disposal. To illustrate, it may be affirmed in the company’s mission statement, in its code of ethics, in its operating policies, in the behavior, attitudes, and personal values of the senior management, and notably in its advertising. To be effective, however, the firm must train its employees as to 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 on this obligation and must put in place the necessary procedures to enforce compliance. The overriding concern in consumption is meeting human material need.

**SUBSIDIARY, SUBSIDY, AND NEED**

Subsidy is a type of assistance to a private enterprise granted by the government and justified according to the principle of subsidiarity only as long as it is needed by that private enterprise to function effectively. For example, when a severe hurricane causes considerable damage to a factory that produces shoes, and if that producer is not able to repair the damage with the company’s own financial resources, the government could intervene with financial assistance to help the producer restore the factory, re-employ the workforce, and resume manufacturing shoes.

If, however, a private enterprise receiving such assistance is not able to function effectively, the assistance should be discontinued and its function should be transferred to another private enterprise
if possible with some assistance if such assistance is necessary for that private enterprise to manage that function effectively. As a last resort, that function could be assigned to a public enterprise.

Subsidy becomes entitlement when the assistance is available to needy private enterprises by law and is carefully administered by the government to assure that only needy private enterprises qualify for the assistance. Subsidy results in dependency when it becomes a disincentive for a private enterprise to function effectively or function at all. Subsidy becomes abuse when a private enterprise no longer needs it to function effectively but continues to receive assistance. In the case of the shoe factory, it is an abuse of the principle of subsidiarity for the producer to continue to receive a subsidy when the factory is fully functional without it.

It is need, and need alone, that justifies the subsidy. In the absence of need the subsidy is not justified.

**SUBSIDIARY AND OUTSOURCING**

Outsourcing replaces an employee with a supplier for the purpose of cutting the cost of production in order to increase profits. When a public enterprise outsources a specific function to a private enterprise outsourcing is consistent with the principle of subsidiarity because the function and related decision-making have been moved closer to the human person who now has more opportunities to participate in the decisions that directly affect him/her.

When a private enterprise outsources a specific function to another private enterprise: (a) outsourcing is consistent with subsidiarity if there are more opportunities for the human person to participate in the decisions that directly affect that person; (b) outsourcing is not consistent with subsidiarity if there are fewer opportunities for the human person to participate in decision-making.

**SUBSIDIARY AND COOPERATING BUSINESS FIRMS**

The principle of subsidiarity limits a larger, more powerful unit of society to functions which smaller, less powerful units are unable to do at all or do as well even with help. Subsidiarity encourages a sense of community through the establishment of private organizations midway between the state and the person. There are two kinds of intermediate bodies in the economic order of special interest: supra-firm alliances and inter-firm partnerships. These bodies fulfill the general functions of the “vocational groups” that Pius XI refers to in his 1931 encyclical *Quadragesimo Anno*. In contrast to mainstream economics which perceives cooperation as invariably zero-sum collusive behavior, personalist economics sees it as having positive-sum possibilities.

An inter-firm partnership is cooperation between two or more firms in which there are no new formal organizational arrangements. A supra-firm alliance is cooperation between two or more firms by means of a distinct, formal organization which has a staff and its own decision-making role. Of the two, the supra-firm alliance is the more complex organizationally and more subject to attack as a collusive agreement and for those reasons later in this chapter attention is called to four specific examples of such alliances.
Cooperation and decentralization of decision-making occur *within* business enterprises and organizations as, for example, when workers are empowered to participate in decision-making through the establishment of quality circles and large companies are restructured to allow their subsidiaries more control over decisions. These too represent subsidiarity in action as the word “subsidiaries” implies. However, they are not addressed herein because they are already very well-known and documented and in general involve a single functional unit wherein competition is subordinate to cooperation whereas partnerships and alliances occur across functional units wherein competition has to be dampened for cooperation to come to the fore.

**Inter-firm Partnership.**

An inter-firm partnership involves a nonformalized understanding between, for example, a producer and supplier, an employer and employment agency, an entrepreneur and a banker in which their day-to-day relationship is governed by more than the profit-maximization rule. Such an understanding may arise initially from the firms’ sharing common space such as a parking lot or garage, a hallway or elevator, a loading dock or delivery agent. An understanding may arise even among competing firms which form a critical mass in one location in order to better serve each one’s best interests without exploiting the others involved. Examples abound in the United States both today and years ago: Chicago (railroads), Detroit (autos), Silicon Valley (computing), Pittsburgh (steel), Milwaukee (beer), New York (finances), Boston (medical education). Such partnerships known locally as “antique alley,” “farmers market,” “restaurant row,” or “flea market” develop even in small cities.

**Supra-firm Alliance.**

To be an authentically separate level of decision-making, the supra-firm alliance must be formalized and independent of the larger and more powerful public authority, that is outside the direct control of the state. The supra-firm alliance must be voluntary (so as not to usurp control from a member of the group that is functioning satisfactorily) and representative of the various private-individual organizations that are allied (so as to know more precisely its own domain). The supra-firm alliance should be supportive but nonintrusive in the sense that if a member encounters organization-specific dysfunction in the workplace and asks for assistance, the group should be ready and willing to provide whatever help it can in order to deal with the dysfunction in a satisfactory fashion.

At the supra-firm level, control of the workplace proceeds not through owning property but through sharing problems. Thus, the workplace at the supra-firm level may be defined as any work site(s) where dysfunction is occurring which cannot be managed satisfactorily at the intra-firm level and where the immediately affected persons voluntarily request assistance from a private group of persons all of whom are familiar with the work site(s), understand the dysfunction occurring there, and have some direct interest in the good or service produced there.

An interdependence exists at the functional level which in Catholic social thought is called “organic”: the supra-firm alliance is to the economic order what the vital organ is to the human body. Just as vital organs in the human body are specialized cells with a specific function that is essential to physical health and well-being, so too the supra-firm alliance is a specialized group (usually, in an industry sense) of private parties to provide for the well-being of the economic order. Dysfunction is
as inevitable in the economic order without such alliances as illness is in the human body with a failing or missing vital organ.

Supra-firm cooperation falls into two general classes: industry-specific and area-specific. As to the industry-specific type, the cooperating firms likely are competitors in the product market. With respect to the area-specific variety, the allies may compete in the product market and probably compete in the resource market, particularly the labor market. The following four examples reflect the great 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 immediately to government for assistance.

Advanced Book Exchange (Abebooks) 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 much wider market.

Louisiana Offshore Oil Port (LOOP) is a limited liability company that offloads and stores foreign crude oil from tankers for eventual transport by pipeline to refineries throughout the Gulf Coast and Midwest. 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 the offloading is done at a terminal located 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. To reinforce cooperation, LOOP’s board of directors is organized on the democratic principle that, irrespective of company size or ownership share, every participating company has just one vote. LOOP, in effect, is a producer cooperative.

The Business Software Alliance was established to combat piracy of software products. BSA members include among others Adobe, Apple, Borland, Microsoft, and Symantec. To help reduce the unauthorized installation of proprietary software products without a license BSA has been supporting the preparation of an annual report on the extent of piracy and dollar losses by country every year since 1992. Unrestrained piracy takes away the economic gain (profit) necessary for private enterprise to survive and thereby destroys the very means by which new and better products and services are brought to the marketplace.

WasteCap of Massachusetts is a statewide, non-profit, public/private partnership working with the business community to develop and implement cost-effective programs for reducing waste. WasteCap was founded in 1992 to demonstrate that private-sector firms working together can voluntarily and effectively accomplish that task. The board of directors includes representatives from Staples, Polaroid, Texas Instruments, Verizon, Retailers Association of Massachusetts and other firms and private organizations.
Abebooks, LOOP, and Business Software Alliance are industry-specific alliances. Waste Cap is an area-specific alliance.

Cooperation Is Not Collusion.
Ever since Smith’s *Wealth of Nations* economists have stressed that competition is the force that organizes and energizes the market economy. Any effort to dampen competition, they have argued for more than two centuries, is harmful and for that reason is looked at askance.

It follows that in mainstream economics, alliances and partnerships are regarded as collusive, as deliberate efforts on the part of producers to extract from consumers by devious means what they are not able to earn by honest means through competition. All such practices are characterized as zero-sum arrangements that are to be exposed and routed out.

We are not naive in this matter. Collusion and zero-sum practices for well over a century have plagued the U.S. market economy and have been used to victimize less powerful persons such as consumers, small businesses, and taxpayers. It is fully appropriate to break up such practices and to prosecute and punish the perpetrators.

Even so, we are not blind either. Cooperation also organizes and drives the market economy, although more so in an economic order where the social value of community is prized along with the social value of individual freedom which undergirds competition.

The alliances and partnerships that we have in mind are expressions of the organizing and energizing force of cooperation. What distinguishes these alliances and partnerships from collusive arrangements is that they yield positive-sum outcomes. Rather than being condemned, these types of alliances and partnerships should be affirmed as means which ultimately help meet human material need and satisfy human wants.

Positive-sum cooperation at both the supra-firm level and the inter-firm level is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. In the United States, inter-firm and supra-firm cooperation evoke the usual resistance that all entrepreneurs encounter. The successful entrepreneur understands at least intuitively that cooperation is not a substitute for competition and that cooperation is not possible without striking a new balance between the sociality of human beings and their individuality.
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CHAPTER EIGHT

COUNTERFEITS:
A PROBLEM IN EQUIVALENCE

Counterfeitors routinely take pains to avoid detection, and to the extent that they are successful the total losses due to counterfeiting are no more than guesstimates. In 1983, for example, annual losses in the United States according to an investigative committee of the U.S. House of Representatives were estimated at $20 billion (see O’Connell et al., p.65). The same $20 billion figure is reported by the International AntiCounterfeiting Coalition (IACC) for 1994 (see National Association Purchasing Management, p.1). The U.S. Department of Justice estimates that in 2002 losses to U.S. businesses due to counterfeiting amount to $200-250 billion a year [U.S. Department of Justice, p.1]. The OECD estimated that counterfeiting in 1998 accounted for five percent of world trade due mainly to technological advances that have made counterfeiting easier, increased global trading, and a larger market share of products such as branded clothing and software that are attractive to copy [OECD, p.4].

Citing the International Chamber of Commerce (ICC), one source very recently put the yearly global counterfeit trade at $450-500 billion or five-seven percent of worldwide trade [O’Brien, p.1]. The ICC’s own Commercial Crime Services most recently affirmed the five-seven percent range as correct but reduced the dollar volume of global counterfeit trade to approximately $400 billion [Lowe, email]. Amid this confusion that is fostered by the clandestine nature of counterfeiting, what we can say with confidence is that counterfeiting has become such a major global problem that in recent years several international organizations including the IACC (1978-79) the Counterfeiting Intelligence Bureau of the International Chamber of Commerce (1985), and the Pharmaceutical Security Institute (2001) have been established explicitly to deal with it. In 1995 the World Trade Organization implemented the most comprehensive multilateral agreement known as TRIPS (Trade-Related Aspects of Intellectual Property) that sets forth minimum standards for the protection of intellectual property rights including patents, copyrights, trademarks, and original industrial designs (see WTO 2003a, pp.1-8).

Excluded in the following is any mention of counterfeit paper currency and coins and forged documents such as fake stock ownership certificates and counterfeit bank cashier checks.

COUNTERFEIT, COPYCAT, OVERRUN, DIVERTED

Hopkins et al. supply a helpful definition of counterfeiting: “the knowing duplication of a product by a party who wishes to usurp the brand or trademark of another.” The same authors differentiate counterfeits from copycats, overruns, and diversions. A copycat is “a copy of a product in form or substance with no attempt to actually duplicate the brand name.” With a counterfeit product, deception is intended; with a copycat, no deception is involved. An overrun is a product which has been ordered into production by the brand owners, has been overproduced, and sold directly by the
manufacturer in the market, thereby violating the brand owner’s rights. With an overrun, the
deception is that the seller is not the rightful owner of the trademark or brand name. Diverted
products are ones which have been shipped into specific distribution channels and subsequently
transferred into other distribution channels, thereby violating a contractual agreement [Hopkins, p.9].

It is the author’s intention to use the first definition and it is his presumption that when others who
are cited herein use “counterfeit” they mean approximately the same thing.

**COUNTERFEIT PRODUCTS: INJUSTICE AND RISKS**

Counterfeiting violates the requirements set forth in the principle of equivalence. Both parties to any
marketplace exchange have two duties to one another under this principle: to exchange things of
equal value and to impose equal burdens on one another. The equal-burdens requirement means that
both parties agree knowingly and willingly that the money paid (buyer’s burden) and product given
up (seller’s burden) are equal. The equal-value requirement means that both parties knowingly and
willingly have reached agreement on the price which under normal circumstances means the price
which other buyers and sellers would have agreed to under similar circumstances. Put more simply,
the agreed price approximates the market price.

In a routine marketplace exchange, both parties must realize a gain in order for the exchange to take
place. The gain for the buyer is that the product obtained is valued more than the money paid. For the
seller, the money received is valued more than the product surrendered. There is nothing unjust about
these gains. In an exchange involving a counterfeit product, however, the buyer is unaware that the
product is not genuine and through this deception overvalues the product, and is denied the gain
which is rightfully his/hers. The seller in other words uses deception to enhance the gain which
he/she is able to extract from the exchange, changing a transaction from a positive-sum exchange to
a zero-sum exchange. This deception in turn imposes an injustice on the silent party to this exchange
in that the dishonest seller’s gain based on the use of a trademark or brand name without the rightful
owner’s permission deprives that rightful owner of the gain that would have been gotten had the
buyer bought the genuine product from the rightful owner instead of a counterfeit product from the
dishonest seller.

Quite apart from the issues surrounding the principle of equivalence, other problems at times much
more serious may follow from the use of a counterfeit product. For example, counterfeit bolts used in
a construction project may shear off, collapsing a wall or roof because they cannot bear the load of
the more expensive genuine bolts for which they have been substituted. Counterfeit pharmaceuticals
which contain none of the active ingredients of the genuine products may delay recovery from an
illness, disease, or injury for which they have been prescribed or in the extreme may even contribute
directly to the user’s death. In the case of an infectious disease, fake drugs may contribute to the
spread of the disease.

**COUNTERFEIT PARTS AND EQUIPMENT, ACCESSORIES, WEBSITES**

This section addresses counterfeiting in four areas -- parts and equipment, accessories, websites, and
cigarettes -- that were selected to be indicative of the length and breath of the counterfeiting practice.
Counterfeit drugs are addressed separately in the next section.
Counterfeit spare parts are a growing business especially for equipment which requires costly maintenance such as commercial and military aircraft [DeVale, p.1]. Bell Helicopter warns the public that an aircraft rebuilt or remanufactured around the recovered identification data plate is not an authentic Bell product. To help buyers identify what is counterfeit and what is authentic, Bell maintains and publishes a listing of destroyed aircraft and their serial numbers [Bell, p.1]. The U.S. Justice Department in 2002 indicted the operators of United Aircraft and Electronics for selling used flight-critical parts such as turbine blades for jet engines that were misrepresented as new [Gordon, p.1].

Counterfeiting is a problem as well for automobile manufacturers. DaimlerChrysler maintains an email address for taking information on suspected counterfeit parts [DaimlerChrysler, p.2]. Counterfeit spare parts for cars made by Russian producer AvtoVAZ in 2003 were reported to constitute 30-40 percent of total in-country sales [Esmerk, p.1]. Belts, spark plugs, windshield-wiper blades, filters, gaskets, brake linings, voltage regulators, replacement engines for cars and trucks, and collectible cars are specific examples of counterfeiting in the automotive business (see “fakes” at Autocluster.com). Estimated losses in the 1990s due to counterfeit auto parts range from more than $1 billion per year in the United States to more than $12 billion on a global basis [Autocluster.com, IACC 2003a, p.3]. No doubt they are even higher today.

Counterfeit websites mimic the appearances of authentic websites, passing off information that is to varying degrees questionable or misleading. Fake websites are constructed on the foundation of the illusion of legitimacy. Examples include websites for Martin Luther King, the Makah American Indian Tribe, WTO, and a special website (The Ed Report) which mimics U.S. government reports Piper, pp.1-6; WTO 2001, p.1].

COUNTERFEIT CIGARETTES

Nearly seven million metric tons of tobacco, valued at approximately $20 billion, are grown annually around the world. More than five trillion cigarettes are manufactured every year, principally in Brazil, China, India, Turkey, and the United States. Hundreds of chemicals are used in the production of cigarettes to make the smoke easier to inhale and to reduce the amount of tobacco in each cigarette. Today manufacturers are using more reconstituted tobacco because it is easier to add chemicals and to include leaf stems and dust that in the past had been discarded. On a global basis,
tobacco kills almost five million persons every year. If consumption continues to increase the annual death toll is estimated to reach 8.4 million by 2020, with more than 70 percent of those deaths in developing countries [WHO 2003, pp.102, WHO 2002, p.1].

In addition to counterfeit cigarettes there are two other types of contraband cigarettes: unaccounted exports and bootlegged cigarettes. There are no official data on the volume of contraband cigarettes worldwide and therefore the only figures available are at best estimates. Unaccounted exports are exports which are not recorded as imports and are presumed to be smuggled. In 2001 unaccounted exports represent perhaps as much as three percent of world cigarette production [JTI, pp.1-2].

Bootlegging increasingly is directed by terrorist organizations and organized crime elements and is difficult to control [JTI, p.1; U.S. Senate, p.1]. It occurs when large quantities of cigarettes are purchased in a low-tax jurisdiction and shipped to a high-tax jurisdiction for resale, allowing the bootlegger to appropriate the difference. In California in 2002, the state tax on a pack of cigarettes was $.87; in the neighboring state of Nevada, the tax was $.35 [State Board, p.7]. On a million packs, the incentive for a bootlegger is $520,000. Counterfeit cigarettes are manufactured in several different countries including Indonesia, Vietnam, Russia, Philippines, and United Arab Emirates. China is considered the primary source of counterfeit cigarettes [JTI, p.1-2; BBC 2002, p.2]. Counterfeiting also involves counterfeit cigarette tax stamps.

In London, counterfeit cigarettes are known to contain more tar, nicotine, and carbon monoxide than standard cigarettes and are being bought by 10-to-14-year olds because they are cheaper [BBC 2002, pp.1-2]. Thus the high taxes that have been imposed on retail cigarettes in order to discourage cigarette smoking have opened the doors to bootleggers and counterfeiters. And even though no reliable information on the extent of global counterfeiting is available, it is clear from the number of customs seizures in different countries and the volume of seized counterfeit cigarettes that this is a growing and lucrative international trade. The IACC has connected terrorist organizations with other counterfeit items including jewelry, accessories, household products, and apparel [IACC 2003b, p.14].

COUNTERFEIT DRUGS

Worldwide pharmaceutical sales amounted to $492 billion in 2003, with sales in North America accounting for roughly one-half of the total. The three leading therapy classes were cholesterol and triglyceride reducers, anti-ulcerants, and anti-depressants, each with worldwide sales of approximately $20 billion or more. Lipitor tops all other drugs with global sales of more than $10 billion in 2003 [IMSa, pp. 1-2]. Global sales of all pharmaceuticals in 2007 are projected at more than $650 billion [Business Communications, pp.1-2]. By 2008 global sales of generic drugs are expected to reach $80 billion [IMSb, p. 1]. The sheer volume of global production, along with the high prices of many prescription drugs and the ever-increasing dependence on medicines to prevent, cure, and ameliorate human pain and suffering are powerful incentives to manufacture, distribute, and sell counterfeit drugs.

A counterfeit drug may contain no active ingredients, too much or too little active ingredients, the wrong or contaminated ingredients, or may be manufactured in the wrong dosage [Food and Drug
Administration, p.4]. In 1999 the WHO stated that the extent and nature of counterfeit drugs worldwide is not fully known [WHO 1999, p.19]. More recently the Food and Drug Administration claimed that about 10 percent of the drugs in South East Asia are counterfeit. In China counterfeit drugs account for 50 percent of the product on the market. Deaths in 2001 due to the use of fake drugs in China alone have been put at 192,000 [Washington Post, p. 1]. During a meningitis outbreak in Niger in 1995, more than 50,000 persons were inoculated with fake vaccines obtained free from another country and presumed to be safe; 2,500 subsequently died [WHO2003, p. 1]. In underdeveloped countries the amount of counterfeit drugs ranges from an estimated 25 to 40 percent [BBC 2003,p.1; Food and Drug Administration, p. 4; Forzley, p.16]. The problem according to the World Health Organization is related in part to lower trade barriers worldwide [WHO2003, p. 2].

A 2004 report prepared by the General Accountability Office in which 68 drug samples were purchased via the internet stated that there were problems with 21 of the samples related to handling, FDA-approval status, and authenticity. The GAO discovered that 14 of the websites were under investigation for selling counterfeit drugs or providing drugs where no valid doctor-patient relationship exists, including nine in the United States. Six orders placed and paid by GAO never were received [GAO, p. 1].

China and India are the main sources of the active ingredients used in the manufacture of counterfeit drugs worldwide. The trade in counterfeit drugs resembles narcotics trafficking in that the product is sourced in one country, formulated into tablets or capsules in another country, packaged in a third country, and transshipped through other countries on its way to its final destination [Glover, pp. 89, 90].

Detection and Authentication.

When is a product a counterfeit drug and when is it authentic? The problem is compounded because counterfeiters are able to circumvent anti-counterfeiting measures within 18-24 months. The equipment available today to counterfeiters makes it difficult even for the authentic manufacturer to detect fake drugs [Food and Drug Administration, p.11, 17].

Economic globalization and deregulation have created greater opportunities for counterfeiters [Cohen, p.4]. According to the United States Customs Service, the overall volume of pharmaceuticals shipped by mail is “enormous” [Durant, p.45]. Roughly two million parcels containing regulated products enter the United States via international mail, most of which are released by the Customs Service to the addressee without review by the Food and Drug Administration [Dingell, p.8].

Even when a parcel is reviewed by the Food and Drug Administration, detection is made more difficult due to the mingling of fake drugs with the authentic product thereby reducing the probability that random sampling will identify any fake drugs in the shipment [Christian, p.93].

Regulatory agencies are just becoming aware of the problem of counterfeit drugs and the risk they pose to public health. The first study to compile information on the extent of this problem was published in 2003. Addressing this problem will require more regulatory oversight in which
counterfeit goods are seen as a disease mechanism (see Forzley, pp.ii, 30). However, less than one-third of developing countries have fully functioning drug regulatory agencies. Ten to 20 percent of sampled drugs fail quality control tests in many developing countries. Poor manufacturing practices often result in toxic, sometimes lethal, products [WHO, “Essential Drugs,” p.2]. The Food and Drug Administration states that it costs between $6000 and $15,000 to authenticate a box of ten drugs [Hubbard, p.66].

The task at hand can be separated into four processes: prevent counterfeit drugs from entering the distribution network; improve the detection and authentication of drugs; reduce the risk of harm from using counterfeit drugs; avoid adding unnecessarily to the cost of producing authentic pharmaceuticals [Food and Drug Administration, p.24]. But the simple fact that in late 2003 the task force assigned to assist the Food and Drug Administration had prepared an interim report indicates that there is much to be done to deal with the growing problem of counterfeit drugs.

Two Dilemmas.

There is a huge and still-growing demand around the world for prescription drugs to fight a wide variety of conditions and diseases. This demand in turn drives pharmaceutical research and development. However, only one new compound in 250 that survives pre-clinical testing is approved by the Food and Drug Administration [NIH, p. 1]. The first dilemma is that as an antiviral drug is used more widely the virus tends to mutate rendering the drug less and less effective and adding to the pressure on pharmaceutical manufacturers to develop an effective replacement. In order to retrieve the cost of developing a new prescription drug that in 2003 averaged $897 million [Tufts, p. 1] and to realize the economic gain necessary to maintain the company as a viable enterprise, it is necessary to protect new drugs with patents and to allow those drugs to be priced so that their costs are recovered and the required gain realized within the period of the patent protection. The second dilemma is that for many persons who need those drugs, their prices make them unaffordable and therefore out of reach.

Thus while we struggle to figure out how to continue the research and development effort in a way that makes the newly developed drugs effective and affordable, counterfeiters are seizing this opportunity to exploit the needy by offering cheaper alternatives that are ineffective, dangerous, or both.
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Two federal statutes are centrally important to the issue of discrimination in the workplace: the 1964 Civil Rights Act and the 1967 Age Discrimination in Employment Act (ADEA). In racial and gender discrimination lawsuits brought under the Civil Rights Act, a claim can be grounded in disparate impact or disparate treatment.¹ Disparate treatment means that the employer simply treats some people less favorably than others because of their race, color, religion [or other protected characteristics] . . . disparate impact [by contrast] involves employment practices that are facially neutral in their treatment of different groups but that in fact fall more harshly on one group than another and cannot be justified by business necessity² [Teamsters versus United States quoted in Hazen Paper, p. 609].

For many years, however, only disparate-treatment claims could be brought in age discrimination lawsuits based on the ADEA. Finally in 2005 the U.S. Supreme Court allowed the use of disparate-impact claims as well.

We … now hold that the ADEA does authorize recovery in “disparate-impact” cases comparable to Griggs.

Except for the substitution of the word “age” for the words “race, color, religion, sex, or national origin,” the language of … the ADEA is identical to that found in … the Civil Rights Act of 1964. Other provisions of the ADEA also parallel the earlier statute. Unlike Title VII, … the ADEA … contains language that significantly narrows its coverage by permitting any “otherwise prohibited” action “where the differentiation is based on reasonable factors other than age…” [Smith v. City of Jackson, Mississippi].

In January 2000, the Court in a 5-4 decision ruled that the Eleventh Amendment of the U.S. Constitution affords state agencies including state colleges and universities immunity from lawsuits filed by state employees. Thus, a state employee with an age discrimination claim may file a lawsuit only in the state court system and only under whatever state age discrimination laws may apply.

¹ In its 1971 decision in Griggs v. Duke Power Co the U.S. Supreme Count allowed for the first time disparate impact claims under Title VII of the Civil Rights Act of 1964.

² “Business necessity” is a defense that an employer may legally resort to when the financial circumstances of the firm require it to treat some workers differently than others or suffer such dire consequences as being forced out of business. For the university such dire consequences include loss of accreditation.
When it comes to pay, older employees in the university workplace are remarkably like older workers elsewhere. In other workplace settings, older workers traditionally are paid more than younger workers because the longer service of older workers entitles them to higher pay even when they are assigned to the same work. The higher pay for older workers can be justified if their greater experience makes them more productive. If they are not more productive, the employer has an incentive to terminate them and employ younger workers as replacements. Similarly, senior faculty normally are paid more than junior faculty on the presumption that the older faculty are more productive. Further, older workers and senior faculty have job protection in the form of “bumping rights” and tenure that younger workers and many junior faculty do not enjoy. Once terminated, older employees, whether they work in the university or elsewhere, face difficulty in finding new employment due to factors such as the higher cost of employer-provided health insurance, their greater reluctance to uproot themselves from the community where they live and to tear themselves away from other family members, and a culture that reveres youth and belittles old age.

They differ, however, in one important way. Older employees in the university workplace who hold faculty appointments are better paid than millions of older workers in other occupations and professions, and enjoy higher status than their older counterparts. Charges of age discrimination in the university workplace, therefore, may not be taken as seriously as similar charges made by workers in other workplace settings who are employed in lower-paid, lower-status jobs.

Our purpose in the following is to argue that with regard to age discrimination in the form of university faculty salary compression/inversion, disparate impact and disparate treatment cannot be separated. Rather, the two are inextricably intertwined. Disparate treatment is hidden inside certain employment practices in the elitist university workplace that give the appearance of being “facially neutral” but in fact are not because they rest ultimately on the view that the older longer-service faculty are inferior to younger newly-hired faculty for several reasons: the younger faculty are more energetic, more productive, have more “upside” potential, and because their doctoral studies were completed more recently have a better command of the current body of knowledge in their respective disciplines. The vastly superior teaching, research, and service records of the older faculty, most notably as compared to the experience of newly hired faculty fresh from their doctoral-degree programs, along with the practice of encouraging the senior faculty to mentor newly-hired junior faculty, are written off as inconsequential. In other words, in the university disparate impact signifies disparate treatment and reinforces it.

The data and information presented below derive mainly from depositions of selected administrative officials of Louisiana Tech University taken in a lawsuit filed against the University in September 1993 by six members of the faculty of the College of Administration and Business (including this writer). University documents turned over to the plaintiffs in this lawsuit through the discovery process were a second critical source. Were it not for this lawsuit, some important informational items would not have been available for use herein. Relying on data drawn from one institution

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1 Salary compression is the hiring of lower-ranked faculty at salaries that are below the salaries of higher-ranked faculty but have the effect of compressing the difference between their salaries. Salary inversion is the hiring of lower-ranked faculty at salaries that are above the salaries of higher-ranked faculty and have the effect of inverting the common practice of paying higher salaries to the higher-ranked faculty.
raises the issue of the generalizability of the results. We are of the opinion that salary compression/inversion at Louisiana Tech University is especially severe and that the University approaches a limiting case. That is, age discrimination in other university workplaces likely is less severe than at Louisiana Tech and therefore the precise extent and scope of such discrimination elsewhere, as suggested in the Louisiana Tech evidence, likely is less pronounced than at Louisiana Tech.

The U.S. Supreme Court’s ruling in *J. Daniel Kimel, Jr. et al v. Florida Board of Regents et al* effectively denied the six plaintiffs in this lawsuit any remedy under ADEA. Writing for the majority, Justice Sandra Day O’Connor asserted the following:

States may discriminate on the basis of age without offending the Fourteenth Amendment if the age classification in question is rationally related to a legitimate state interest. ... Finally, because an age classification is presumptively rational, the individual challenging its constitutionally bears the burden of proving that the “facts on which the classification is apparently based could not reasonably be conceived to be true by the governmental decisionmaker.” ... These decisions [in earlier cases] thus demonstrate that the constitutionality of state classifications on the basis of age cannot be determined on a person-by-person basis. Our Constitution permits States to draw lines on the basis of age when they have a rational basis for doing so at a class-based level, even if it “is probably not true” that those reasons are valid in a majority of cases (emphasis added).

Further, there is no remedy available under the Civil Rights Act of 1964 because all six plaintiffs are white males. Finally, in January 2000 the Louisiana Supreme Court denied the plaintiffs petition for a writ of certiorari that exhausted their remedies by affirming the state trial court’s ruling favorable to the defendants’ motion of summary judgment in 1998 to dismiss the lawsuit on grounds that the plaintiffs failed to show discriminatory intent or disparate treatment on the part of Louisiana Tech University.

Nevertheless, information from this lawsuit is relevant to a wide range of employer practices that treat workers 40 years of age or older less favorably than younger workers. Indeed, it is germane to age discrimination practices involving a federal employee in a federal-agency workplace or a private employee in a private-sector workplace where relief is sought under the ADEA. Additionally, it is pertinent to such practices involving a person working in a private-sector workplace who seeks relief under the applicable state laws banning age discrimination.

**DISCRIMINATION: A VIOLATION OF THE PRINCIPLE OF DISTRIBUTIVE JUSTICE**

The principle of distributive justice requires that the person with the greater supervisory responsibilities in a group distribute the benefits and burdens of that group among its members in some equal or proportional fashion (see Dempsey, pp. 164-167, 204-227, 315-317 for more on justice in wages). It follows that discrimination is unlawful most fundamentally because, whenever one person or several are treated less favorably than others for reasons that are essentially arbitrary, the principle of distributive justice is breached. Examples abound: sexual harassment, bribes and kickbacks, nepotism, redlining, cronyism, racism, anti-Semitism, nativism. In other words, the law
prohibiting discrimination follows the principle of distributive justice.

In the case of age discrimination in employment, the employer is the superior and the employees are the subordinates. The principle of distributive justice operates strictly in a unilateral mode: the employer is the party who is duty-bound to faithfully apply the principle of distributive justice. In matters of salary administration, employers are not free to pay their employees whatever they please. For employees doing the same work at the same level of performance, the employer is obliged to provide “equal pay for equal work.” Shift differentials, holiday pay, and overtime rates do not breach distributive justice because they are based on differences that are not arbitrary. However, lower compensation for persons in a protected class than for others doing the same work at the same performance level who are not in a protected class, ceteris paribus, is a violation of principle of distributive justice and is unlawful.

There is more to justice in salary administration than distributive justice and it will serve us well to review the full range of duties under justice in such matters before proceeding any further. Specifically, there are two other principles of justice -- equivalence and contributive justice -- that bear on the issue of justice in salary administration. The principle of equivalence demands that both employer and employee (1) exchange things of equal value and (2) impose equal burdens on one another. Once they have agreed on the work to be done and the compensation to be paid which relates to their first obligation to each other under the principle of equivalence, the burden that the employee accepts is the duty to actually perform the agreed work and the burden that the employer accedes to is the obligation to pay for the work done in a timely manner. Thus, the first demand is reinforced by the common workplace expressions “a full day’s work for a full day’s pay” (the employee’s duty) and “full day’s pay for a full day’s work” (the employer’s duty). Time clocks are one way to help both parties confirm that a full day’s work has been done.

These two expressions under the principle of equivalence are similar to the “equal pay for equal work” required under the principle of distributive justice. They are, however, quite distinct and that distinction originates in human nature. Human beings are at once individual beings and social beings. Proof of human individuality is found, for example, in fingerprints. Proof of human sociality is reflected in human sexuality, for instance, and the human faculty of speech. The principle of equivalence defines justice in terms of the mutual obligations of the employer and the employee in their one-on-one relationship. The principle of distributive justice, on the other hand, defines justice in terms of the one person -- the employer/supervisor -- in the group or company who due to his/her role as the superior has greater responsibilities than all the others.

The principle of contributive justice defines the duties of each member of the group to all others who belong to the group. As with distributive justice, this principle also originates in human sociality. Contributive justice requires that, insofar as a member receives benefits from the group, he/she has a duty to maintain and support the group. In a union workplace, for example, everyone who benefits from collective bargaining has an obligation to pay dues to the union. There are numerous examples of ways in which contributive justice are violated in the workplace, including spreading false or misleading information, provoking trouble, “bad mouthing” others in the workplace, not to mention industrial spying and sabotage. “Doing my fair share” and “pulling my load” are common workplace
expressions underscoring the importance of contributive justice to workplace harmony and productivity.

**METAPHORS OF DISCRIMINATION**

Shulman asserts that two metaphors are used in economics to shed light on and give meaning to racial discrimination. The institutionalist Gunnar Myrdal stated that discrimination is a *vicious-circle*. The neo-classical Gary Becker characterized discrimination by means of a different metaphor: discrimination is a *commodity*. Myrdal saw discrimination in the United States as a moral crisis involving a clash between the fundamental equality of all human beings on the one hand and the deeply-rooted different treatment of whites and blacks on the other hand. Discrimination is a vicious circle because it has an important bearing on economic development and living conditions for black Americans that in turn help reinforce white supremist convictions, leading to a continuation of discrimination. According to Shulman, this metaphor -- which Darity and Mason [p. 65] in effect affirmed several years later -- improves our understanding of the cost of discontinuing discrimination.

Becker represented discrimination in terms of a commodity with its own price that whites are willing to pay to segregate themselves from blacks. In the workplace, the degree of discrimination can be measured in terms of wage differentials. In theory, market forces would reduce the extent of discrimination because of the higher costs and consequent lower profits for the employer who discriminates. To Becker discrimination is an economic anachronism. Importantly, Becker applied the metaphor that discrimination is a commodity to other forms such as in the case of Jews and women. This metaphor contributes to our understanding of the cost of continuing discrimination. Thus, in the case of workplace discrimination the employer balances the cost of continuing the discrimination and the cost of discontinuing it. Given the tight linkage between Becker’s model of discrimination and neo-classical economics, it is not surprising that his model is much more popular among economists today than Myrdal’s [Shulman 1992, pp. 432-452].

These two metaphors conform to the two bases for a plaintiff’s claim of discrimination recognized in U.S. law today: disparate treatment (Myrdal’s *vicious circle*) and disparate impact (Becker’s *commodity*). In race and gender discrimination cases, a plaintiff may argue that discrimination takes either form, disparate treatment or disparate impact. With the U.S. Supreme Court 2005 ruling in *Smith vs. City of Jackson* age discrimination can be alleged in terms of either disparate treatment or within limits disparate impact. Thus race and gender discrimination and for the most part age discrimination are constitutionally alike and in effect embrace both Myrdal’s model and Becker’s.

Just as Myrdal saw racial discrimination in the United States as a moral crisis involving a clash between the equality of all human persons and the unequal treatment of black Americans in which discrimination is a vicious circle, older longer-service faculty members are treated by public universities in a discriminatory, vicious-circle manner. Continuing age discrimination frees resources that can be utilized elsewhere by the university, such as on new doctoral-degree programs. Discontinuing age discrimination is costly for a university because it means raising the salaries of the older longer-service faculty members to levels comparable to the salaries of the younger more recently hired faculty. To deal with the limits on spending imposed by the state through the
budgeting process, university officials effectively reject the equal-pay-for-equal-work requirement for their older longer-service faculty and hope that they are so deeply rooted to the community in which the university operates that they will not leave for better-paying positions elsewhere. The fact that many stay rather than leave silently affirms the university officials and endorses their methods. Finally, constraints on operating expenditures that are used to justify the practice of paying longer-service faculty substantially less than newly-hired faculty lead inevitably to deteriorated faculty morale just as overly stringent limits on capital spending lead to “deferred maintenance” that over time results in deteriorated facilities.

**DISCRIMINATORY EMPLOYMENT PRACTICES**

In 1990 the Board of Regents, the policymaking body for higher education in Louisiana, issued a set of eight revised guidelines for faculty salary adjustments including one that stated “A concerted effort must be made to address the problem of salary compression” [Roubique, pp. 1-2]. The following year, the various university presidents were assured that “The decision on how to distribute these raise funds to eligible employees is left to each institution and its management board ...” [Cosper, p. 1]. Thus, Louisiana Tech University (hereafter, “the University”) along with other public universities in Louisiana had been instructed to deal with salary compression but were left free to address that problem as they and their trustees saw fit.

Based on a study of faculty salaries completed in 1993 by a three-person panel of external experts, the dean of the College of Administration and Business (hereafter, “the College”) shortly thereafter transmitted a memorandum to the president of the University in which he confirmed the existence of a “two-tier salary system” resulting in salary compression/inversion and stated “It would be desirable to end the two-tier system before doing this [CAB mission-driven] review” [Owens 1993, p. 1]. The dean’s recommendations to raise the salaries of older longer-service faculty were rejected by the president of the University’s management board on grounds of “current budget restrictions” (see Reneau 1993, p. 1).

In an effort to project an image of reasonableness in such matters, university officials tell older longer-service faculty in various ways that if they are unhappy they are free to leave. Even when they do leave, or when they retire, it becomes necessary to replace them with higher-paid younger faculty but, instead of ending this discriminatory practice, the university continues it for the same reason: it provides some help in coping with the spending limits imposed by the budget, especially if those same officials are eager to launch costly new academic or athletic programs or to re-accredit established programs. In Louisiana, because the public university does not directly bear the cost of its

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1 A 1997 study stated that with length of service for faculty at Louisiana Tech University averaging 14.3 years there is relatively little faculty turnover (Glandon and others, p. 14).

2 In his sworn statement the dean of the College of Administration and Business in 1995 asserted that for any faculty member with an offer from another university that he could not match he would be “more than happy to congratulate you on your good fortune and I’ll actually come over and help you pack if you’d like. I’ve got some extra boxes” [Emery 1995a, p. 51].

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own legal defense when it is sued, the cost of continuing discrimination is further reduced.

When older longer-service faculty remain at the university, at times due to a retirement program that imposes severe penalties for leaving or tenure that is surrendered on departing, the university has an even greater incentive to continue the discrimination because its expenditures are lower than they otherwise would have been if the older longer-service faculty had left or retired. The market does not provide the necessary correction, as Becker argued, because a public university is not a profit-making or profit-maximizing organization.

As this practice of paying differential salaries continues in the short-run, the newly-hired younger faculty and university officials are reinforced in their poor opinion of older longer-service faculty by the very fact that their lower salaries are consistent with their perceived weaker performance in terms of teaching, research, and service. This lower opinion of older longer-service faculty reduces their chances for salary adjustments that would affirm equal pay for equal work and would link their pay to performance, rather than to administrative dicta, thereby breaking the vicious circle. In this regard, notice how this lower opinion is reinforced by the dean of the College in his memoranda to the vice-president of academic affairs on the subject of filling administrative and faculty positions.

In general, the intellectual capital of the faculty will benefit more by recruiting new faculty members who are in the formative stages of their careers. As these people strive to earn tenure and promotion, they are likely to be more productive than the more senior people that can meet the requirements for these administrative positions [Emery 1994, pp. 1-2].

Being forced to hire more established faculty again to maintain accreditation has several limitations. Besides the higher salaries, we are often forced into quicker tenure decisions, usually find faculty members with adequate scholarship but limited upside potential, and people who having moved once tend to move again leading to greater instability in the faculty [Emery 1995d, p. 3; emphasis added].

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1 These costs are absorbed by the State of Louisiana, Office of Risk Management.

2 In his classic 1954 article “The Balkanization of Labor Markets” Clark Kerr observed that “job rights protect but they also confine. Reduction of insecurity also brings reduction of independence” [Kerr, p. 32].

3 The Glandon study published in 1997 indicated that, taking into account other factors contributing to salary differentials, associate professors with five years of service in the business school and assistant professors with no years of service were paid more than full professors with 20 years of service [Glandon and others, pp. 16-20]. Another 1997 study estimated that at 16 state universities in Louisiana with each additional year of service, ceteris paribus, faculty salary decreases by $50 [Melancon, p. 134]. A 1993 publication using national data from the 1970s and 1980s reported that even after controlling for publication record, education, and experience, salaries decline by as much as 0.5 percent per year of seniority [Ransom, p. 232].

4 Ransom’s analysis of evidence from several sources led him to conclude that as to their longer-service faculty universities as employers practice “monopsonistic discrimination” [Ranson, p. 221].
Notice as well that in his memorandum to the president of the University in September 1995 the business school dean further reinforces the lower opinion of older longer-service faculty by refusing to address salary differentials that originated in the past.

The adjustments recommended here are based on merit considerations and do not attempt to address any perceived inequities that may have developed in the past [Emery 1995b, p.1].

In addition, this dean in 1995 recommended eight faculty members for appointment as the first holders of eight endowed professorships in the College. None of the eight, at that time, had more than eight years service when they were recommended. Subsequently, all eight were appointed to those elitist positions (see Emery 1995c, pp. 1-2). Beginning in 1997, everyone on the faculty was assigned to one of three categories corresponding to the three types of degrees awarded by the business school: doctoral, masters, and bachelors. Several of the older longer-service faculty were found lacking in the requirements for doctoral-faculty standing, even though literally every one of them had taught at the graduate level, directed doctoral dissertations, or both.

The effect if not the actual intent of this new system was to make some faculty less equal than others and to thereby take away their sense of belonging. Baron’s review of the social psychological literature reveals how categorization and differentiation are used by high-status persons to segregate themselves from low-status persons for the purpose of preserving their higher standing. This bias in favor of high-status persons, Baron states, is a major factor in pay discrimination [Baron, pp. 118, 121]. The history of racial discrimination in the United States points indisputably to the role of segregation in supporting discrimination.

As the practice of paying the newly-hired younger faculty higher salaries than the older longer-service faculty continues in the long-run and the younger faculty grow older, their salaries fall below the newest hires, their sense of belonging is taken away, and the vicious circle is perpetuated with no end in sight. Indeed, university officials do not hesitate to point out that when older longer-service faculty were hired they too enjoyed the benefits of salaries that were higher than the salaries of their older colleagues on the faculty at that time. Consider the following sworn statement in July 1994 by the dean of the College.

Each of these individuals was at one time a new hire and benefited from that marketplace out there ... when they came here, and therefore, it is unfortunately a way of life in a great many business schools because the way the market has moved on supply and demand of faculty that we do hire [Owens 1994, p. 111; emphasis added].

And consider this sworn statement in 1995 by the next dean of the business school.

I’ve never looked at a budget for a university that did not have that effect [salary compression] in it. In five decades of experience around university faculties I have always seen that. That’s just the nature of the beast as it’s been in the postwar era ... It would have been surprising to have found something different [than salary compression] given the way the academic marketplace has functioned [Emery 1995a, pp. 14-15; emphasis added].
In 1995 the academic vice-president admitted to the problem of salary compression at the University and added that it is a problem throughout Louisiana and across the United States (see Rea, pp. 6-7). That same year, the University president agreed that there has been a discrepancy between the salaries paid to newly-hired faculty and longer-service faculty for “most of my career, not only in academia, but in business as well” [Reneau 1995, p. 79]. Just as a sex-based division of labor once established simply is taken for granted [Bielby, pp. 105-106], so too organizational inertia sustains the discrepancy in faculty salaries unless some deliberate steps are taken to intervene and end the practice. In his dissenting opinion in *EEOC versus Francis W. Parker School* Judge Cudahy asserted that

... not all discrimination is apparent and overt. It is sometimes subtle and hidden. It is at times hidden even from the decision maker herself, reflecting perhaps subconscious predilections and stereotypes [EEOC, p 1080].

To summarize, age discrimination in the form of paying higher salaries to younger recently-hired faculty is a vicious circle because once its cost-saving advantages are recognized it becomes acceptable; and once it is acceptable it becomes standard business practice; and once it becomes standard business practice it need not be re-examined; and once it no longer is re-examined it persists indefinitely as long as the cost of discontinuing the discriminatory practice is greater than the cost of continuing it.

**PAY, PERFORMANCE, AND ABILITY TO PAY**

*Pay.*

In order to initiate a claim of age discrimination, it is necessary to present evidence that shows that older longer-service faculty are paid less than younger recently-hired faculty. In the following, our focus is strictly on the faculty in the College with earned doctoral degrees. The youngest of the six plaintiffs in *O’Boyle et al versus Louisiana Tech University et al* was 51 years old when the lawsuit was filed in October 1993. All six are white males, and each one had at least 15 years service at the University at the time of the filing of the lawsuit. Every one of the eleven newly-hired persons below age 40 at the time this lawsuit was filed is included the comparison group. Ten are white males; one is a white female. The oldest among the eleven was 37 years old at the time of hire. At the time of hiring, none of the eleven had more than eight years professional experience since the awarding of his/her doctorate; four of the eleven were hired in the same year their doctorate was awarded. Thus, at the time of filing everyone of the six older faculty had more than twice as many years of professional experience since their doctoral degrees had been awarded than the most experienced person in the comparison group. None of the eleven in the comparison group and none of the six plaintiffs had earned the doctoral degree from the University. Literally every University administrator in the line of authority between the president and the plaintiffs -- including at different times two presidents, two vice-presidents for academic affairs, two deans of the College, and several department heads -- is a white male.

In spite of salary increases during the ten-year review period ending in 1997-98, the differences between the six older faculty and the comparison group, controlling for rank and discipline, have

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fluctuated between a low of $18,675 in 1994-95 and a high of $22,900 in 1990-91. Looking at the first and last years of the review period, salary increases notwithstanding, there has been no closing of the nearly $20,000 gap between the salaries of the six older faculty and the comparison group. It is well worth noting that for both the older faculty and the comparison group the trend over the period was generally downward in the sense that as both groups became older (1) the salaries of the six plaintiffs fell even further below the average at business schools as reported by the American Assembly of Collegiate Schools of Business (AACSB) and (2) the salaries of the comparison group drew closer to the AACSB average. That is, as those in the comparison group grew older, they too began to experience what their older colleagues had endured for years: the vicious circle of relative salary erosion with the passing years.

**Performance.**
Detailed information on performance is not available because performance evaluation reports are held in confidential personnel files. Even so, the data just presented reflect in a small way an accounting for performance differences in that the actual salaries of the six older faculty and everyone in the comparison group were compared to the AACSB figure in *each one’s own rank and discipline*. And, if the faculty in the comparison group indeed had been more productive than the six older faculty, one would have expected the salary gap to have increased over the ten-year review period rather than remain steady at roughly $20,000. Thus, it seems, the greater relative productivity of the younger faculty expected by University administrators was not forthcoming or was not rewarded. Either interpretation is consistent with the vicious circle metaphor of age discrimination in the university workplace.

Over the entire ten-year review period, the only independent study of faculty performance in the College was conducted in 1993 by outside experts hand-picked by University officials. Those experts reported in writing that the performance of the older longer-service faculty was “acceptable,” that several among the older faculty had accumulated “an outstanding record”,¹ and that the salary inequities at the College were “somewhat greater” than at comparable institutions [Sandmeyer and others, pp. 6-7]. Most important in this regard was their suggestion that

... the most appropriate way to address the macro salary deficit is to adjust the individual salaries of continuing faculty as opposed to hiring new faculty at high salaries [Sandmeyer and others, p. 6].

Clearly, their report does not support the claim that the lower salaries paid to the older longer-service faculty reflect their less substantial productivity as compared to the younger newly-hired faculty. Three months after that report had been filed, the dean of the College used its findings to recommend annual salary adjustments for five of the six older faculty of 16 to 24 percent [Owens 1993, Attachment A]. As stated previously, his recommendations were rejected by the president of the

¹ Using 18 universities as “peer” institutions and drawing on information about the faculty in the College, the three-expert panel placed everyone on the faculty in one of five performance percentile classes. Of the 22 older faculty thus ranked by performance, seven were placed in the median class, and none were ranked higher. It follows that these seven are the ones the experts alluded to as having “outstanding” performance records. And because three of the six plaintiffs were placed in the median class, it also follows that all three of those plaintiffs had “outstanding” performance records.
University management board for reasons of “current budget restrictions.”

Prior to the 1988 start of the review period, AACSB consultant Richard Wines stated that significant salary adjustments were required for the incumbent faculty in the College because current salaries raised serious concerns about compliance with AACSB requirements. Wines also discussed salary compression with College officials pointing specifically to one of the six who five years later initiated the age discrimination lawsuit against the University and who, he said, should be earning at least $16,000 more than his salary of $39,000 at that time [Wines, pp. 2-3].

Three years earlier in 1985, an accreditation report prepared for the College by the Ronald Patten, dean of the business school at the University of Connecticut, also urged higher salaries for the incumbent faculty that, given the timing of the report and the onset in 1986 of paying significantly higher salaries for younger recently-hired faculty, would have prevented the two-tier salary system from developing.

Additional funds are needed to provide appropriate salaries with which to induce new faculty members to come to Louisiana Tech and also to raise existing faculty members’ salaries to a level that is sufficient to retain them at the University [Patten, p. 2; emphasis added].

In his conclusion to an otherwise brief report, Patten observed that:

Stringent financial conditions are rapidly eroding the faculty’s spirit, however [Patten, p. 4].

In 1979, an accreditation report prepared for the College by four external specialists asserted that salaries “are below the market for business faculty” and that efforts “should be made to identify ways and means to obtain funds to raise faculty salaries to reasonable market levels” [Solomon, pp. 7-8].

In 1977, the dean of the College in a memo to the University vice-president for academic affairs complained about an “imbalance between existing salaries and new faculty salaries” indicating the unfairness of paying newly-hired faculty more than existing with “equal -- and many times better -- credentials and years of experience” [Owens 1977, p. 2; emphasis added]. Thus, what was seen by the dean as fundamentally unfair in 1977, what he urged bringing to an end in 1993, he identified as standard business practice at business schools across the United States in 1994.

These four independent reports prepared over a period of 14 years emphasize one central fact: for many years the incumbent faculty have been significantly underpaid and their salaries should be raised to the market level. Further, the dean of the College in 1977 and again in 1993 petitioned the senior officials of the University to approve substantial raises for the longer-service faculty. Even as early as 1977 the dean of the College identified “better morale” as one of the “spin-off benefits” of raising the salaries of the existing faculty. Thus, senior University officials knew of the problem of the salaries of older longer-service faculty lagging behind the salaries of the younger recently-hired faculty at least sixteen years before the age discrimination lawsuit was filed, but did little or nothing to adhere to the principle of “equal pay for equal work.” Indeed, the problem worsened starting in 1986 when the College felt compelled by AACSB and the Louisiana Board of Regents to hire more
research-oriented faculty in support of its graduate-degree programs, and began paying newly-hired faculty salaries above the market rate.

*Ability to Pay.*

Despite their arguments to the contrary, University officials had considerable discretionary funds to address the problem of salary disparities. Specifically, in each of the nine years ending in 1997-98, there were discretionary funds available ranging from a low of $71,000 in 1993-94 to a high of $572,119 in 1990-91. In every year except one -- 1993-94 -- there were sufficient discretionary funds to close the salary gap between the six plaintiffs and the comparison group. These funds instead were used principally to further raise the salaries of newly hired faculty and administrators.

A 1974 report on the College completed by an outside expert pointed to the heart of the problem:

In my judgment the responsibilities of the [College] to new programs in the past ten years have been far greater than the resources made available to implement effectively these program [Mason, p. 4].

Thus, University prefers to blame the state legislature for not providing the funds required rather than admitting that it has sought approval for and launched new programs for which adequate funding is not assured. To illustrate, over the 1988-89 to 1997-98 period covered in the review of the salaries of the six plaintiffs in the lawsuit and the comparison group, the University initiated four new doctoral degree programs (in engineering, education, psychology, and math) in order to enhance its status as a research institution, built and opened a micromanufacturing institute, constructed or renovated several other campus facilities, and moved its football program from Division 1AA status to Division 1A status, all the while protesting that it did not have adequate funding for incumbent faculty salaries.

**THE MONOPSONY POWER OF THE UNIVERSITY**

Universities operate in two labor markets: an external market where new faculty are hired in a competitive interaction that determines faculty salaries and an internal market where the universities’ monopsony power assures that the salaries of the faculty already in place are determined by the university [Boal and Ransom, p. 107].¹ In other words, the two-tier salary system in place in the College is indicative of the monopsony power enjoyed by the University. This kind of power that allows the university to pay salaries that are higher for younger newly-hired faculty and that in the College is confirmed by the two-tier salary system is a two-edge sword. It can be used to break this vicious circle or perpetuate it. Consider Clark Kerr on this matter, speaking more generally than the university workplace.

The individuals and groups which control these ports of entry [into jobs] greatly affect the distribution of opportunities in economic society. The rules that they follow determine how equitably opportunity is spread and the characteristics for which men are rewarded and for which they are

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¹ There is at least one major exception to the monopsony power of the university. In some states such as Minnesota faculty salaries are negotiated by means of a collective bargaining process. In Louisiana, however, faculty salaries are not established by collective bargaining.
penalized [Kerr, p. 31].

In 1996 the president of the University insisted that by raising faculty salaries to the average of comparable universities in the southern region (SREB) over the three-period 1994-1996 the goal of doing away with the two-tier system in the College had been met [Reneau 1996, pp. 15-16].

. . . if you look at the range of salaries per department, per rank, . . . there is not a significant compression or inversion. That’s not respect to an individual [Reneau 1996, p. 27].

Five years earlier, the University president and vice-president for academic affairs directly instructed the dean of the College to interpret the regents’ guideline on achieving the goal of the SREB average as follows:

Item 4 in the guidelines means that we should increase faculty salaries toward the SREB average by overall rank and not by individual or by discipline. The Regents will judge us in two ways (1) Did we use the total monies allocated for eligible faculty, and (2) Did we increase the SREB averages. Of course, the SREB averages will automatically increase with pay raises, unless several new faculty have been hired at a salary less than in last year’s university salary average [Reneau and Rea, p.2; emphasis added]

This distinction between measuring each rank within the College against the SREB average for that rank produces vastly different results than would be achieved by measuring each faculty member against the appropriate SREB average by rank and discipline. To illustrate, the official newsletter of the University chapter of the American Association of University Professors (AAUP) reported that, according to the 1994-95 operating budget, 77 percent of the faculty were below the SREB average [AAUP 1995, p. 3]. The operating budget for the following year indicated that, in spite of substantial salary increases, 69 percent of the faculty were below that average [AAUP 1996, p. 2]. Thus, the compression/inversion that is so obvious to those who disaggregate the data in order to focus on the salaries paid to each member of the faculty is made to disappear in the mind of the University president by aggregating and averaging the same data by department. Shulman’s comments regarding racial discrimination appear to apply here as well.

Changing the appearance of discrimination may be sufficient to mitigate the pressures to cease discrimination without incurring the costs of actually changing the discrimination itself [Shulman 1991, p. 29].

The more recent hiring of several older faculty at higher salaries that university officials point to as proof of their nondiscriminatory behavior (see Owens 1994, pp. 25-26) does not break the vicious circle because as the younger faculty grow older their salaries inevitably lag behind the salaries of the younger new hires. Further, in McCorstin versus United States Steel, a U.S. circuit court stated that age discrimination can occur even within the protected age group. For example, at times hiring some persons over age 40 has been used to disguise discrimination against other persons in the protected class [McCrosin, p. 754]. The court added the following:
Discrimination, unfortunately, exists in forms as myriad as the creative perverseness of human beings can provide [McCorstin, pp. 753-754].

For older longer-service faculty, there may be no epitaph as demeaning as “nigger,” “bitch,” “kike,” “wetback,” “squaw,” “chink,” or “gook” so typical of other instances of disparate treatment, but the vicious circle of older longer-service faculty being paid less in order to ease the burden of operating within the limits of the university budget and their lower salaries being taken as evidence of their unsatisfactory performance resulting in a perpetuation of the practice indefinitely, is all that is necessary to prove disparate treatment.

This vicious circle continued at the University even after the 1993 study of faculty salaries by outside experts hand-picked by university officials established that the performance of the older longer-service faculty was not unsatisfactory. The remedy for breaking this vicious circle recommended by the experts, as noted previously, was to raise the salaries of the longer-service faculty instead of hiring new faculty at high salaries [Sandmeyer and others, p. 6]. Most importantly, these three experts pointed to a problem of false stereotyping of the older faculty by some of the newly-hired faculty that is indicative of a vicious circle and disparate treatment.

The panel does not agree with the opinion of some of the “new hires” that these faculty are generally inactive and not worthy of professional respect [Sandmeyer and others, p. 7].

In his dissent in EEOC versus Francis W. Parker School Judge Cudahy added that

... the disparate impact theory of liability is designed as a means to detect employment decisions that reflect “inaccurate and stigmatizing stereotypes...” [EEOC, p. 1080; emphasis in the original].

Disparate impact, in other words, is one means for unmasking discriminatory practices.

CONCLUDING REMARKS
Salary compression/inversion in the College is a story that can be told in terms of five distinct positions taken by University officials and by others charged with managing the University over a period of 25 years beginning in the mid-1970s: resistance, pretense, evasion, denial, and approval. Resistance to salary compression/inversion refers specifically to the efforts undertaken by the dean of the College in 1977 and in 1993 to address that problem by raising the salaries of the longer-service faculty to make them more nearly equal to the salaries paid to the newly-hired faculty. It also refers to the reports prepared by external reviewers in 1979, 1985, 1988, and 1993, all of which recommended higher salaries for the incumbent faculty in the College.

Pretense refers first to the years between 1977 and 1993 when nothing substantial was done by the dean of the College to address the salary inversion/compression that he had known of from the very beginning of the period. It also refers to pretentious statements made in deposition by the dean of the College in 1994, by his successor in 1995, and by the University president in 1995, and to the negative response in 1993 from the president of the University’s management board citing budget...
stringencies when the University proposed specific salary adjustments for the longer-service faculty in the College.

_Evasion_ refers to the instructions passed in 1991 from the University president and academic vice-president to the dean of the College to interpret the guideline of increasing faculty salaries to the SREB average as raising the University average to the SREB average by rank rather than assuring that everyone on the University faculty is paid a salary that at least matches the SREB average by rank and discipline. _Evasion_ also refers to the action taken by the dean of the College in 1995 when, in recommending faculty salary increases to the president of the University, he deliberately evaded the issue of any “perceived inequities that may have developed in the past.”

_Evasion_ dramatically characterizes the sworn statements made in deposition in 1996 by the person who served from 1979 to 1996 on the management board that oversees nine public universities including Louisiana Tech University to the effect that he: (1) had no recollection of the issue of the higher salaries paid to newly-hired faculty being discussed at board meetings or on other occasions; (2) had no notion as to salary compression/inversion at the universities under the board’s supervision; (3) was only “vaguely” aware of the fact that newly-hired faculty were being paid more than older longer-service faculty; (4) had no knowledge regarding the age discrimination policies of the University; (5) did not know the meaning of the “two-tier salary system” and did not recall the president of the University who is directly responsible to board ever presenting a proposal that addressed the problem of paying higher salaries to newly-hired faculty [Davison, pp. 3, 5-6, 8, 28].

_Denial_ refers to the University president’s sworn statement in deposition calling attention to the rough equivalence between the average University faculty salary by rank and the corresponding SREB average, even though more than two-thirds of the faculty had salaries below the SREB average. _Denial_ also refers to shouldering the added costs of new doctoral-degree programs in 1979 (in engineering), in 1994 (in education, psychology, and math), and in 1998 (in engineering), of the Ph.D./M.D. program in cooperation with Louisiana State University-Shreveport begun in 1999, of the Institute for Micro-manufacturing established in 1992, and of the collegiate football program that was raised to Division IA status in 1988, all the while decrying the lack of funds to raise the salaries of incumbent faculty.

If “silence gives consent,” it follows that officials at the University who for many years had been fully aware that salaries of older longer-service faculty routinely lagged behind the salaries of younger newly-hired faculty across the country consented to salary compression/inversion at the University and by doing little or nothing to remedy the problem embraced it as standard business practice. This silent _approval_ of discriminatory behavior was noted more than 50 years ago in the case of Jews where the “gentlemen’s agreement” was standard business practice, and more recently in the case of women where the “glass ceiling” was and still is the norm. Further, Darity and Mason claim that since the passage of the Civil Rights Act in 1964 racial discrimination has become “more covert and subtle” and “is masked and rationalized by widely-held presumptions of black inferiority” [Darity and Mason, p. 65].
This covert form of discriminatory behavior against persons 40 years of age and older is no less vicious than the overt kind common many years ago in the form of signs that read, for example, “no Irish need apply” because both kinds have the same general intention: to confer benefits and superior status on some and to deny the same benefits to others by imputing an inferior status to them. In this regard, when the U.S. Senate amended the ADEA in 1974, it cited President Nixon’s remarks two years earlier as indicative of its intent in passing the original legislation.

Discrimination based on age . . . can be as great an evil in our society as discrimination based on race or religion or any other characteristic which ignores a person’s unique status as an individual and treats him or her as a member of some arbitrarily-defined group. Especially in the employment field, discrimination based on age is cruel and self-defeating; it destroys the spirit of those who want to work and it denies the Nation the contribution they could make if they were working [U.S. Senate, p. 55].

In the end, as history teaches, all that is necessary for this kind of injustice to continue is for good men and women to approve of it through their silence.

The intertwining of discriminatory effect and discriminatory intent and the hiding of the one inside the other through this intertwining were accomplished and perpetuated over a long period of time by University and management board officials who at various times pretended they were serious about eliminating salary compression and inversion, evaded the issue entirely, and resisted, denied, and most recently approved the practice, as the specific circumstances of the moment seemed to dictate. These five different stratagems -- at various times employed, abandoned, and employed again -- reflect in part the different personalities of a changing cast of officials responsible for managing and overseeing the University. These tactics were used (1) to preserve the College’s AACSB accreditation of its programs that required and justified paying younger newly-hired faculty market-determined salaries and (2) to realize the dreams of certain University officials and boosters in which the University evolves into a prestigious doctoral-degree granting research institution and a major player in intercollegiate football and basketball that due to budget stringencies also required and justified paying older longer-service faculty monopsonistically-determined salaries substantially below what was paid to their younger faculty colleagues.

The University’s “business-necessity” defense is vacuous because its survival did not and does not depend on a vast expansion of expensive academic, research, and athletic programs. Indeed, the establishment of these programs siphoned off the very financial resources needed to assure AACSB accreditation without resorting to salary compression/inversion and their continuation was made possible only because the University chose not to deal with the salary compression/inversion problem at all. Instead, by allowing salary compression and inversion to persist for more than 20 years, officials of the University and its management board made credible the stereotype of the older longer-service faculty as inferior to the younger newly-hired faculty thereby reinforcing the vicious circle of discrimination against the older faculty. In other words, discriminatory effect that persists

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1 Quoted in *Coger et al. versus Board of Regents* [p. 12], a ruling by the U.S. Sixth Circuit Court of Appeals in a lawsuit filed by 17 senior faculty members at the University of Memphis alleging age discrimination.
over a long period of time is not possible in the absence of discriminatory intent. University and management board officials with a genuine commitment to justice simply would have tackled both well before they became so deeply entrenched that in the end no one would admit there is anything untoward about those practices.

In the June 2000 decision in Reeves v. Sanderson Plumbing Products, Inc., the U.S. Supreme Court ruled unanimously in a case relating to a disparate treatment claim filed under the ADEA that when it can be shown that the reasons cited by an employer for dismissing an employee are not credible

... the trier of fact can reasonably infer from the falsity of the explanation that the employer is dissembling to cover up a discriminatory purpose. Such an inference is consistent with the general principle of evidence law that the factfinder is entitled to consider a party’s dishonesty about a material fact as “affirmative evidence of guilt” (emphasis added).

This ruling raises the question as to whether there are any circumstances wherein discriminatory intent can be inferred from employment practices that have a disparate impact, particularly when those practices though appearing to be facially neutral have persisted for a long time.
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CHAPTER TEN
THE ACTING PERSON, PERSONALIST CAPITAL, AND SUSTAINABLE DEVELOPMENT: A PROBLEM IN CONTRIBUTIVE JUSTICE

Robertson suggests a definition of sustainable development that is particularly useful in organizing our thinking on this subject: “…economic enhancement that meets the needs of the present generation without compromising the ability of future generations to meet their needs” [quoted in Carroll and Stanfield 2001, p. 470]. For our purposes, those needs are represented as the needs that derive from human individuality and the ones that originate in human sociality. By addressing sustainable development in this fashion it becomes necessary to look beyond homo economicus as the basic unit of economic analysis for two reasons. First, homo economicus is a strictly want-satisfying construct devoid entirely of any human needs because need is a value-laden concept and for economics to be truly scientific it must be value-free. Second, as a human being homo economicus is strictly an individual being. Nothing in the nature of homo economicus bespeaks human sociality. It follows that for homo economicus all existence is solitary existence.

We have argued in Chapter Two that by taking account of human sociality and social or co-existence homo economicus becomes person in action, individuality is transformed into personhood, and individualism is replaced by personalism. We propose therefore to address sustainable development in terms of economic agents acting as persons who live in the real world of community where all existence is co-existence rather than as individuals who live in a make-believe world where all existence is solitary existence. In other words, sustainable development is impossible in the contrived isolation of homo economicus unless one is prepared to embrace and defend the mainstream’s invisible hand rhetoric. Some repetition in the following sections is necessary especially for the reader who has not read any of preceding chapters or read them with sufficient care. We will be brief.

INDIVIDUAL AND PERSON, FREEDOM AND JUSTICE

Individual. By individual neo-classical economics means a human being in whom human individuality, inward directedness, autonomy, and awareness of self and self-interest are emphasized. The individual is represented as intelligent, thoroughly rational, utility-calculating and maximizing, and free to choose in all economic decision-making. Homo economicus is competitive, making use of the human disposition to undertake certain tasks alone for the solitary gain, essentially revealed and therefore predictable. The predictability of homo economicus means that his/her behaviour is quantifiable, can be incorporated in the mathematical models of neo-classical economics, and can be calculated with certainty. Economic behaviour is completely detached from any cultural influence because for the atomistic homo economicus all existence is solitary existence. Community is irrelevant. Individualism provides the philosophical foundation for homo economicus.
**Person.**

Personalist economics argues that there is much with regard to the role of economic agents today that is not accounted for by *homo economicus*. By person we mean a human being in whom both individuality and sociality are recognized and emphasized: inward-directed and outward-reaching, autonomous and dependent, and aware of self and self-interested and, at the same time, aware of others and concerned at least in part for their well-being. The person is intelligent, thoroughly rational, utility-calculating and maximizing, and free to choose, and at once intuitive, emotional, utility-satisficing, and ethically and morally instructed, bound, and governed. In all economic affairs the *person in action* is not only competitive but also cooperative, making use of the human disposition to undertake certain tasks collectively for the gain that cannot be achieved or achieved so well when those tasks are undertaken alone. Note, for example, that the assembly line and the supply chain are based on and depend on human cooperation, and that bridges are built to break down human isolation rather than reinforce it. Even more importantly, note that work, consumption, and leisure typically take place not in isolation from but in contact with other human beings.

The *person in action* is unique, one of a kind, valuing individuality and sociality differently, changing as an economic agent with changing economic conditions and circumstances, but essentially a holistic, unified human being: essentially one, not divided into individuality and sociality, but a union of the two. An embodied spirit, a material body *inside* a human spirit: not one part body, one part spirit, but a union of the two.

The *person in action* is aware that community and a sense of belonging emerge not when humans simply avoid any harm to one another but when they participate in one another’s economic lives; aware that economic community requires positive contributions from the economic agents who form that community; aware that all existence is co-existence; aware that the human spirit plays a major role in the three central economic activities of work, consumption, and leisure. Fairness, benevolence, trust, and generosity are necessary for a human being to develop from the individual *homo economicus* to the *person in action*.

Virtually every human being longs for a job that affords opportunities to put to work one’s creative talents and energies, and needs to experience a sense of belonging. As to consumption, human beings require goods and services to meet the needs of the human body and the needs of the human spirit for goodness, truth, and beauty.

*homo economicus* compares, calculates, rationalizes, chooses, takes, maximizes. The *person in action* does all of that and more: intuits, guesses, romanticizes, idealizes, gives, celebrates. For some, machine operating in the passive mode seems to be a reasonable characterization of *homo economicus*. We see the economic agent as a living breathing existential actuality -- a *person in action*.

**Freedom and Justice.**

Freedom is three-dimensional. First, freedom means that human beings by their very nature are free to be all that they can be. Second, freedom (liberty) denotes that humans are to be free from coercion.
Third, freedom signifies that humans are free for the purpose of meeting their obligations. *Homo economicus* embraces the first and second meanings of freedom. The *acting person* embraces all three.

Aware not only of self but of others as well, the *person in action* also embraces justice: the virtue or good habit of rendering to others that which is owed. Justice is necessary in economic affairs because every exchange involves gain. What is gotten in the exchange must be more highly valued than what is given up. At times, however, gain can be excessive, can be the result of one party taking advantage of the other, can be ill-gotten as, for example, with insider trading, sexual harassment, or expense padding. The faithful practice of justice in economic affairs helps limit gain to what is due, and because there are only three ways in which economic agents can relate to one another, there are just three principles of economic justice. They are equivalence (equal to equal), distributive justice (superior to subordinate), and contributive justice (member to group). See Chapter Five for more on these three principles.

Buyers and sellers are not oblivious to the demands of justice even though they may not be able to define the principle of equivalence. Superiors are not totally unmindful of their obligations under distributive justice: they have the laws on discrimination as powerful reminders. And members are not completely uncaring about what they owe in form of dues as members of formal organizations even though they may not be able to state the principle of contributive justice. Most fundamentally, these three principles are taught and learned through everyday experiences in the marketplace and the workplace.

Personalist economics insists that ethics in economic affairs is necessary for building and maintaining trust between and among economic agents. Trust is the willingness to accept another agent’s promise (spoken word, written word) to abide by the terms of a just agreement. Without trust, economic transactions tend to break down due to the transaction costs attributable to monitoring and enforcing those transactions [Economic Trends, p. 1]. The need for trust is heightened in the new economy because decision-making takes place over a shorter time span giving less time to evaluate the trustworthiness of other economic agents. Additionally, communication is less face-to-face, more at arm’s length, indirect, and impersonal, making it more difficult to evaluate trustworthiness.

Neo-classical economists do indeed admit that ethics matters in economic decision-making but clearly and deliberately rule out such concerns in their own economic way of thinking that they claim to be value-free. In their world, because it is grounded in the objectivity of the scientific method and the certainty of mathematical models, positive economics is vastly superior to normative economics. *Homo economicus* is a construct of the utilitarian mind of neo-classical economics. The *acting person* is a construct of the deontological mind of personalist economics.

**INFUSING THE INDIVIDUAL WITH PERSONALIST CAPITAL**

Personalist capital refers to a human development process in which certain virtues are learned, practiced, and acquired and by which humans become more fully human persons. 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 humans deteriorates as human
persons. The virtuous person accumulates personalist capital by embracing virtues. The wicked
person destroys personalist capital by embracing vices.

The *person in action* refers to a human being who chooses to act either virtuously or viciously, who
is functioning at the third level of action. In economic affairs the *person in action* is the economic
agent who accumulates personalist capital by acting virtuously and who destroys it by acting
viciously. The *innocent* person refers to a human being who has not yet begun to engage in action at
the third level and therefore has no stock of personalist capital.

Mainstream economics asserts that an economy functions best when it maximizes utility, when it
achieves Pareto optimality. Libertarians are likely to argue that an economy functions best when it
maximizes human freedom. *Personalist economics, in contrast, 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.* See Chapter
Four for more on personalist capital.

Figure 10.1 simplifies our thinking in a way that we hope demonstrates more effectively that the key
to a personalist economics lies in articulating persuasively the need to replace the individual as the
central unit of economic analysis, a concept that dates from the Enlightenment, with the person, a
concept that is a much better representation of the economic agent in the 21st century. Put somewhat
differently, we need to begin our analysis of economic affairs with the *person in action* if we are to
understand those affairs and teach them insightfully in a world that today is vastly different than the
world that Smith, Ricardo, Malthus, and others were called on to understand in their day.

The concept of the human person emerged from the much earlier concept of the human individual as
a consequence of the technological changes that are taking place in human communication and that
are changing self awareness and awareness of others. These revolutionary changes in human
communication in economic affairs explain (1) why the concept of the individual and individualism
are outdated, (2) how little by little and with some confusion nontraditional voices in economics
have been attempting to reconstruct the individual by widening the concept of capital, and (3) why it
is necessary to replace both the individual and individualism with a concept and philosophy more
compatible with those changes. See Chapter Two for more on the evolution from individual to
person.

Infusing the concept of the human individual with personalist capital leads directly to the more
modern concept of the human person because what differentiates individual from person is that the
human individual of neo-classical economics is represented as entirely inward-looking whereas the
human person of personalist economics is both inward-looking and outward-reaching, concerned
with self and interacting with others. At times, the inward-looking and outward-reaching are in
conflict as, for example, when a professional couple must cope with the problem of one party being
offered a much better job in a distant city at the same time the other party is quite comfortable
FIGURE 10.1 INFUSING THE INDIVIDUAL WITH PERSONALIST CAPITAL

Machine-like Individual + Personalist Capital = Acting Person

grounded in the philosophy of individualism that dates from the 17-18th century Enlightenment and describes the individual as inward-looking, utility-maximizing, want-satisfying, free to act, rational and predictable, for whom all existence is solitary existence.

energized by electronic media & interacts with others who are:

family members  classmates  professional colleagues  workmates
partners  volunteers  fellow religionists  union members
mentors  rivals  trade association friends  neighbors

these interactions foster and instill human virtues/ves such as:

caring .......... heartless
benevolent .......... mean
just .......... unjust
generous .......... greedy
sympathetic .......... insensitive
altruistic .......... egoistic
moderate .......... self-indulgent

trustworthy ............ inconstant
loyal ............ treacherous
faithful ............ deceitful
forgiving ............ merciless
grateful ............ resentful
kind ............ envious
diligent ............ lazy

1 See Ong 1967 for more on person and the electronic stage of human communication.

2 See Gary Becker [p. 4] for a similar listing of social interactions.
working where they presently live. This outward-reaching dimension is called into play through the various types of human interactions such as between workmates, colleagues, family members, neighbors, partners, and the like. Those interactions drive human development either in a positive or negative direction, that is in ways that foster and support such virtues as, for example, benevolence, caring, sympathy, and justice or such vices as meanness, heartlessness, insensitivity, and injustice. The regular practice of the virtues or good habits helps a human being realize more fully his/her own human potential and thereby become more fully a human person. The routine practice of the vices or bad habits diminishes a person.

Personal experience alone tells us that work can have both positive and negative effects on the person who works. These effects can be powerful and long-lasting precisely because for many work is a central activity that provides numerous opportunities for interaction with others and thereby for personal growth or deterioration. As the workplace changes, driven importantly by innovation and cost-cutting, work and the opportunities it affords change and so too the humans who do that work, for better or worse. Work forces human beings to interact with others and to change and in changing they are required to take action and in acting they reach or fall short of their full potential as persons.

What sets justice apart from the other virtues is that in economic affairs it is a duty. It is the duty of every human being under contributive justice to use the Earth’s natural resources only to the extent necessary, in ways that protect the natural environment, and whenever necessary to contribute to the replenishing of those resources to the extent humanly possible. Further, charity (caring infused with the conviction that every human being is precious) is the guardian of justice, and taken together these two virtues are set apart from the other virtues because as Heinrich Pesch argued they are the twin bulwarks of human well-being [Mulcahy, p. 68].

Personalist economics begins with the person in action in economic affairs -- the economic agent. It is our contention that economic theory is less about things such as prices, goods, natural resources, physical capital and the like and more about human beings “in the ordinary business of life,” that is in the what and the why of their actions as economic agents.

However, more than justice is required to forge a true sense of trust among human persons. Caring helps develop a sense of trust and solidarity by affirming that all human beings are equal and never should be used strictly for the personal gain of others. Charity helps develop this sense by insisting that all humans are precious and before all else their well-being, not maximum efficiency in the utilization of economic resources, is the most important end of all economic affairs. Economic systems, in other words, are subordinate to human persons.

**SUSTAINABLE DEVELOPMENT: A MORAL ISSUE**

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.
Neo-classical economics identifies the actuating principle as human 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 that minimize their depletion and any damage to the natural environment. The two principles converge in the market system that may be constrained by whatever economic institutions are required to assure that everything possible is done to meet human needs and satisfy human wants adequately and to use resources wisely. In its strict libertarian form, neo-classical economics argues that the law of nature alone sets secondary limits through the invisible hand; economic institutions are unnecessary. It is instructive to elaborate further on both principles and the effects they intend to achieve or avoid.

**Actuating Principle: Positive Effects.**

As indicated earlier, the needs of the body include sustenance and rest. The needs of the spirit include a need to know and understand truth, goodness, and beauty, and a need for opportunities to develop and use one’s creative talents, skills, and energies. Humans also need to associate with like-minded others, to experience a sense of being included, of being valued by the group(s) to which they belong. All of these needs are met importantly through the three human activities most closely linked to economic affairs: work, consumption, and leisure. In addressing sustainable development, Stanfield calls attention to the importance of the actuating norm of community -- the need of the human spirit to live in community, to be included, to belong [Carroll, pp. 470-71].

In a market economy, needs in general are provisioned (more or less) by goods and services that are produced and sold for private use or for common use. Private goods and services are necessary because humans are meant to live separate lives as unique human beings (as Many). Common goods and services are necessary because humans also are meant to live together in community (as One). Goods and services used in common (often referred to simply as the common good) may be procured through private-group or public-group activity. For example, in education, home schooling is based on the premise that children learn best in a teaching/learning environment that separates them from their peers. Private schools, and public schools as well, proceed from the premise that children learn best in the company of their peers. A home can be heated by solar panels and wood-burning stoves bought by the owner, by natural gas that is supplied by a private utility or cooperative, or by electricity that is generated by a municipal power plant. Whether human need is met separately or collectively, and notwithstanding neo-classical doctrine about restricting economic analysis to the means that are employed to achieve certain ends in economic affairs but not the ends themselves, sustainable development obviously is a matter of meeting that need.

1 The following discussion is modeled after Becker’s monograph on benefit adequacy in unemployment insurance. Becker is especially instructive because benefit adequacy and sustainable development are alike in that both are defined in ways that necessarily reflect the values of those who do the defining. Both, in other words, are normative issues and for that reason being explicit and clear about the norms one is using is critical to any attempt to bring some insight to the discussion.
One way to express this norm in measurable form is to construct it on the foundation of information on poverty. For example, does a specific development scheme contribute to a reduction in the number of poor persons/families or in the rate of poverty? Or, does a given scheme reduce the number of poor persons/families or the poverty rate to some critical value? Constructing around the first question is useful because it relieves the analyst of the task of stipulating in advance a given number or rate that identifies acceptable performance regarding sustainability. Constructing around the second question is instructive because it ties acceptable performance to some target number or rate which becomes truly significant when there is sufficient social acceptance of that target.

Though important, the needs of future generations are clearly secondary in the sense that the present generation consists of living human beings whose basic needs cannot be subordinated to the needs of future generations that at the moment consist of humans not yet alive. To do otherwise means subordinating human actualities to human potentialities, putting the supposed and uncertain needs of the future ahead of the real and certain needs of the present. In the extreme, doing otherwise means starving the present to feed the future.

Figure 10.2 presents these two positive effects (norms) and suggests several person-centered standards of performance for sustainable development (critical values that express the norms in measurable form), including two proxies. Other than underscoring that sustainable development is principally an issue involving the well-being of human beings as opposed to other living creatures or things, we attempt nothing definitive with regard to standards of performance, a task which is best left in the hands of those who are specialists in sustainable development.

**Limiting Principle: Negative Effects.**

Environmental science continues to discover various ways in which nature itself sets limits in the sense that living things such as plants and animals are able to physically alter their environment. Predators, for example, *instinctively* reduce the population of their prey as a source of food that has the effect of controlling the animal population at a level that is more nearly sustainable. Forest fires triggered by lightning set limits on the timber that can be grown and harvested from forests.

Only humans, however, are capable of setting limits *knowingly*. Some of the limits set by humans strictly speaking are necessary for survival. Personalist economics defends the imposition of limits on the use of toxins and asbestos, for example, because left to the market alone human bodily health and well-being are not adequately protected. Other limits justified by personalist economics may relate more directly to a need of the human spirit such as limiting residential development in order to protect a pristine natural view. Critical values must be developed that render in measurable form the need to be addressed and therefore where the limits are to be drawn. Setting and enforcing those criteria -- especially as regards to discharging pollutants into the air, water, and soil -- are at the very core of the work of environmental protection. Those criteria will change with greater human understanding and therefore cannot be fixed once for all.

As with the actuating principle, the problem of developing, setting, and enforcing those limits is an aspect of the One-Many dichotomy. Should we act as Many through the market system or as One


**FIGURE 10.2  SUSTAINABLE DEVELOPMENT: NORMS AND STANDARDS OF PERFORMANCE**

<table>
<thead>
<tr>
<th>Actuating Principle: Positive Effects to be Achieved</th>
<th>Person-Centered Standard of Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary: Need of current generation</td>
<td>number of poor persons / poverty rate</td>
</tr>
<tr>
<td>a. needs of the body</td>
<td>number of unemployed persons / unemployment rate</td>
</tr>
<tr>
<td>b. needs of the spirit</td>
<td>net outmigration</td>
</tr>
<tr>
<td>2. Secondary: Need of future generations</td>
<td>number of new business establishments (proxy)</td>
</tr>
<tr>
<td>a. needs of the body</td>
<td>cyclical fluctuations in income and employment (proxy)</td>
</tr>
<tr>
<td>b. needs of the spirit</td>
<td>number of persons filing for bankruptcy protection</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Limiting Principle: Negative Effects to the Avoided</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary: Ecological/Environmental</td>
</tr>
<tr>
<td>a. carrying capacity</td>
</tr>
<tr>
<td>b. natural resources</td>
</tr>
<tr>
<td>2. Secondary: Political</td>
</tr>
<tr>
<td>a. subsidiary role for government</td>
</tr>
<tr>
<td>b. minority/majority rights</td>
</tr>
<tr>
<td>3. Tertiary: Economic</td>
</tr>
<tr>
<td>a. loss of employment</td>
</tr>
<tr>
<td>b. destructive innovation</td>
</tr>
</tbody>
</table>
through groups? If we decide to act as One, should it be through private groups such as trade associations or through public agencies? And if we decide to act as the public One, should it be through local, state, regional, or federal governing bodies?

The principle of subsidiarity helps locate where in the social order institutions should be established to develop and enforce the limits. Larger more powerful institutions such as federal and state governments should not usurp the functions of smaller weaker institutions such trade and professional associations. Rather the larger ones should provide the assistance that smaller ones require in order to function effectively.

This principle supports the decentralization of group decision-making, giving preference to private-group as opposed to public-group decision-making, and thereby reinforces the democratic principle. Finnis traces subsidiarity to Aristotelian political science and argues that it is a principle of justice.

... it is unjust to require [human beings] to sacrifice their private initiative by demanding that they participate in a public enterprise; it remains unjust even if the material dividend they receive from the public enterprise is as great as or even somewhat greater than the material product of their own private efforts would have been ... [Finnis, p. 169].

See Chapter Seven for more on the principle of subsidiarity.

In the case of sustainable development the group at issue is every living thing that depends on planet Earth for survival. The duty of every human being is to use the Earth’s natural resources only to the extent necessary, in ways that protect the natural environment, and whenever necessary to contribute to the replenishing of those resources to the extent humanly possible. This duty bears more heavily on persons in developed countries because they use disproportionately more of the Earth’s resources than do others and thereby derive greater benefits from the use of those resources.

As indicated previously, this 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 ignore or dismiss this duty threatens all living things and in the end is self-destructive. Thus from the perspective of its own limiting principle sustainable development is a moral issue.

Carrying capacity, by which we mean Earth’s capacity for absorbing contamination without threatening the very existence of living creatures (especially humankind) who depend on the environment for their very survival, is the first and foremost norm constraining economic development. Exceeding this limit by ill-advised economic development schemes or unfettered market activity, though such schemes and activity may appear to serve human need and may even be intended to serve that purpose, has exactly the opposite effect. Put differently, development that threatens human survival is not sustainable. The Kyoto Protocol attempts to develop global agreement on critical values for greenhouse gas emissions by country in order “to promote sustainable development” [Kyoto, Article 2.1, 3.1]. The United States, for example, is asked to
reduce its emissions to 93 percent of its 1990 levels [Kyoto, Annex B].

In like manner, utilization of natural resources especially vital nonrenewable resources to meet the needs of the current generation has to be constrained in order to provide adequately for the needs of future generations, even when the carrying-capacity limit has been respected. Here sustainable development is not a matter of threatening human survival but of acting as a responsible steward.

Additionally, primary limits are imposed on economic development by the effects that it has on natural resources, especially nonrenewable resources, and the extent to which development contributes to contamination of the air, soil, and water. One way in which these undesirable effects are limited is by government-issued licenses that specify a maximum amount that can be discharged into the environment with violators subject to shutdown and fines for exceeding that limit.

The development, implementation, and enforcement of these limits are hugely complicated and expensive. In Louisiana, to cite one state with serious environmental problems, the Department of Environmental Quality sets standards for air, hazardous waste, solid waste, water quality, underground storage tanks, inactive and abandoned sites, and radiation protection. The document relating to hazardous waste alone sets many specific limits (mg/L) that apply to underground injection of eight metals including arsenic, cadmium, chromium, lead, and mercury, and runs 672 pages [Title 33, pp. 233-234]. The document setting limits for air quality runs 298 pages. A search of the Department’s website using the keyword “standard” retrieves 1,000 documents.

Another way to limit undesirable effects is by environmental impact studies that assess the extent of resource depletion and environmental contamination. Licensing addresses the ecological/environmental problem after the fact. Impact studies deal with it before the fact.

Secondary limits arise from the problem of meeting human need that forces us to decide whether to act as separate human beings or as a community. Thus sustainable development involves deciding when to act as the Many and when as the One. Development, therefore, of necessity is subject to political limits.

Though the political norm could have been stated as a positive norm that justifies acting as the One (principally through public group intervention), Western culture has demonstrated a strong preference for acting as the Many and insists on a subsidiary role for the One. Most recently, the European Union affirmed this principle as follows:

The principle that decisions should be taken as close to the citizen as possible has become an overriding one in the last few years [European Communities, p. 14].

Sustainable development means limiting government intervention to those situations where private-personal (the market) and private-collective decision-making processes (bodies intermediate between

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1 The gases covered are carbon dioxide, methane, nitrous oxide, hydro fluorocarbons, perfluorocarbons, and sulphur hexafluoride. A total of 140 nations ratified the Protocol that became effective on February 16, 2005. The United States and Australia did not ratify the Protocol [MSNBC, p. 1].
the person and government such as water conservation commissions and emergency response compacts) simply do not provide adequately for the needs of current and future generations.

What is to be done, however, when a small, well-organized community thwarts the will of the larger community? To illustrate, a residential neighborhood in the City of Monroe, Louisiana has blocked the siting of a bridge across the Ouachita River that would significantly improve the flow of traffic and commerce between Monroe and its sister city West Monroe on grounds that the bridge would disrupt the tranquility of their community. To date, nothing of substance has been done to site the bridge elsewhere or to deal with the concerns of the resistant residential community. In the meantime, economic development in Monroe is arrested, white flight continues, and the city government is unable to provide needed services due to fiscal stringencies.

Clearly, a political remedy is the only answer to the question as to when is it justified to override the concerns of the minority in the name of area wide development. The One acting through the parish (county) governing body must decide ultimately where to impose the limit, where the greater good lies: in the tranquility of the minority community or the economic development of the larger community.

Tertiary limits originate in the negative impact that sustainable development has on production and employment and the destructive dimension of innovational activity undertaken as a part of meeting the need of the human spirit for creative opportunities.

Figure 10.2 presents these three negative effects (norms) and suggests a few person-centered standards of performance, including three proxies. As stated earlier, we attempt nothing more in Figure 10.2 because developing standards of performance and applying them to the available data are tasks best left to investigators who specialize in sustainable development.

Figure 10.3 presents a circular flow diagram modeled on personalist economics that has been modified to replace the economic sectors of a domestic economy -- business, household, and government -- that are at the heart of mainstream macro economics with the person in action engaged in economic affairs -- producer, entrepreneur, consumer, worker, public official, creditor, and banker -- who truly matter because they are the ones who, acting as economic agents, organize and drive economic affairs, and sort out the problems associated with sustainable development. Due to the complexities introduced by the global economy, economic activity as represented in Figure 10.3 is restricted to the domestic economy.

Figure 10.3 allows us to visualize from a macroeconomic perspective where the limits must be drawn. Specifically Flow 14 which represents wasted natural resources has to be limited at its various sources, chiefly the producer, the consumer, and the public official. To the extent that limits are insufficient to the task, ways must be found to reuse that waste in the production process through recycling and reprocessing (see Flow 3d). Additionally, and most importantly, to limit wasted natural resources -- both in terms of depletion and environmental contamination -- limits must be imposed on the demand for consumer goods and services, capital goods and services, and public goods and services (see Flows 1, 9, and 10). This in turn means that economic agents must act according to the
FIGURE 10.3 MACROECONOMIC CIRCULAR FLOW: MODERATING DEMAND AND LIMITING WASTED RESOURCES (domestic economy)

Product Market: flows 1-5-6-9-10
Resource Market flows: 2-3a-3b-3c-3d-4
Financial Market flows: 7-8a-8b-8c-12-13
virtue of moderation, assuring that they use goods and services as means to meeting their needs and satisfying their wants but not as ends in themselves. Agents who act instead on the vice of self-indulgence or blissful ignorance make the problem of resource depletion and environmental contamination even worse.

In north Louisiana, for example, clean water for residential, commercial, and industrial use is drawn by wells from the Sparta Aquifer. For years the water level in the Aquifer has been dropping with no public consensus as to what specific changes must be put in place to limit the rate of draw down to the known rate of replenishment, that is to a sustainable level. This is happening even though it is known that if the water level continues to fall the water will become contaminated by salt and be unsuitable for residential use. Self-indulgence and blissful ignorance is at the heart of this issue -- the Sparta Aquifer is a cheaper source of clean water than groundwater that must be treated before it can be used. The same two human flaws account for much of the serious litter and trash problem throughout the State of Louisiana. It is cheaper to dump trash along the side of the road and in the woods than it is to pay to have it disposed of properly. Neither problem will be solved without economic agents embracing the good habit of moderation.

Limits apply as well to the unemployed as represented in Figure 10.3 by Flow 15, and we have a rough consensus as the critical values that render those limits into measurable form. Experience with employment and unemployment over the last 70 years has led to an agreement that the unemployment rate has a lower limit of about three percent and an upper limit of approximately ten percent. Notice how quickly monetarism was abandoned in the early 1980s when the annual rate of unemployment reached 9.7 percent in 1982 and 9.6 percent in 1983 [Economic Report of the President, Table B-35].

In this regard, we reject the concept of the natural rate of unemployment because we do not accept the argument that due to the law of nature the unemployment rate fluctuates around a rate that is “normal” and that left alone the self-regulating economy automatically restores the economy to this normal or natural rate. The natural-rate hypothesis is a neo-classical argument in defense of its laissez-faire philosophy and in protest of any institutional limits on the autonomous economic agent.

In this chapter we have been concerned not just with caring but several other virtues including sympathy, benevolence, and generosity that have been part of the economics literature from the time of Smith’s Moral Sentiments along with the associated vices of heartlessness, insensitivity, meanness, greediness, and others. We hope that we have added some understanding to the issues of economic agency, personalist capital, and sustainable development. In brief, we attempted to show the following. First, adding personalist capital to the machine-like individual of mainstream economics results in the acting person of personalist economics, who becomes more fully a human person through social interactions that foster the development of several virtues or less fully a human person through other interactions that instill certain vices. Second in matters relating to sustainability becoming more fully a human person calls especially for the practice of the virtues of justice and moderation. In addition we have suggested a framework for thinking about sustainable development in terms of actuating and limiting principles and for developing critical values or standards of
performance for sustainable development that are person-centered.
References


CHAPTER ELEVEN

SOCIAL JUSTICE

Social justice is a concept used widely but with different meanings for different users. Fifty years ago Jancauskas [1959, p. 34] observed that the concept is “vague and ill-defined.” Thirty years later Waters [1989, p. 113] added that it is “a very helpful but ambiguous term.” Twenty years after Waters’ comment, Ederer [p. 114] stated that social justice has been reduced to “simply a slogan.”

In addition to the different meanings applied to the term, there are two other sources of ambiguity. First, social justice is referred to under at least three other labels: constructive justice [Waters 1989, p. 95], legal justice [Dempsey 1958, p. 165; Waters 1989, p. 113], and general justice [McKee 1981, p. 3; Waters 1989, p. 113]. Second, there has been some ambiguity originating in careless scholarly work. Two examples drive home this point.

In the first instance, Pius XI in his 1937 encyclical *Divini Redemptoris* demonstrates the connection between social justice and the common good. The Vatican website renders that connection in the English version of the encyclical [§51] as follows.

> Now it is of the very essence of social justice to demand for each individual all that is necessary for the common good (emphasis added).\(^1\)

However, carefully translating the Latin version\(^2\) from the same website into English produces the following.

> Now it is of the very essence of social justice to demand from each individual all that is necessary for the common good (emphasis added).

This latter rendering is found in *The Encyclicals of a Century* [p. 314] where the full text and footnotes of Divini Redemptor is are printed and twice in Dempsey’s influential *The Functional Economy* [pp. 220, 372].

Clearly “for” indicates a right of the individual whereas “from” signifies a duty.

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\(^1\) This flawed rendering also is found on the website of the Eternal Word Television Network (see http://www.ewtn.com/library/encyc/p11divin.htm). We made no attempt to look for it at other sites.

\(^2\) “Atqui socialis justitiae est id omne ab singulis exigere, quod ad commune bonum necessarium sit” (emphasis added).
In the second instance, Dempsey attributes the latter rendering correctly to *Divini Redemptoris* [p. 372] but incorrectly to *Quadragesimo Anno* [p. 220]. Further, Waters in citing McKee refers to *social justice* “in the broad sense” and “in the narrow sense” and recommends McKee to the reader for “an excellent introduction to the subject” [Waters, 1989, p. 113]. McKee, however, refers to *justice* -- not social justice -- “in a narrow sense” and “a wide sense” [McKee, 1981, pp 2-3].

Confusion is added to the ambiguity by blurring the line between social justice and social charity, and substituting solidarity for social charity. Further documenting the various sources of confusion and ambiguity does nothing more than add to these problems. For that reason it makes much more sense to begin with a clear definition of justice. Later in this chapter, we discuss charity, social charity, and solidarity.

**JUSTICE**

Justice is the virtue or good habit of rendering to another that which is owed. This definition closely parallels the version recommended by Aquinas (see Dempsey 1958, p 164), underscores justice as an obligation or duty, and provides additional support for translating *Divini Redemptoris* “from each individual.”

Having said that, we do well to acknowledge that for every duty there is a corresponding right. To illustrate, if the buyer has a duty to pay for what he/she wants or needs, he/she has a right to whatever he/she has paid for. If the worker has a duty to put in a full day’s work, he/she has a right to a full day’s pay. Given that the individual has a duty to contribute all that is necessary for the common good and that the common good is served only through such individual contributions it follows that the individual also has a right to whatever goods that are necessary to live in common.

Consistent with the theme that runs throughout our text, we use “person” instead of “individual” for the rest of this chapter. “Person” includes both human sociality and human individuality and by definition human sociality is a requirement for living in community.

Anyone who has not yet read Chapter Five on justice is strongly urged to do so before proceeding further.

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1 Perhaps what accounts for this lapse is that Dempsey on the same page [p. 202] states that in the language employed in *Quadragesimo Anno* [§§57, 58] Pius XI says in effect that “the practical application of the virtue of social justice … is equated with the common good.”

2 Waters [1989, p. 95] correctly asserts that a just society is one in which the rights of the individual and the community are satisfied.
SOCIAL JUSTICE

The emphasis in contributive justice on the duty of the member to the group and the duty of the person under social justice to contribute to the common good suggest that social justice and contributive justice are identical. Dempsey holds this view [pp. 370, 372] and asserts that Pesch does too [p. 372]. And apparently so does Benedict XVI (see Caritas in Veritate, §35).

However, before addressing social justice further, we insist that contributive justice, while it can be described and examined separately from equivalence and distributive justice, cannot be separated in the actions of a truly just person. Just as a person cannot be truly faithful to the commandments of the Heavenly Father without being faithful to all ten, in economic affairs a person cannot serve justice without being faithful to all three at once.

Recall for a moment the language of Divini Redemptoris.

Now it is of the very essence of social justice to demand from each individual all that is necessary for the common good (emphasis added).

As stated previously, if a person has a duty to contribute all that is necessary for the common good he/she also has a right to whatever goods are necessary to live in common. Trust is one of the goods necessary to live in common and trust is maintained only through the faithful practice of equivalence and distributive justice in addition to contributive justice. Benedict XVI states unequivocally that today trust “has ceased to exist” in the market economy [Caritas in Veritate, §35].

Simply put, equivalence, distributive justice, and contributive justice are a package deal. Practicing social justice means practicing all three. Thus, at all times and in whatever community a person works or lives, what is required under social justice is this: all that is necessary for the common good.

Living in common means living in a complex network of intertwined communities: family, company, neighborhood, church, civic organization, trade association, city, province, nation-state, all nations. Each one brings different duties and different rights, and those duties and rights change over time, with the aging process, for example, and with mobility. Moreover, the duties and rights are not of the same significance. To illustrate, what one owes to and receives from his/her family often is far more significant than the duties and rights of membership in a civic organization.

Arranging this network or social order vertically with the smallest and least powerful elements at the lower end and the largest and most powerful elements at the upper end helps drive home two points. First, a person has a duty to contribute to whatever elements he/she belongs to, say family, company, and nation-state, and a corresponding right to whatever goods are produced in common by those elements. For example, belonging to a family creates a duty to contribute to certain common goods which the family produces such as food and shelter and a right to those goods. Working for a company carries with it a duty to help in the production process and a right to a share of the revenues from the sale of the common goods produced. Being a citizen of a nation-state involves a duty to pay
the taxes necessary to produce the common goods for which the nation-state is responsible such as national security or health care and a right to those goods.

Second, larger, more powerful elements in the social order have a duty according to the principle of subsidiarity (a) not to interfere in the production of smaller, less powerful elements and (b) to help those smaller, less powerful elements produce more effectively. Thus the goods produced in common should be produced by the smallest element possible in order to position production as close as possible to the family and its members so as to better assure that the goods produced in common are available to meet the needs of human beings as persons and to contribute to their proper development. See Chapter Seven for more on the principle of subsidiarity.

All Nations
Nation-State
Province
City
Trade Association
Civic Organization
Church
Neighborhood
Company
Family
Person

There is in this scheme a strong preference for action taken first by private organizations and then by public agencies but only after those agencies have offered assistance and those private organizations still are not operating effectively. Put differently, the common good does not always require goods produced by public agencies.

For this kind of decentralized, bottom-up social organization to produce effectively, trust is necessary across the network which as we already observed requires the faithful practice of equivalence, distributive justice, and contributive justice, the three constituent parts of social justice. Thus do social justice and subsidiarity work together toward the common good, that is the production of the goods necessary to live in common.

Two examples help to demonstrate the connection between social justice and subsidiarity. If cities in general are capable of dealing with the sanitation needs of the community the persons living in those cities have a duty to pay the taxes or fees to support municipal sanitation systems and a right to access those systems. There is no justification for the provincial or federal government to take over municipal sanitation systems provided the cities are operating those systems effectively, though the provincial or federal government might be of assistance by offering grants to upgrade waste water treatment facilities. In this example the common good is served by the production of public goods at the local level.
If private companies provide health insurance coverage for their employees at lower premiums by risk pooling, those employees have a duty to help pay for that coverage either directly or by reduced wages and a right to use that insurance when they require health care services. There is no justification for local, provincial, or federal government to intervene unless coverage is inadequate, access to care is restricted, or the insurance is unaffordable or unprofitable. In this case the common good is served by goods produced by private enterprises.

**NEEDS, CHARITY, SOCIAL CHARITY, SOLIDARITY**

Common needs are needs that are “common to all members of the community” [Dempsey, pp. 272-273; emphasis added]. Accordingly, the common good involves provisioning those common needs. Citing *Gaudium et Spes*, Benedict in *Caritas in Veritate* puts it this way:

> Beside the good of the individual, there is a good that is linked to living in society: the common good. It is the good of “all of us,” made up of individuals, families and intermediate groups who together constitute society [§7; quote marks in the original].

Even so, not all human needs are common needs. Since every human being is a unique, one-of-a-kind person, certain needs strictly speaking are personal needs and wants which are met or satisfied by eyeglasses, shoes, baby formula, engagement rings, botox treatment of facial wrinkles, muscle cars, and the like. Dempsey [p.272] calls these goods elementary goods. As a personalist espousing an economics in which the economic agent is represented as a person, we prefer to call them personal goods.

Accepting subsidiarity as a governing organizational principle, it follows that the common good is served first by private goods and then by public goods as necessary. It is not by definition served by the production of personal goods. By demanding “all that is necessary for the common good,” social justice is served at times by public goods but preferentially by private goods.

Two key problems remain. What to do when the economic system does not produce all that is necessary for the common good? What to do when it does not produce all of the necessary personal goods? The first is a problem of production. The second is a problem of distribution.

The production problem requires an ongoing public discourse on the very structure of our economic institutions, especially the role of private enterprises vs. public agencies in the process of production. The solution might lie in public agencies offering private enterprises assistance to produce the goods necessary to serve the common good. Or it might involve public agencies taking on a more aggressive regulatory role. It might extend to direct government control of private enterprises, ownership of those enterprises, or both. Alternatively, it could involve deregulation and privatization in order to free private enterprises from a government sector that has grown too large to be effective. Subsidiarity can be helpful in this discourse. Even so, the discourse can run on for years as it has in the United States regarding the health care system.
In an economy such as the United States which produces goods of all kinds in abundance, an insufficiency of personal goods is not a production problem, it is not a social justice problem. It is instead a distribution problem, a problem of insufficiency or poverty. As so ably demonstrated by the likes of Mother Teresa and her community of nuns, relieving this insufficiency often is prompted by the theological virtue of charity “by which we love God above all things for his own sake, and our neighbor as ourselves for the love of God” [Catechism, §822]. At the same time, the natural virtue of caring infused with the conviction that every human being is precious motivates many others to alleviate the very same insufficiency. Confusion spreads even further when it is not clear what a person means when he/she uses the term social charity. Does that person refer to the theological virtue of charity or the natural virtue of caring?

We take up that question after the following two comments on poverty which may help us sort through some of the ambiguity regarding social justice.

First, it is important to differentiate human needs from human wants. Poverty is an issue of unmet human needs such as shoes and baby formula. It is not a matter of unsatisfied human wants as with muscle cars and botox treatments for facial wrinkles.

Second, subsidiarity plays a role here just as we observed in the case of social justice. Intervention by private organizations such as faith-based neighborhood groups which provide assistance to persons and families with unmet personal needs is preferred because they are positioned closer to those seeking assistance and therefore are better able to differentiate between a unmet need and a unsatisfied want and to identify a claim for assistance which is unsubstantiated and therefore should not be honored.

We turn next to the meaning of solidarity and how it relates to charity. In Rerum Novarum [§14], Leo XIII referred to the family as “part of the commonwealth” and made clear that Christians are expected to help any family in need as “a duty, not of justice (save in extreme cases), but of Christian charity – a duty not enforced by human law”[§22]. Here the Holy Father clearly means the theological virtue.

According to Ederer [p. 107], the language “social charity” originated in section 88 of Quadragesimo Anno wherein Pius XI meant neither the theological virtue nor caring. Rather, the Pontiff’s intent was to identify it with solidarity. To underscore this important point, Ederer [p. 114] asserts that the concept of solidarity was developed at length by John Paul II in Sollicitudo Rei Socialis and identified with social charity in Centesimus Annus.

In Sollicitudo Rei Socialis John Paul says that there is a “growing awareness of interdependence among individuals and nations,” a transformation which is “acquiring a moral connotation.”

When interdependence becomes recognized in this way, the correlative response as a moral and social attitude, as a “virtue,” is solidarity. This then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near
and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all. This determination is based on the solid conviction that what is hindering full development is that desire for profit and that thirst for power … [§38].

… it has been possible to identify many points of contact between solidarity and charity, which is the distinguishing mark of Christ’s disciples. In the light of faith, solidarity seeks to go beyond itself, to take on the specifically Christian dimension of total gratuity, forgiveness and reconciliation. One’s neighbor is then not only a human being with his or her own rights and a fundamental equality with everyone else, but becomes the living image of God the Father, redeemed by the blood of Jesus Christ and placed under the permanent action of the Holy Spirit. One’s neighbor must therefore be loved, even if an enemy, with the same love which the Lord loves him or her; and for that person’s sake one must be ready for sacrifice, even the ultimate one: to lay down one’s life for the brethren [§40].

Support for Ederer’s claims are found in Centesimus Annus.

In this way what we nowadays call the principle of solidarity, the validity of which both in the internal order of each nation and in the international order I have discussed in the Encyclical Sollicitudo rei socialis, is clearly seen to be one of the fundamental principles of the Christian view of social and political organization. This principle is frequently stated by Pope Leo XIII, who uses the term “friendship,” a concept already found in Greek philosophy. Pope Pius XI refer to it with the equally meaningful term “social charity.” Pope Paul VI, expanding the concept to cover the many modern aspects of the social question, speaks of a “civilization of love” [§10].

In Caritas in Veritate Benedict employs “solidarity” frequently and attributes it to John Paul (see §38). He never once uses “social charity.” He uses “social justice” only once by which he apparently and unfortunately for us means contributive justice (see §35).

Even so, Benedict offers the following insight to clarify the difference between justice and solidarity both of which are directed toward the common good.

In the global era, economic activity cannot prescind from gratuitousness, which fosters and disseminates solidarity and responsibility for justice and the common good among different economic players. It is clearly a specific and profound form of economic democracy. Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone, and it cannot therefore be merely delegated to the State. 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. What is needed, therefore, is a market that permits the free operations, in conditions of equality 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 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 [§38; emphasis in the original].

Benedict also calls attention to the close linkage between subsidiarity and solidarity.

… the former without latter gives way to social privatism, while the latter without the former gives way to paternalist social assistance that is demeaning to those in need [§58].

**FINAL REMARKS**

We began this chapter with the purpose of reducing the ambiguity surrounding social justice. We have argued that practicing social justice means practicing all three types of justice relevant to economic affairs: equivalence, distributive justice, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carrying out their everyday economic activities in common. To some, as Ederer [p. 114] asserts, social justice is just a slogan. Just the same, whatever ambiguities remain, it is not a slogan for us.

Living in common means living in a network of communities. Subsidiarity helps us decide where in that network responsibility for production should be located. The goods produced in common should be produced by the smallest element in the network in order to position production as close as possible to the family and its members so as to better assure that those goods are available to meet the needs of human beings as persons and to contribute to their proper development.

Under subsidiarity, there is a strong preference for action taken first by private organizations and then by public agencies but only after the public agencies have offered assistance and the private organizations still are not operating effectively. Thus, the common good does not always require

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1 In the early 1900s, for example, the German Jesuit economist Pesch identified the two as complements: “… charity must complement justice so that one person will help the other, even when he is not compelled to do so by any kind of legal obligation” [Pesch, p.177].

2 Later Benedict adds “international solidarity,” “social solidarity,” and “welfare solidarity” (see §60) without clarifying how those terms differ from “solidarity” as defined in this section. The difference seems to somehow relate to the principle of subsidiarity.
goods produced by public agencies.

The problem with justice is that it results in a condition where no one owes anything to anyone else, a condition which Schall [p. 412] describes as an “isolated hell.” John Paul puts it this way: “…justice, if separated from merciful love, becomes cold and cutting” [John Paul 1998, p. 1]. In other words, the faithful practice of social justice coupled with subsidiarity removes the sources of dysfunction that prevent human beings from living successfully in community. They do not, however, establish a functional community.

For Christians practicing the theological virtue of charity is necessary to address the burdens of persons with unmet personal needs. If those needs are not addressed, and they plainly are not under social justice, the poor are marginalized and effectively excluded from living in common. For other persons of good will, the natural virtue of caring is necessary.

Both Benedict and John Paul warn us that more than social justice enlightened by subsidiarity and the theological virtue of charity focused narrowly on one’s immediate neighbors are sufficient for a truly functional community in an increasingly interdependent “economic, cultural, political, and religious” [SRS, §38] order. The full development of human beings as persons depends on solidarity – “a firm and persevering determination to commit oneself to the common good … the good of all and of each individual …” [SRS, §38].

Benedict says that without the gratuitousness that makes solidarity possible, “there can be no justice in the first place.” We conclude that the functional community depends on (a) charity or caring to meet the needs of the poor, (b) gratuitousness that makes possible social justice which takes in equivalence, distributive, and contributive justice and which when coupled with subsidiarity removes the human barriers to community, and (c) solidarity – a deep and abiding personal commitment to the common good.
References


PART III
PERSONS SURVIVING AT THE MARGIN
CHAPTER TWELVE

TOWARD AN IMPROVED DEFINITION OF POVERTY

Most of the people of the world are poor, so if we knew the economics of being poor we would know much of the economics that really matters [Schultz, p. 639].

The question ‘What does it mean to be poor?’ evokes a different response from one person to the next because each one’s answer is a reflection of a personal value system. When value systems diverge, wider agreement on any normative issue becomes more difficult, including how best to define poverty. This is not to suggest that defining poverty is a thoroughly arbitrary, personal matter. Rather, it is to underscore that the student of poverty should not expect to find or advance a definition that is acceptable to everyone. However, an improved definition is possible and with it wider agreement as to the extent of poverty.

Poverty is a problem in unmet human physical need. That is, persons and families in poverty lack the goods and services needed to sustain and support life and the income to purchase the goods or services that would meet those needs. At this point, however, a most fundamental controversy arises. Is the totality of human physical need to be expressed in an absolute sense or a relative sense? That is, does one measure unmet physical need strictly in terms of the things that are needed to maintain some minimal standard of living, or is it better measured in terms of one person’s income relative to the income of others?

This controversy is further compounded by the terms “relative” and “absolute” in at least two ways. First, “absolute” suggests “free from all imperfection or deficiency; complete, finished; perfect, consummate,” “free from all doubt or uncertainty; positive, perfectly certain, decided.” All of these definitions, however, are applied inappropriately to the official U.S. poverty standard because, as Sawhill correctly has pointed out, absolute standards of poverty are “socially defined and will therefore vary across cultures and historical periods” [Sawhill, p. 1076]. More recently, Callan and his Irish colleagues point out why the absolute standard is not authentically absolute.

... standards presented as aiming to measure “absolute” poverty in developed countries do not apply a timeless, fixed poverty line based on an unchanging set of minimum needs. In fact, they are heavily influenced by prevailing conditions and expenditure patterns. Their true distinguishing feature is the way the poverty standard is adjusted over time, being uprated simply in line with prices and taking no account of changes in average income or expenditure patterns [Callan and others, p. 6].

1 See The Oxford English Dictionary.
Second, an absolute standard measures poverty \textit{relative} to the income required to purchase the goods and services to maintain a minimal standard of living. For that reason, this author personally uses the less ambiguous “minimal-living standard” in place of “absolute standard” and “income-distribution standard” instead of “relative standard.” Adopting this language much more widely would be a small but significant step in the direction of an improved definition of poverty.

The challenge to develop a better definition of poverty clearly goes well beyond the issue of the misuse of “relative” and “absolute.” In that regard, this chapter attempts to show that there is a satisfactory resolution to the more fundamental controversy as to the whether poverty is measured strictly in terms of a minimal-living standard or an income-distribution standard, a resolution that is based on the duality of human nature. Indeed such a two-dimensional definition of poverty already is in place in Ireland -- the first place (it seems) to actually sort out this controversial matter. The Irish “consistent poverty rate” counts as poor only those persons with household income below 60 percent of median income (the income-distribution or relative dimension) who also are lacking in certain basic necessities such as one substantial meal each day, new rather than second-hand clothes, and heated quarters (the minimal-living or absolute dimension) [CSO, p. 39]. Our central message in the following is this: substantial improvement in the way poverty is officially defined and measured is possible if more careful consideration is given to the reason why poverty is two-dimensional.

Further, we suggest several critical values that give expression to this two-dimensional definition and that can be applied to the data available from the central source of information on poverty in the United States -- the \textit{Current Population Survey} (CPS). To reduce the arbitrariness in these criteria, we compare how they operate alongside the official U.S. poverty criteria or thresholds utilizing selected \textit{CPS} micro-data for two years in the 1980s.\footnote{The Census Bureau reports poverty data in two forms: micro and summary. Micro-data refer to data collected from individual persons, families, and households and available for analytical purposes at that microscopic level. Summary or macro-data refer to data collected from the same sources but compiled in a specific summary format that displays the information for certain groups such as all married couple families or all unrelated individuals. With summary data there is no way to re-compile the data to provide information about groups that have not been formatted already by the Census Bureau. With micro-data the researcher is free to compile the data in anyway that is useful or instructive.} In this regard, five tests are centrally important: convenience, consistency, directness, comprehensiveness, and acceptance. Any standard that incorporates both the minimal-living and income-distribution dimensions and that grades out better on these five tests is an improvement over the official U.S. poverty standard.

\textbf{THE OFFICIAL U.S. CRITERION OF POVERTY}

Surely there can be no disputing that poverty is a problem of unmet human material need and that unmet need is both the norm by which poverty is to be defined as well as the reason why poverty is a problem in normative rather than positive economics. However, the question ‘What does it mean to be poor?’ misleads in the sense that it implies that our work begins with defining poverty. In fact, our
work begins with the question ‘What does it mean to be human?’ Failure to address this question fully has led to the long-standing split among students of poverty as to whether poverty is “absolute” or “relative,” whose energies could have been applied more productively to other poverty issues that are much tougher to resolve.

There is an unmistakable duality to human nature. Humans are at once individual beings and social beings. Setting aside the present-day technological capability to clone human beings, humans are unique, one-of-a-kind beings whose individuality is evidenced in a physical sense, for example, by their fingerprints and voiceprints. In the workplace, human individuality manifests in the need for a job with opportunities to apply one’s creative skills and talents. The strictly individual dimension of human nature accounts for the human disposition to perform certain tasks acting alone, motivated by strictly personal economic incentives. This disposition which in mainstream economics is referred to as “competition” is a potentially powerful activating force helping to organize economic affairs. However, to effectively utilize the organizing principle of competition it is necessary for society to embrace the social value of individual freedom.

In like manner, human sociality is evidenced by speech and language and is reflected in the need to belong to a group of other working human beings who understand that group unity or solidarity is essential to completing certain workplace tasks successfully. In other words, the social dimension of human nature accounts for the human disposition to undertake certain tasks through collective action because those tasks cannot be completed as efficiently or at all by economic agents acting alone. This disposition that in personalist economics is known as “cooperation” is a second activating force helping to organize economic affairs. In the United States, however, cooperation is less widely utilized because its underlying social value of teamwork or community is less highly valued than the social value of individual freedom that is foundational to the organizing principle of competition.¹

Reflecting this basic human duality and keeping in mind how each dimension relates to a specific principle to organize economic affairs and in turn to a specific underlying social value, unmet human physical need is two-dimensional and poverty is neither “absolute” alone nor “relative” alone, but both. It follows that the norm of unmet human physical need has both a minimal-living dimension representing human individuality and an income-distribution dimension representing human sociality. Critics of the “absolute standard” of poverty who would replace it with the “relative standard” ignore in effect the individuality and competitive nature of human beings and subordinate the social value of individual freedom to the social value of teamwork or community. At the same time, critics of the “relative standard” who insist that only the “absolute standard” will do effectively dismiss the sociality and cooperative nature of human beings, valuing freedom much more highly than community. The resolution of this controversial issue is as straightforward as the resolution of the question ‘What determines price, supply or demand?’ which Marshall demonstrated

¹ For more on how the two activating principles of competition and cooperation organize economic affairs and depend on the social values of individual freedom and teamwork see Chapter Four.
was equivalent to asking ‘Which edge of the scissors does the cutting?’.

A criterion of poverty is a critical value that expresses the norm of unmet human physical need, understood two dimensionally, in measurable form. Focusing entirely on human individuality, Orshansky used the cost of the Economy Food Plan as her central criterion of poverty in what became the official U.S. poverty standard in the 1960s that remains today central to that minimal-living standard. Other students of poverty whose attention has centered on human sociality have recommended an income-distribution standard with a critical value such as income below one-half the median income for all persons/households as being indicative of poverty.

Orshansky was correct in starting with the cost of food since indisputably food is one aspect of human physical need, and the acceptance that her standard has attained no doubt is a reflection of the public’s judgment to the effect that indeed subsistence means in part having enough to eat. Further, it was a great convenience at the beginning to simply multiply the cost of food by the critical value of three to arrive at the cost of all aspects of that need and the income threshold of poverty. Thus, the Orshansky poverty standard earns high marks on two of the five tests of a proper criterion of poverty that are enumerated above: convenience, consistency, directness, comprehensiveness, and acceptance. By convenient we mean that it is simple to apply to the data and to produce estimates of unmet human physical need. By acceptance we mean that the standard is accepted by the public indicating that it conforms to the value systems of large numbers of Americans.

However, the convenience of the Orshansky standard comes at a price. The official U.S. poverty standard in use today is not and never has been direct or comprehensive. To elaborate, the official standard measures directly the cost of only one aspect of human physical need. The cost of the other aspects of that need such as shelter, clothing, health care, transportation, and education are estimated indirectly by means of the multiplier of three. This defect raises serious doubts as to whether the official standard passes the test of being comprehensive, that is whether it encompasses every aspect of unmet human physical need. We have more to say about the consistency test later in this chapter.

CRITERIA OF POVERTY GROUNDED IN INDIVIDUALITY AND SOCIALITY

In 1990 we first recommended a two-dimensional poverty standard as an improvement over the official U.S. standard because in principle it resolves the controversy swirling around “relative” and “absolute.” The minimal-living dimension was based on the official U.S. standard because of its wide acceptance. The income-distribution dimension was built on the critical values that measured

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1 Five years after we first published these standards (see O’Boyle 1990, pp. 11-12), the Panel on Poverty and Family Assistance recommended that a satisfactory standard of poverty is definable and measurable in terms of its acceptance and understandability, its statistical defensibility and consistency, and the feasibility of its implementation with data that are readily available and obtainable (see Citro and Michael, p. 3).

2 Arriving at the cost of the other aspects of human physical need is by no means a simple matter in the United States given the substantial individual differences in such a large population. Even so, in this matter there is no getting around having to arrive at a figure that is an average and that therefore effectively levels those differences.
impoverishment in strict fashion, that is in terms of the lowest or second lowest decile in the income distribution for the United States.

Three criteria are presented. The first criterion, which is the strictest of all, measured poverty in terms of income that is (a) below the official U.S. poverty threshold and (b) in the lowest decile. The second criterion measured poverty in terms of income that is (a) below the official poverty threshold and (b) in lowest or second decile. The third criterion measured poverty in terms of income that is (a) below the official threshold or (b) in the lowest decile.

This scheme was developed further to address the “depth of income poverty” problem by defining the marginally poor in terms similar to the poor. The first criterion counted as marginally poor those with income (a) below the official U.S. poverty threshold and above the lowest decile or (b) above the official threshold but in the lowest decile. The second criterion counted as marginally poor those with income (a) below the official poverty threshold and above the second decile or (b) above poverty and in the lowest or second decile. The third criterion counted as marginally poor those with income (a) above the official threshold and (b) in the second decile.

**ASSESSING THE IMPACT OF THE THREE CRITERIA OF POVERTY**

As already indicated, a criterion of poverty first is judged logically in the sense that it expresses the norm of unmet human physical need in measurable and well-reasoned form. In other words, is it better grounded in what we mean by unmet human physical need than the official poverty standard? Then a poverty criterion is judged empirically in that once we see how it actually works and compare those estimates of poverty with the official figures we are in a stronger position to judge how to measure poverty better.¹

Jorgenson several years ago published his own changes to the official poverty standard that measures poverty in terms of consumption expenditures rather than income and that he supported with empirical evidence. Jorgenson argues that the transitory component of consumption is relatively small whereas the transitory component of income for households with high measured income is relatively large. Thus, he asserts, measured consumption is a better proxy for household resources than is measured income [Jorgenson, pp. 79-96].

Whether it is a better proxy for household resources than measured income for purposes of measuring the extent of poverty depends very much on which persons and families one intends to include in the count of the poor: (a) those whose poverty is transitional or (b) only those whose poverty is more persistent. This issue is similar to the question as to whom to include in the count of the unemployed: (a) those whose unemployment is short-term or (b) only those whose

¹ A similar point is made by Becker [pp. 79-111] in his discussion of benefit adequacy under unemployment insurance which, as with poverty, is a normative issue rooted in the value systems of the various persons who use the concept.
unemployment is long-term. Using a consumption-based standard means the transitional poor in general are left out of the figures on poverty. In contrast, an income-based standard includes them and when combined with an income-distribution standard as indicated above provides a separate estimate of transitional poverty that later may be included in the count of the more persistently poor or deleted according to the values of the persons using the estimates.\(^1\)

Because Jorgenson’s modified standard remains a one-dimensional “absolute standard,” it does not measure up as logically superior to a two-dimensional standard. For that reason alone, in addition to the widespread acceptance of the official standard that from the beginning has been operationalized in terms of income, we are not persuaded that Jorgenson’s suggested consumption-based standard is clearly better.\(^2\)

To determine whether the three criteria suggested above would lead to an improvement in the way in which poverty is measured it is necessary to compare estimates of the number of persons in poverty based on these three criteria to the official estimates of poverty. We applied both the official “absolute standard” of poverty with our own three suggested criteria of poverty to data from the same source: the CPS micro-data files on personal, family, and household income in 1988 and in 1985.\(^3\)

There were no differences between the official standard and our three suggested criteria in the specific sense that none of the persons counted as poor under the official standard were classified as not poor under the three suggested criteria. Further, virtually everyone classified as poor under the first and second suggested criteria of poverty was classified the same way under the official standard. Using the third suggested criterion, however, there were as many as 1.7 million persons counted as poor who were classified as not poor under the official standard.

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\(^1\) The latest data available on transitions into and out of poverty indicate that an estimated 6.9 million persons entered poverty between 1993 and 1994 and another 7.6 million exited poverty at the same time [Naifeh, p. 1]. See O’Boyle 1998b [pp. 1411-1424] for more on transitions into and out of poverty.

\(^2\) Appearing in the same issue of the *Journal of Economic Perspectives* as Jorgenson’s article is a second article by Triest [pp. 97-114] that indirectly touches on the issue of the “relative standard” but clearly re-affirms the long-standing practice in the United States of an official poverty standard that is “absolute.”

\(^3\) The poverty data and the income-distribution data used here were extracted directly from the *CPS* without modification. All three suggested criteria were applied to the weighted estimates from the *CPS* in a way that left the income-distribution data unadjusted for family and household size. Thus, all three are one part family/household-size adjusted and one part unadjusted. The minimal-living portion is adjusted because that adjustment is directly built into the official poverty standard. There is no other way to properly construct an “absolute standard” from the *CPS* data. At the same time, the income-distribution data are unadjusted because we sense that human beings whether they live in large families/households or small, compare their own economic resources with the resources of others across a wide spectrum of families and households of different sizes and not narrowly against families and households of the same size.
There were much more substantial differences as to the marginally poor. As many as 15.6 million of the 16.4 million persons who were classified as marginally poor by the three suggested criteria were counted by the official standard as not poor. Even with the first criterion, which is the strictest, there were 1.7 million of the 7.9 million marginally needy who were counted as not poor by the official standard.

The empirical results for families were similar. All of the families classified as poor under the official poverty standard in 1988 were counted as poor or marginally poor by the three suggested criteria. For the first two criteria all of the families counted as poor were classified as poor under the official standard. Again, the major differences lie with the marginally poor. Using the second criterion, for example, there were nearly as many families counted as marginally poor (6.4 million) that were left out of the official poverty count as were included in that count (6.8 million).

The CPS micro-data also indicate that 0.9 million of the 31.7 million persons in households officially classified as poor had incomes above the national median household income (in the sixth - tenth deciles in the distribution). Additionally, another 1.5 million of the poor were in the fourth-fifth deciles [O’Boyle 1998a, pp. 123-142]. These data suggest that the official poverty standard is deficient in terms of the consistency test that requires that everyone in the same circumstances is classified similarly.

The findings with regard to persons, families, and the marginally poor, based on the CPS micro-data for 1985, are strikingly similar (see O’Boyle 1990, pp. 2-17). Table 12.1 summarizes these findings for both years for persons in poverty. As indicated above, the findings for families in poverty are quite comparable.

**CONCLUSIONS**

The controversy between advocates of the “relative standard” and proponents of the “absolute standard” has persisted for more than 30 years because of a mutual failure to recognize the manner in that certain premises have shaped and formed the ways in which they have conceptualized poverty. Students of poverty simply do not begin their work with an explicit recognition of the premises that they hold regarding human nature, how economic affairs are organized differently by competition and cooperation, how each of these two activating principles relate to different human dispositions and depend on affirming different social values, and how all of these differences determine the way in which they define and measure poverty. The proponents of the “absolute standard” do not understand that they begin with the premises that humans are individual beings by nature, that human individuality gives rise to organizing economic affairs on the principle of competition that rests on the social value of individual freedom, and that holding that premise and affirming that social value lead them instinctively to embrace that standard and reject the “relative standard.”

Similarly, advocates of the “relative standard” do not recognize that their work is based on the premise that humans are social beings by nature, that human sociality gives rise to organizing economic affairs on the principle of cooperation that rests on the social value of teamwork or solidarity, and that holding that premise and affirming that social value lead them instinctively to
embrace that standard and reject the “absolute standard.”

Not having recognized the role of their own premises and values in guiding their work, both parties are even less likely to see the premises and values of the other party, which takes their work in another direction. As John Henry Newman stated years ago:

... how little syllogisms have to do with the formation of opinion; how little depends upon the inferential proofs; and how much upon those pre-existing beliefs and views, in which men either already agree with each other or hopelessly differ, before they begin to dispute, and which are hidden deep in our nature [Newman, p. 210].

Three final comments remain. First, in combining income-distribution and minimal living into a single standard, a decision has to be made as to precisely how they are to be combined and applied to the data. This author herein has advocated a three-part classification scheme: the poor, the marginally poor, and the nonpoor. To simplify and recapitulate, the poor are identified as those who qualify under both the income-distribution standard and the minimal-living standard. The marginally poor are those who qualify under one standard but not the other. The nonpoor are those who do not qualify under either standard. By dividing the poor into two groups (poor and marginally poor) reflecting unmet need that is more or less severe, this type of classification scheme helps address the “depth of income poverty” problem.

Second, acceptance indicates that the definition has been widely accepted by the public because it conforms to the public’s values regarding the nature of poverty. This is so because most fundamentally poverty or unmet physical need is a concept that by definition reflects the values and premises of the persons who use it. In this regard, defining poverty is like issuing paper currency. What matters most in both instances is public acceptance because without that acceptance the currency simply does not circulate and the public will not take to heart a policy based on a concept of poverty that does not square with their own values and premises.

Third and last, this author suggested five tests as helpful in deciding whether to keep the present official poverty standard intact or modify it. In this regard, it grades out as satisfactory on two--acceptance and convenience--but is unsatisfactory on the other three--directness, comprehensiveness, and consistency. Substantial improvement could be had by inserting income distribution into the present standard and creating a separate classification for the marginally poor.
### TABLE 12.1 COMPARISON OF OFFICIAL U.S. POVERTY STANDARD AND THREE OTHER CRITERIA OF POVERTY

<table>
<thead>
<tr>
<th></th>
<th>1988</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is every person who is classified as poor under the official standard ...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>classified as poor/marginally poor under the first suggested criterion?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>classified as poor/marginally poor under the second suggested criterion?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>classified as poor/marginally poor under the third suggested criterion?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Is every person who is classified as poor under the first suggested criterion classified as poor under the official standard?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Is every person who is classified as poor under the second suggested criterion classified as poor under the official standard?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Is every person who is classified as poor under the third suggested criterion classified as poor under the official standard?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>number (in millions) classified differently ...............................................</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Is every person who is classified as marginally poor under the first suggested criterion classified as poor under the official standard?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>number (in millions) classified differently ...............................................</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Is every person who is classified as marginally poor under the second suggested criterion classified as poor under the official standard?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>number (in millions) classified differently ...............................................</td>
<td>15.6</td>
<td>13.6</td>
</tr>
<tr>
<td>Is every person who is classified as marginally poor under the third suggested criterion classified as poor under the official standard?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>number (in millions) classified differently ...............................................</td>
<td>13.8</td>
<td>12.3</td>
</tr>
<tr>
<td>Is every person who is classified as poor under the official standard in a household where income is less than the national median?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>number (in millions) greater than median ...............................................</td>
<td>0.9</td>
<td>0.9</td>
</tr>
</tbody>
</table>
POSTSCRIPT
Rector, Johnson, and Youssef (RJY) object to the two-dimensional standard of poverty because for
them there is no room in a satisfactory definition of poverty for deprivation that is defined in relative
terms or what we prefer to call the income-distribution dimension.¹ To RJY, poverty strictly
speaking is a matter of absolute deprivation or what we call the minimal-living dimension. We focus
on this issue entirely and not on his remarks regarding how poverty is measured because how poverty
is defined logically precedes and determines how it is measured. Without agreement on the proper
definition of poverty, we are not likely to reach agreement on how best to measure poverty.²

RJY open with their objection to constructing a definition of poverty in which persons and families
in the bottom two deciles of the income distribution are defined as poor on grounds that it “makes
poverty ineradicable even under the most dramatic schemes of income distribution.” This is true. But
it is not disabling because defining poverty strictly along a minimal-living dimension with absolutely
no regard for its income-distribution dimension leads to the same outcome unless we are able to
prevent the major causes for entry into poverty: illness, injury, divorce, death of the primary wage-
earnner, increase in family size, exploitation, downsizing. As long as humans are beset with those
problems, there will be some persons and families who fall below whatever minimal-living standard
is used.

RJY follow with three comments on “relative poverty” that are generic in nature and not intended to
be specifically critical of our recommendations. We respond to each one because they afford an
opportunity to help clear away some of the differences that separate us.

First, to RJY “relative poverty” brings income inequality to the fore but inequality and poverty have
meanings that for them are quite different. RJY then re-state their central position: poverty is strictly
a matter of “physical necessity, minimal needs, and suffering.” This is not a proof, however. It is a
re-affirmation of the premises and values that they bring to the debate on the proper definition of
poverty. That is, we suggest, an implicit re-affirmation of human individuality, competition as the
driving force organizing economic affairs, and individual freedom that makes it possible for humans
to enter the competitive fray. Premises and values with which men and women of good will may
respectfully disagree.

In this regard, and at a deeper level, we suspect that RJY’s views are that greater income equality
frustrates the human disposition to tackle certain tasks alone thereby damaging the engine of

¹ To simplify matters throughout this postscript, we refer to the Rector-Johnson-Youssef response to our article

² As my reply to the paper presented by Bishop, Formby, and Zheng indicates, I applaud any and all efforts to
improve the income data that are used to determine whether a person, family, or household is to be classified as
poor or nonpoor.
competition for activating economic affairs. We certainly share that view but add to it the following:
greater inequality undermines the human disposition to undertake certain tasks collectively thereby
crippling the engine of cooperation for energizing economic affairs. In this sense, defining poverty
includes balancing whatever consequences it might have for individual freedom and the human
disposition to work alone on the one hand and for teamwork and the human disposition to work with
others.

At this level, the “relative” versus “absolute” controversy reduces to the One-Many dichotomy that
Becker explains so brilliantly in setting forth his own philosophical presuppositions before he
addresses the problem of maintaining popular control of employment security programs.

The problem of organizing society is ultimately, like most problems, an aspect of the
One-Many dichotomy. To achieve the ends of society men must choose to act as
individuals, and therefore as Many, or to act as a group, and therefore as One [p. 3].

RJY continue this objection with a comment to the effect that the reasons for introducing an income-
distribution standard are “often purely political” citing Robert Lampman’s warning to President
Johnson that his anti-poverty program must not appear to promote economic egalitarianism for fear
that it would not be politically viable. This too is true. Political considerations drive decisions
regarding government programs of aid for the poor because those programs require public support in
order to achieve viability. To the extent that those programs have “triggers” tied to official poverty
figures, it is inevitable and not necessarily improper that the official definition of poverty used to
generate those figures reflects and responds to public opinion expressed through the political process.
This is how public acceptance is achieved.

Even so, as we have stated previously, definitions will change as public values evolve. Students of
poverty have a role to play in the public discourse by clarifying the values and premises that form the
foundation of any new definition offered in the public discourse, by recommending ways to improve
the construction of any new standard through comparisons of the estimates derived from such a
standard with the official estimates, and by identifying any new data that must be collected to
properly operationalize any new standard. In our estimation, this is how best to define and measure
poverty because, as mentioned previously, poverty is a normative concept that reflects the values of
those who use it. In this regard, we have recommended a definition that expresses my own values
and premises just as RJY has. Neither of us, presumably, are motivated purely or even significantly
by personal advantage. Rather, I trust we are driven by a true and abiding concern for the unmet
physical need of human beings that years ago Schultz said is central to an economics that really
matters [Schultz, p. 639].

Second, RJY assert that incorporating an income-distribution dimension in the official definition of
poverty would “drain the word poverty of all meaning.” RJY are correct that politicians employ a
definition of poverty that incorporates only a minimal-living dimension but they do so, I submit,
because it is the official government definition in use from the very beginning. In other words it is
widely accepted and for that reason I have not discarded the official definition but added an income-
distribution dimension to it. The “tension” that RJY refer to between “the stark images of poverty presented by politicians, journalists, and activists and the higher, actual living conditions of those who are ‘poor’” is natural and inevitable given the different premises and values that underpin each one’s use of “poverty.” This tension will not disappear and we will not bring the popular image and measured concept into alignment by clinging to the present absolute standard or some further modification of it as if it were entirely value-free. Poverty is unavoidably a value-laden concept about which there is and should be considerable tension as each generation struggles with defining and measuring it anew to bring it into closer conformity to its own values and premises.

Third, RJY dismiss the income-dimension of poverty on grounds that it leads to the paradoxical outcome of an actual decline in poverty during the Great Depression because the actual incomes of the more affluent fell further than the incomes of the less affluent. This is true. But in those remarks RJY neglect to take into account that the definition that we propose is two-dimensional: one part based on minimal living, one part based on income-distribution. For example, one of our three recommendations defines poverty in terms of income that is below the official minimal-living threshold or in the lowest decile of the income distribution. This suggested definition produces no such paradoxical results as RJY assert. Indeed, it would no doubt supply an estimate of poverty more consistent with the grim reality of the Great Depression.

Finally, as we have stated previously in these pages and elsewhere, the “relative” versus “absolute” controversy is reminiscent of the “supply/demand” squabble in economic theory until Marshall’s scissors diagram resolved the issue. Poverty is both relative and absolute because human are both individual and social beings who are disposed at times to organize economic affairs on the principle of competition and at times on the principle of cooperation, reflecting the values that they attach to individual freedom (the Many) on the one hand and teamwork or community (the One) on the other.

In 1965 Orshansky gave us a definition of poverty that she herself characterized as “still relatively crude” [Orshansky, p. 3]. Twenty-three years later Sawhill concluded that “it is hard to say whether it is absolute or relative poverty that is the more relevant concept” [Sawhill, p. 1077]. We have argued that both dimensions are relevant, the one no less than the other.
References


O’Boyle, Edward J. “Poverty: A Concept That is Both Absolute and Relative Because Human Beings Are at Once Individual and Social,” Review of Social Economy, Volume XLVIII, Number 1, Spring 1990, pp. 2-17.


APPENDIX
DISTRIBUTION SENSITIVE MEASURES OF POVERTY

The article by Bishop, Formby, and Zheng (BFZ) in the September 1999 Review of Social Economy begins with the postulate that there are serious flaws in the way in which poverty is officially defined and measured and, therefore, in the estimates of poverty that are published by U.S. Bureau of the Census. We agree.

Four areas are troublesome for BFZ and their article addresses each in turn. First, the official definition of poverty raises fundamental questions as to how physical needs are defined and measured. Second, the income definition used to classify a person or family as poor is not sufficiently comprehensive. Third, differences in the cost of living in different parts of the country are not and never have been incorporated in the official poverty standard. Fourth, the official standard is not sensitive to the fact that the hardship of poverty is greater for some persons and families than for others.

We agree with the authors on all four counts by and large but the devil, as they say, is in the details. Our comments, however, are selective rather than comprehensive.

FIRST FLAW: DEFINING AND MEASURING POVERTY

As to the first flaw, BFZ assert that (1) the problem originates in the definition of poverty, (2) the definition must be grounded in basic human physical needs, and (3) defining poverty is inevitably arbitrary. We agree with the first two, but not the third.

The official U.S. poverty income threshold is defined in terms of the cost of the food necessary for a nutritionally adequate diet (referred to as the Economy Food Plan). In turn, the poverty income threshold -- the income just sufficient to purchase the goods and services that meet all human physical needs minimally -- is estimated at three times the cost of the Economy Food Plan. The multiple of three derives from survey research on consumer expenditures conducted in the 1950s that indicated that households at that time spent about one-third of their income on food. In 1965 Mollie Orshansky, the original architect of the official poverty standard, called the 3:1 income-food relationship an “interim guide” [Orshanky, p. 3].

There are no direct estimates of any other basic human physical needs, such as shelter, clothing, health care, transportation, included in the official poverty statistics. This shortcut in the construction of the poverty income threshold reduces the difficulty of estimating poverty but deals with unmet human physical needs superficially.

BFZ’s “inevitably arbitrary,” however, is misleading because it suggests that ultimately there is no way to reach agreement as to how to improve the definition of poverty used in the official U.S. estimates of poverty. Although this term has widespread and long-standing use in poverty research, it
does not serve us well. There is nothing arbitrary, for instance, about grounding the definition of poverty in human physical needs, even though mainstream economics construed consumption strictly in terms of human physical wants. Further, there is nothing arbitrary about the recommendation that the official poverty income threshold should be based squarely on actual estimates of all of the elements of human physical needs, not just the cost of food, difficult though that may be.

Rather than being *inevitably arbitrary*, the definition of poverty properly understood is *inherently value-laden*, that is it unavoidably reflects the value systems of the persons using it. The student of poverty is free to use whatever definition or income threshold suits his/her purposes provided he/she can show clearly that the statistical evidence forthcoming leads to a clearer understanding of unmet human physical needs and therefore represents a better definition of poverty. Otherwise the results have no practical meaning.

In their article, BFZ use several alternative thresholds, such as 75-percent or 125-percent of the official poverty income threshold, but they are not convincing as to how their statistical evidence improves our understanding of unmet human physical needs and thereby contributes to an improvement in the present definition of poverty. Any alternative income threshold that is based strictly on some fraction or multiple of the 100-percent poverty income threshold is excessively arbitrary because it does nothing to remove or reduce the fundamental underlying flaws in that threshold. Such alternative thresholds only perpetuate those flaws and for that reason their usefulness is highly questionable.

The central definitional and measurement problems inhere in the 100-percent threshold *per se* and therein our efforts should be directed. To continue with such alternative thresholds simply leads to a proliferation of numbers on the extent of poverty\(^1\) and does not help answer the ultimate question in poverty research: ‘What do to for the poor?’ Ultimately, the proof of the superiority of one definition of poverty compared to another depends on applying both to the same data set and comparing the results. Of the two, the one that probes more deeply into the nature of poverty and helps sharpen our understanding of the plight of the poor is the better definition.

**SECOND FLAW: DEFINING AND MEASURING INCOME**

Along with the 100-percent poverty income threshold, information on income from survey research is required to officially classify a person or family as poor. Unlike the concept underlying the poverty income threshold, however, the concept underlying income is not value-laden. Simply put, selecting a proper definition of income is not a normative issue. Rather it is a technical problem and, for that reason, BFZ’s quite sensible recommendation to make the concept more comprehensive is not

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\(^1\) In the most recently published Census report on poverty in the United States in 1997, there are separate estimates of poverty based on the following threshold levels: 0.50, 1.00, 1.25, 1.50, 1.75, and 2.00. The headcount estimates of poverty range from 14.6 million or 5.4 percent of the population to 86.3 million or 32.1 percent of the population. See Dalaker and Naifeh [Table 2].
controversial.¹

In the official poverty estimating process, as BFZ indicate in their article, income includes wages and salaries, self-employment income, dividends, interest, rent, cash transfers, and other cash income. Their recommendation adjusts the income used in the official estimates (1) upward by adding food stamps, subsidies for housing, energy, and school lunches, implicit return on home equity, and earned income tax credit, and (2) downward by deducting federal and state income taxes, along with payroll and property taxes.

Aside from the difficulties attendant on its application, we cannot think of a single good reason for not implementing this recommendation. Orshansky herself admitted a certain crudeness in her initial efforts to estimate poverty [Orshansky, p. 12]. Removing this specific source of some of that crudeness is long overdue.²

**THIRD FLAW: INCORPORATING COST OF LIVING**

The official poverty income threshold takes no direct account of differences in the cost of living across the United States. The anomaly in this regard is that the income information obtained every year from survey research -- the *Current Population Survey* administered in March -- reflects (imperfectly) such differences in that income from sources such as labor and rental income, child support, unemployment insurance, and public assistance is higher or lower in those places where the cost of living is higher or lower.

BFZ draw on one of the recommendations of the National Research Council in 1995 to use hedonic price indices for estimating interarea differences in the cost of housing in order to construct their own indices of the cost of living. Guided by the reliability of the statistical evidence on the cost of housing, the authors prepared 1990 cost-of-living indices for 30 large urban areas that they combined into eight urban regions. The cost of living in all eight regions combined was estimated and assigned an index number of 100.0. Then the cost of living in each of the eight regions was estimated in relation to that base figure, with separate index-number estimates for owners and for renters.

The highest cost-of-living region in 1990 was New York/Boston where the cost-of-living index was estimated at 109.3 for owners and the lowest cost-of-living region was Southern Cities (including Atlanta, Dallas, Houston, New Orleans, and Tampa) where the index was estimated at 92.0 for owners. For renters, the range from highest-cost region to lowest-cost region was somewhat smaller: 106.3 in Los Angeles/San Francisco to 92.9 in Southern Cities.

¹ BFZ are not the first to recommend a more comprehensive measure of income (see, for example, Citro and Michael, pp. 39-42).

² In the Census report on poverty in 1997, there are estimates of the rate of poverty based on 15 “alternative definitions of poverty” all including more or less other income sources, taxes, and other items such as subsidies and imputed return on home equity. These estimates range from a low of 9.2 percent for the entire U.S. population to a high of 21.3 percent. See Dalaker and Naifeh [pp. xiv-xv, Table 5].
Applying these cost-of-living indices to the Census Bureau’s official count of the number of poor persons in those eight urban regions in 1990, the authors report the percentage difference in the headcount in those regions. In two of the eight regions -- New York/Boston and Los Angeles/ San Francisco -- the official count under-estimated the number of poor persons by 4.4 percent and 8.5 percent respectively. In the other six regions, the official count over-estimated the number of poor persons by as much as 12.1 percent in Southern Cities and by as little as 0.9 percent in Chicago\Detroit.

These findings indicate that taking the cost of living into account has an important effect on the estimates of the poor derived directly from the government’s own data. It follows that estimates of the number of persons who are poor would be more accurate if explicit cost-of-living adjustments were introduced into official poverty estimating process.

Ideally, cost-of-living adjustments should be made by defining each of the separate needs that make up the universe of human physical need -- food, shelter, clothing, and the like -- and pricing each one separately for different regions of the country for which there are known to be cost-of-living differences. The result would be different 100-percent poverty income thresholds for persons and families living in different cost-of-living regions of the country.

FOURTH FLAW: MEASURING THE HARDSHIP OF THE POOR

In their article, BFZ are more attentive to and present more statistical evidence on the removal of the flaw in the official 100-percent poverty standard relating to its not being sensitive to changes in the distribution of income among the poor. BFZ use the Sen index to correct for this defect in the official poverty estimates.

In brief, the Sen index adjusts the official poverty estimates of the number of persons in poverty by the extent to which (1) the incomes of the poor fall short of the official poverty income threshold and (2) the distribution of income among the poor is more or less equal. The Sen index is based on the premise that some of the poor are much needier than others and that it is necessary to take such differences into account in order to measure more accurately the meaning of poverty. The Sen index, in other words, probes poverty more deeply than does the official headcount standard.

Thus, the Sen index in effect modifies the official headcount statistics on poverty by taking account of differences in the hardship of the poor. The result is a rate that can be compared to the official poverty rate and that we call the “hardship-sensitive poverty rate.” We do this because otherwise there could be unnecessary confusion between the BFZ’s “Sen index” which refers to this rate of poverty that is sensitive to the hardship of the poor and their indexation of the “Sen index.” The two rates are equal when the income shortfall is zero and the Gini coefficient is zero. By virtue of the way in which it is constructed,\(^1\) the hardship-sensitive poverty rate cannot be greater than the official

\[ S = H \left[ I + (1-I)G_p (q/q + 1) \right] \] where S is the hardship-sensitive poverty rate, H is the official poverty rate, I is the ratio of the average income shortfall to the poverty line, \(G_p\) is the Gini coefficient of income inequality.
poverty rate.

BFZ also converted both sets of estimates into index-number form. They ran their calculations for the years 1961 through 1996 on the following poverty thresholds: 50-percent, 75-percent, 100-percent, 125-percent, 150-percent, 175-percent, and 200-percent. For reasons that are specified in our discussion of the first flaw, our remarks here relate just to the estimates based on the official 100-percent of poverty threshold.

Their findings indicate that for the 1961-1996 period the hardship-sensitive poverty rate ranged from a high of 10.0 percent in 1961, when the official rate reached its high of 16.5 percent, to a low of 4.9 percent in 1965, when the official poverty rate also reached its low of 9.2 percent. Typically the difference between the two rates throughout this period was on the order of roughly 2:1.

The hardship-sensitive poverty rate has much to recommend it. It is particularly valuable in its index-number form where it measures changes from one year to the next in the overall economic hardship endured by the poor population. Our personal preference is to pair it not with the official poverty rate but with the actual headcount of the poor which from year to year shows changes in the total number of persons in the poverty population. Progress toward the reduction of poverty must be measured in terms of the number of persons who are poor. The urgency with which we pursue that objective is determined importantly by how much economic hardship poor persons have to endure.

**SUMMING UP**

There are five points that bear repeating. First, defining poverty is a problem involving the normative concept of unmet human physical needs. It follows that the definition of poverty is inherently value-laden most fundamentally because it reflects the value systems of the persons who use it. Our task is to try to understand poverty better by probing it more deeply. This task requires us to apply any new definition of poverty and the definition in official use at the time to the same data and to compare the results in order to determine which of the two better matches our intuitive understanding of poverty. This work, carefully done, has the effect of little by little reducing the arbitrariness in the official definition of poverty and thereby contributes to the development of a better definition of poverty.

Second, it is time for poverty researchers to demonstrate how a poverty threshold that is some fraction or multiple of the 100-percent poverty income threshold removes the underlying flaws in the 100-percent threshold and why using such an alternative standard probes human physical needs more deeply and thereby represents an improvement over the 100-percent standard. Continuing to use such an alternative threshold without demonstrating its superiority simply leads to a proliferation of numbers on poverty that likely are more confusing than enlightening.

Third, there is a compelling case for expanding the definition that is used in collecting information on income from persons and families through survey research and that ultimately is matched against the official poverty income threshold to classify persons and families as poor or nonpoor. At the

\[ \text{Among the poor (our emphasis), and } q \text{ is the number of persons officially counted as poor.} \]
same time, the fifteen different definitions already in use by the Census Bureau produce so many different estimates of poverty as to make the overall issue of defining and measuring poverty appear to be even more arbitrary than is necessary. After more than 40 years of intense research on the poverty question, reaching agreement on the income definition to be used in survey research is long overdue.

Fourth, some adjustments for differences in the cost of living across the United States are called for. Our preference is to introduce these adjustments at the same time the nonfood elements of human physical needs such as shelter, clothing, medical care are carefully defined and measured and are directly incorporated in the official definition of poverty.

Fifth, and last, a hardship-sensitive poverty measure would add substantially to our understanding of poverty because it measures what the current headcount does not: the intensity of the hardship of unmet human physical needs. We recommend that such a measure be added to the other tools for which the Census Bureau collects data every year provided we can avoid the proliferation of variations on the basic definition and of the numbers that have attended the development of the official poverty standard.
References


Since 1988 the Census Bureau’s annual report Poverty in the United States has included information on the income deficit and income surplus. Taking into account family size, income deficit defines impoverishment in terms of the difference between the income of each poor family and the appropriate poverty threshold for a family of that size. Income surplus of nonpoor families is the extent to which the income of every nonpoor family exceeds the poverty threshold for a family of the same size. In the following we examine: (1) the difference in income between poor and nonpoor families; (2) transitions into and out of poverty; (3) the income gap by race and type of family; and (4) three remedies for closing the gap. Our concluding remarks call attention to the linkage between our understanding of human nature and the way in which poverty is defined and measured.

**FAMILY INCOME GAP**

In 2006 the mean income deficit for all poor families was $8,302. The mean income surplus for all nonpoor families was $67,743. It follows that the sum of those two estimates -- $76,045 -- represents the average (mean) difference in income between poor and nonpoor families or simply the family income gap. In current dollars, this gap has increased by $38,890 since 1988. In constant dollars (2006 = 100), the increase has been $12,728 (see Table 13.1A). Put differently, since 1988 the real income of poor families has been falling further behind the real income of nonpoor families by nearly $707 every year. The recession of 1991-1992 is reflected in a narrowing of the income difference between poor and nonpoor families. Between 1993 and 2000 -- the period marking the longest expansion in U.S. economic history -- the real family income gap grew by $1,301 every year.

The median income deficit for all poor families in 2006 was $7,174. At the same time, the median surplus for all nonpoor families was $47,316. Thus the family income gap measured in terms of median income was $54,490. In current dollars, this gap has increased by $24,085 since 1988. In constant dollars (2006=100), the increase has been $4,209 (see Table 13.1B). Because the median is the midpoint of a frequency distribution, the median family income deficit/surplus figures reduce the

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1 Income deficit information is included in earlier annual reports, but income surplus data became available for the first time in 1988.
Table 13.1A Mean Family Income Gap: Difference Between All Poor Families and All Nonpoor Families, 1988-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Dollars</th>
<th>Constant Dollars:2006=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$37,155</td>
<td>$63,317</td>
</tr>
<tr>
<td>1989</td>
<td>39,898</td>
<td>64,866</td>
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<tr>
<td>1990</td>
<td>41,056</td>
<td>63,327</td>
</tr>
<tr>
<td>1991</td>
<td>41,963</td>
<td>62,113</td>
</tr>
<tr>
<td>1992</td>
<td>43,374</td>
<td>62,325</td>
</tr>
<tr>
<td>1993</td>
<td>46,543</td>
<td>64,935</td>
</tr>
<tr>
<td>1994</td>
<td>48,423</td>
<td>65,871</td>
</tr>
<tr>
<td>1995</td>
<td>49,801</td>
<td>65,878</td>
</tr>
<tr>
<td>1996</td>
<td>52,310</td>
<td>67,213</td>
</tr>
<tr>
<td>1997</td>
<td>55,613</td>
<td>69,854</td>
</tr>
<tr>
<td>1998</td>
<td>58,245</td>
<td>72,038</td>
</tr>
<tr>
<td>1999</td>
<td>60,814</td>
<td>73,590</td>
</tr>
<tr>
<td>2000</td>
<td>63,247</td>
<td>74,045</td>
</tr>
<tr>
<td>2001</td>
<td>65,072</td>
<td>74,074</td>
</tr>
<tr>
<td>2002</td>
<td>65,212</td>
<td>73,078</td>
</tr>
<tr>
<td>2003</td>
<td>67,386</td>
<td>73,832</td>
</tr>
<tr>
<td>2004</td>
<td>69,256</td>
<td>73,912</td>
</tr>
<tr>
<td>2005</td>
<td>72,084</td>
<td>74,409</td>
</tr>
<tr>
<td>2006</td>
<td>76,045</td>
<td>76,045</td>
</tr>
</tbody>
</table>

Table 13.1B Median Family Income Gap: Difference Between All Poor Families and All Nonpoor Families, 1988-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Dollars</th>
<th>Constant Dollars:2006=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$29,505</td>
<td>$50,281</td>
</tr>
<tr>
<td>1989</td>
<td>31,156</td>
<td>50,654</td>
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<tr>
<td>1990</td>
<td>32,167</td>
<td>49,616</td>
</tr>
<tr>
<td>1991</td>
<td>33,068</td>
<td>48,946</td>
</tr>
<tr>
<td>1992</td>
<td>34,084</td>
<td>48,976</td>
</tr>
<tr>
<td>1993</td>
<td>34,651</td>
<td>48,344</td>
</tr>
<tr>
<td>1994</td>
<td>36,096</td>
<td>49,102</td>
</tr>
<tr>
<td>1995</td>
<td>37,035</td>
<td>48,991</td>
</tr>
<tr>
<td>1996</td>
<td>39,133</td>
<td>50,282</td>
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<tr>
<td>1997</td>
<td>40,997</td>
<td>51,495</td>
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<td>1998</td>
<td>43,166</td>
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<td>1999</td>
<td>45,082</td>
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</tr>
<tr>
<td>2000</td>
<td>46,326</td>
<td>54,235</td>
</tr>
<tr>
<td>2001</td>
<td>47,426</td>
<td>53,987</td>
</tr>
<tr>
<td>2002</td>
<td>47,843</td>
<td>53,614</td>
</tr>
<tr>
<td>2003</td>
<td>49,637</td>
<td>54,385</td>
</tr>
<tr>
<td>2004</td>
<td>50,603</td>
<td>54,005</td>
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<tr>
<td>2005</td>
<td>52,519</td>
<td>54,213</td>
</tr>
<tr>
<td>2006</td>
<td>54,490</td>
<td>54,490</td>
</tr>
</tbody>
</table>

measured family income gap by removing the disproportionate impact that very high-income families have on mean family income surplus and extremely low-income families have on mean family income deficit. Compared to the mean, the median provides estimates of the income surplus and income deficit which are more nearly typical of families above the poverty threshold and families below that threshold.

Because the median is the midpoint of a frequency distribution, the median family income deficit/surplus figures reduce the measured family income gap by removing the disproportionate impact that very high-income families have on mean family income surplus and extremely low-income families have on mean family income deficit. Compared to the mean, the median provides estimates of the income surplus and income deficit which are more nearly typical of families above the poverty threshold and families below that threshold (see Tables 13.1A and 13.1B, constant-dollar estimates). In 2006 the mean family income gap ($76,045) was 40 percent higher than the median family income gap ($54,490). In 1988 the mean gap was 26 percent higher than the median gap.

These findings raise three questions. Why is this information in effect buried in the annual reports on poverty prepared by the U.S. Census Bureau? Why are the poor falling further behind during the longest expansion in U.S. economic history? What implications can be drawn from this evidence? The final answer to the first question, while it calls for insider information, seems to inhere in the Census Bureau’s resolute commitment to defining and measuring poverty in terms of what is commonly called an absolute standard. The answer to the second and third questions originates in the fundamental nature of poverty, notably how persons and families enter and exit poverty.

WHY THE FAMILY INCOME GAP IS WIDENING

The family income gap has been widening because improved employment opportunities have worked especially well for those better positioned to take advantage of them, those who already are better skilled, more talented, more mobile, better connected, more willing to work longer, harder, and smarter in order to qualify for better jobs and advancement.

But there is more at work here than greatly improved job opportunities. Persons and families transition into and out of poverty due to significant life events such as marriage, divorce, separation, death, birth, injury, and disease. Marriage, for example, may involve withdrawing adult wage earners (the bride and the groom) from two families of origin perhaps plunging both families below the poverty threshold, and creating a third family that itself may have income below the poverty threshold. Death of a wage-earning spouse could reduce the surviving family members to poverty, and re-marriage could lift them out of poverty. Retirement, especially if forced due to a permanent disability, could drop income for an older married couple below the poverty threshold. Similarly the birth of a child in a family with no improvement in income could plunge that family below the poverty line.

Large numbers of persons and families enter or exit poverty from one year to the next. The latest information from the Census Bureau’s *Survey of Income and Program Participation* indicated that among persons who were not poor in 1996 a total of 7.6 million had entered into poverty by 1999. At
the same time, nearly twice as many exited poverty. A total of 14.8 million persons who were poor in 1996 exited poverty by 1999. Family status is a significant factor in both the entry into and exit from poverty. The 1996-1999 entry rate for persons in married-couple families was 1.9 percent. For other family types the entry rate was 6.8 percent. The 1996-1999 exit rate for persons in other family types was 39.4 percent. For persons in married-couple families the exit rate was 59.7 percent [Iceland, pp. 4-8]. One obvious reason for these differences is that married-couple families are more likely to have two or more adult wage earners than other family types.

**RACE AND TYPE OF FAMILY**

The mean income gap for poor compared to non poor families in 2006 was much greater for white families ($77,429) than for black families ($56,702). It was even higher ($84,351) for white married-couple families living above poverty than for black female-headed families\(^1\) living below poverty. The difference became much smaller ($14,147) when white married-couple families that are nonpoor are compared to similarly circumstanced black married-couple families (see Table 13.2A).

*Female-headed families account for 51 percent of all poor families, and for 57 percent of all those poor families with an income deficit of $8,000 or more.*\(^2\) There is no need to differentiate here between mean family income and median family income.

Four other findings from the 2006 report on poverty are noteworthy. First, there is an income gap of more than $84,000 between white married-couple families that are living above poverty and poor female-headed families whether white or black. Second, black married-couple families that are above poverty have incomes more than $70,000 greater than the incomes of both poor black female-headed and poor white female-headed families. Third, there is little difference -- about $85 per month -- between poor white female-headed families and similarly circumstanced black families. Fourth, comparing 2006 to 2000, the overall family income gap widened by about $1,169 between nonpoor white married-couple families and nonpoor black married-couple families.

In general, the same types of differences are noted when the surplus/deficit is measured in terms of median income rather than mean income, though the order of magnitude is much greater for the mean income gap than the median income gap (see Table 13.2B). One exception is worthy of note. The gap between nonpoor white married-couple families and nonpoor black married-couple families measured in terms of median income actually narrowed from $9,578 in 2000 to $9,047 in 2006.

**THREE REMEDIES**

The significance one attaches to these data on family income depends on one’s social values and how those values are prioritized. If one holds fast to individual freedom as the dominant social value,

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\(^1\) Strictly speaking, a female-headed family is one in which there is a female householder and no husband present.

\(^2\) The Census Bureau publishes the income-deficit information using ten income intervals. The tenth interval is “$8,000 or more.”
Table 13.2A. *Mean* Family Income Gap: 
Detailed Differences between Poor Families and Nonpoor Families, 2000 and 2006 
(current dollars)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td>$63,247</td>
<td>$76,045</td>
</tr>
<tr>
<td>All white families</td>
<td>64,992</td>
<td>77,429</td>
</tr>
<tr>
<td>All black families</td>
<td>46,029</td>
<td>56,702</td>
</tr>
</tbody>
</table>

Nonpoor white married-couple families compared to:
- poor white female-headed families $70,251 $84,351
- poor black female-headed families $70,436 $85,371
- nonpoor black married couple families $12,978 $14,147

Nonpoor black married-couple families compared to:
- poor white female-headed families $57,273 $70,204
- poor black female-headed families $57,458 $71,224
- nonpoor black married couple families $9,578 $9,047

Poor white female-headed families compared to:
- poor black female-headed families $185 $1,020

Table 13.2B *Median* Family Income Gap: 
Detailed Differences between Poor Families and Nonpoor Families, 2000 and 2006 
(current dollars)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td>$46,326</td>
<td>$54,490</td>
</tr>
<tr>
<td>All white families</td>
<td>47,968</td>
<td>55,842</td>
</tr>
<tr>
<td>All black families</td>
<td>32,834</td>
<td>39,808</td>
</tr>
</tbody>
</table>

Nonpoor white married-couple families compared to:
- poor white female-headed families $53,325 $61,474
- poor black female-headed families $53,320 $62,876
- nonpoor black married couple families $9,578 $9,047

Nonpoor black married-couple families compared to:
- poor white female-headed families $43,747 $52,427
- poor black female-headed families $43,742 $53,829

Poor white female-headed families compared to:
- poor black female-headed families $-5 $1,402

Source: U.S. Census Bureau, *Poverty in the United States*.
that economic agents should be free to use their skills and talents to their own best advantage, that their income should be determined by how well they apply themselves in economic affairs, information on the family income gap is perceived as the reward for using those skills and talents effectively and the penalty for using them ineffectively. There is, in other words, nothing untoward in the information on family income gap, and no remedial intervention is necessary.

If, however, one embraces human equality as the dominant social value, information on the family income gap is of central importance because huge differences in income complicate the task of developing a sense of belonging within a business enterprise and a sense of community in a neighborhood, town, city, state, and nation. The remedies suggested below are based on the premise that greater economic equality contributes to a heightened sense of unity and oneness in business and throughout society.

The statistics on poverty for 2006 point to three remedies. The first remedy is a year-round full-time job. Only 3.5 percent of the families with at least one year-round full-time worker were living in poverty. Among poor female-headed families, 82 percent had no year-round full-time worker.

The second remedy is two or more wage-earners in a family. Only 2.0 percent of the families with two or more workers were officially classified as poor. For families with two or more persons working year-round full-time, the rate of poverty was 0.4 percent. In poor families headed by a female, only 5.4 percent had two or more workers, and virtually none had two or more year-round full-time workers.

The third remedy is a husband and wife living together. The rate of poverty for married-couple families in 2006 was 4.9 percent. If there is one worker in a married-couple family, the poverty rate is 3.5 percent. With two or more working in a married-couple family the rate drops to 1.5 percent. Among female-headed families with no workers, the poverty rate is 69.4 percent. With two or more workers, the rate of poverty for female-headed families is 5.6 percent.

Poverty remains a serious problem even after the longest economic expansion in U.S. history, suggesting at least for married-couple families that the poverty rate likely will not fall further in the future. Indeed, a rate of poverty of 5 percent for all married-couple families could be the lower limit because even in the best of times such families will experience death, birth, disease, injury and thereby at times fall below the poverty line. Similarly, a rate of poverty of 25 percent could be the lower limit for all female-headed families because, in addition to experiencing the significant life events of death, birth, disease, injury, 9 of 10 such families even in the best of times were one-worker or no-worker families.

What happens in the future regarding the family income gap depends importantly on which social value -- individual freedom or human equality -- prevails. The gap likely will become larger or smaller depending on whether freedom or equality is the more highly valued.
CONCLUDING REMARKS

From the very beginning, poverty in the United States has been defined officially as the annual cost of the goods and services required to support a minimal standard of living. It is most often called an absolute standard, but is better described as a minimal-living standard. In 2006, for instance, the annual cost of the goods and services for a family of four with no children under age 18 to live at a minimal standard of living was $20,614. This definition has been attacked from the very beginning on grounds that poverty is properly defined not in terms of some minimal-living standard but in terms of what a person or family has relative to others. This definition yields what is called a relative standard that usually is constructed from information regarding income distribution. For that reason, it is better described as an income-distribution standard.

The income-distribution standard may be rendered into a specific poverty measure by defining as poor all persons or families at the lower end of the distribution, such as in the lowest 10 percent, 15 percent, 20 percent, or everyone below one-half of the median income of all persons or families. Proponents of the income-distribution standard largely have been silent in recent years such that not once in an open letter to the Census Bureau did more than 40 well-known poverty specialists recommend incorporating income distribution in the official poverty definition or developing a separate income-distribution standard.1

The minimal-living standard clearly has won the day, and for that reason the Census Bureau’s annual poverty report takes no notice of the family income gap that displays the income of poor families relative to the income of nonpoor families. This omission is regrettable because it denies the social dimension of human nature, choosing instead to focus entirely on the individual dimension. Every human being is at once an individual being and a social being, a person who at times is solitary and autonomous and at other times is communal and dependent. Humans develop into different adult persons because they integrate those two dimensions differently. The introvert and the extrovert, the team player and the loner, the hero and the bystander are everyday examples of this human duality.

The minimal-living or absolute standard rests on the premise that all humans are exclusively individual beings. The income-distribution or relative standard rests on the premise that all humans are exclusively social beings. Because humans are at once individual beings and social beings, both premises should be incorporated in the way in which poverty is defined and measured. By paying no heed to information such as the income gap between poor families and nonpoor families, the official poverty definition rejects human sociality and the annual report on poverty says in effect that humans beings do not determine their own material well-being in terms of what they have compared to their neighbors.

Information on the family income gap is no substitute for an accurate estimate of the numbers of persons and families who are living in poverty. However, it is an important complement to that data.

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1 See www.ssc.wisc.edu/irp/povmeas/povlet.htm.
and adds significantly to our understanding of poverty. The family income gap is noteworthy in that it avoids one of the major criticisms of typical income-distribution standard, that is where to draw the line differentiating the poor from the nonpoor. It is unique in that it incorporates both income distribution and minimal living in one standard, thus constructing a single standard that reflects at once human individuality and human sociality. Further, because the family income gap is based on the official minimal-living (absolute) standard of poverty employed by the Census Bureau, any improvements made in constructing the official poverty thresholds or in how family income is defined and measured are automatically included in the Census Bureau’s estimates of the family income gap. Thus, there is very little additional cost in supplying the yearly estimates, and improving those estimates is literally cost-free.
References


CHAPTER FOURTEEN

WORLDWIDE POVERTY, HUNGER, DEATH, DISEASE, AND ILLITERACY

Poverty, hunger, death, disease, and illiteracy have been cruel realities of the human condition for centuries. Horrific examples abound: Charles Dickens’ credible accounts of English workhouses, the great famines in Ireland and India, the Black Death, the scourge of AIDS/HIV notably in sub-Saharan Africa.

This chapter presents current information on these subjects in four main sections. In the first section, we are most concerned about six infectious diseases, infant mortality and life expectancy, and in very general terms the global causes of disease and death. In the second section, our interest centers on adult and child literacy and public expenditures on education. The third section addresses poverty and hunger. The fourth and last main section speaks to the five revolutions that influence global health, education, and welfare: biological, intellectual, political, scientific-technological, and sexual.

DEATH AND DISEASE

Our attention in the following is drawn to six infectious diseases: pneumonia, diarrheal diseases, HIV/AIDS, tuberculosis, malaria, and hepatitis. Upwards of 10.453 million persons die of infectious and parasitic diseases (see Table 14.1) making those diseases one of the leading causes of death worldwide. The most recent estimates from the World Health Organization put the death toll from cardiovascular diseases -- the leading cause of death around the world -- at 17.1 million. Another 7.4 million died of cancer [WHO 2009a, p.1; WHO 2009b,p.1].

Pneumonia.

Pneumonia worldwide strikes down roughly 1.8 million children under age five every year, more than all the deaths from AIDS, malaria, and measles. About 75 percent of all deaths occur among children in the first year of life. An estimated 155 million children are infected every year but only 20 percent are treated with antibiotics. With proper treatment 600,000 of the 1.8 million who die could be saved. A combination of prevention and treatment could keep one million children from succumbing. This disease is most prevalent in South Asia and sub-Saharan Africa.

Pneumonia is an acute respiratory infection that is caused by viruses, bacteria, and fungi. Streptococcus pneumoniae are a group of bacteria that live in the nose and throats of persons of all ages. The symptoms of viral and bacterial pneumonia are similar. When a person becomes infected, small sacs in the lungs called alveoli are filled with purulent exudate (pus) and fluid that limit oxygen intake and make breathing difficult. In roughly 30 percent of persons infected with bacterial
### Table 14.1. Estimated Number of Persons Newly Infected, Actively Infected, and Killed: Six Infectious Diseases

<table>
<thead>
<tr>
<th>Disease</th>
<th>Newly Infected per Year</th>
<th>Actively Infected</th>
<th>Deaths per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pneumonia in children&lt;sup&gt;a&lt;/sup&gt;</td>
<td>155 million (latest estimate)</td>
<td>1.8 million (latest estimate)</td>
<td></td>
</tr>
<tr>
<td>Diarrheal diseases in children&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.0 billion (latest estimate)</td>
<td>1.5 million (latest estimate)</td>
<td></td>
</tr>
<tr>
<td>Malaria&lt;sup&gt;e&lt;/sup&gt;</td>
<td>247 million (2008)</td>
<td>~ 1.0 million (2008)</td>
<td></td>
</tr>
<tr>
<td>Hepatitis C&lt;sup&gt;f&lt;/sup&gt;</td>
<td>130 - 170 million (latest estimate)</td>
<td>&gt;350,000 (latest estimate)</td>
<td></td>
</tr>
<tr>
<td>Hepatitis B&lt;sup&gt;g&lt;/sup&gt;</td>
<td>350 million (latest estimate)</td>
<td>600,000 (latest estimate)</td>
<td></td>
</tr>
</tbody>
</table>

Sources:  
<sup>f</sup> WHO, *Hepatitis C Fact Sheet* in revision; estimates from WHO’s Melinda Henry via email.  
<sup>g</sup> WHO, *Hepatitis B Fact Sheet 204*, August 2008.

Pneumonia the bacteria invade the bloodstream causing a very serious complication known as bacteremia. Vaccines to prevent the onset of strep pneumonia are safe and effective. However, the spread of antibiotic resistance is a major challenge for researchers and health care providers.

In addition to children, the elderly, persons with HIV/AIDS or with such long-term conditions as heart disease, sickle cell anemia, alcoholism, diabetes, and liver cirrhosis are at risk. As a preventive measure, the Centers for Disease Control and Prevention recommends that these persons and others at risk get vaccinated. PCV13 vaccine that contains the 13 most common pneumococcal serotypes causing invasive infections in North American children has been approved for routine use in infants [WHO 2009c, pp.1-2; CDC 2010, p.1; NIAID, p.1; NNii, p.1].

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Diarrheal Diseases

Included among these diseases are three major killers: cholera, dysentery, and typhoid. Contaminated water and food are the chief means by which these diseases are spread. An estimated 2 billion children are newly infected every year. The worldwide death toll for children is 1.5 million.

Cholera kills one percent of infected persons in communities with well-established diarrheal disease control programs. In developing countries, however, it remains a serious threat where the fatality rate can run as high as 50 percent when the disease is untreated. An internationally licensed oral cholera vaccine is available and is known to be safe and effective.

About 120 million cases of Shigellosis or severe dysentery occur every year worldwide. Of that number, 1.1 million die each year mainly children under five years of age in developing countries. In addition to water and food transmission, Shigellosis is passed through person-to-person contact. The disease is characterized by a short period of watery diarrhea with intestinal cramps followed by permanent discharge of bloody stools. In acute cases, renal failure takes place. There is no existing effective vaccine.

Salmonellosis is a bacterial infection deriving from salmonella. Persons infected with salmonella often develop diarrhea but recover in four to seven days without treatment. However, some may experience diarrhea so severe as to require hospitalization. The elderly, infants, and persons with impaired immune systems are more likely to get a severe infection.

Typhoid fever is characterized by an onset of sustained fever, severe headache, nausea, abdominal pains, loss of appetite, constipation or sometimes diarrhea. The disease is transmitted by ingestion of food, including dairy products, water that is contaminated or handled by infected persons. It has disappeared from industrialized countries but still plagues Asian regions in the former USSR, parts of South and Southeast Asia, Africa, and South America. An injectable vaccine that dates from 1896 and two new vaccines are licensed and used today in the treatment of typhoid fever. Only one to four percent of those with typhoid fever die when properly treated [WHO 2009d, p.1; WHO 2008a, p.1; WHO 2009e, p.1; WHO 2009f, pp.1-2; CDC 2009c, p.1].

HIV/AIDS

Unlike malaria, tuberculosis, and pneumonia that have devastated humankind for centuries, HIV (human immunodeficiency virus) was first identified in the early 1980s. HIV destroys the immune system, exposing the victim to multiple opportunistic infections and certain types of cancers. AIDS (acquired immune deficiency syndrome), the disease that results from HIV, is fatal and at present there is no vaccine available. Unprotected heterosexual intercourse is the principal mode of transmission of the virus. Other modes include unprotected penetrative intercourse between men, intravenous drug injection, unsterile needles shared by drug users, blood transfusion, and transfer from infected mother to her baby during pregnancy, labor and delivery, or breastfeeding.

Estimates of the number of persons who died of AIDS in 2008 ranged from 1.7 to 2.4 million. HIV/AIDS is the leading cause of death for 15-44 year old women. Approximately 2.4-3.0 million
persons are newly infected every year of whom 240,000–610,000 are children under age 15. As many as 31.1-35.8 million persons worldwide are actively infected with the virus; 1.4 million of them are co-infected with tuberculosis and HIV. Tuberculosis is the leading cause of death among persons infected with HIV.

Sub-Saharan Africa bears a disproportionate burden of new HIV infection and death from AIDS. Life expectancy is 49.1 years in sub-Saharan Africa – lowest in the entire world (see Table 14.2). In this region, there are more than 14 million children under age 15 who have lost one or both parents to AIDS.

Advances in medications used in combination – highly active antiretroviral therapy (HAART) – have been successful in reducing the replication of HIV in infected persons even to the point where the HIV level in the bloodstream known as plasma viral load is undetectable. This does not mean, however, that HIV has been eradicated. Evidence from observational studies of both male-female sex and male-to-male sex indicate the potential for the sexual transmission of the virus persists even when the infected partner is on effective HAART regime where the viral load is undetectable.

Among the economic consequences of the HIV/AIDS epidemic, although this epidemic and the economy are intertwined such that it is difficult to separate cause from effect, are reduced GDP growth, increased incidence of poverty, wasted investment in human capital, and a long-term decline in investment and savings. There is some evidence that institutional breakdown in Africa has affected agricultural services, judiciaries, police forces, educational systems, and health services [WHO 2008-09, pp.6,13,15,22; UNAIDS, pp.6,82-84; CDC 2009a, p.1-7; WHO 2008b, pp.8-9; WHO 2004, pp.1-3,8-11].

**Tuberculosis**

Tuberculosis is a bacterial disease that is transmitted by tiny particles suspended in the air and that in general affect the lungs but can trigger disease in every organ of the body. A person with TB if not treated will infect 10-15 other persons every year. Roughly 1.3 million persons worldwide died from tuberculosis in 2008. Another 9.4 million persons were infected that year notably in Africa, the Eastern Mediterranean, and Southeast Asia. Estimates put the number of persons actively infected worldwide at 11.1 million. As indicated previously, about 1.4 million persons worldwide are co-infected with HIV and TB. The leading cause of death among HIV-infected persons is TB.

Strains of TB resistant to a single drug have been documented in every country surveyed. Further, resistance to all major anti-TB drugs has surfaced. Resistance is attributable to inconsistent and partial treatment (patients stop taking the prescribed drugs when they feel better), treatment mistakes made by health care providers, and an unreliable supply of drugs.

Multidrug resistant TB (MDR-TB) that cannot be treated successfully with the two most powerful anti-TB drugs available is a major challenge for TB control especially in the former Soviet Union. Even more so, extensively drug-resistant TB (XDR-TB) poses a very serious threat for patients co-infected with HIV and TB.
Drug-resistant TB is treatable but involves chemotherapy for up to two years with second-line anti-TB drugs that are more costly than first-line drugs and are known to produce adverse drug reactions. [WHO 2008-09, p.22; WHO 2010a, pp.1-2].

Malaria
Malaria is caused by four kinds of *Plasmodium* parasites and is transmitted to humans through the bites of infected *Anopheles* mosquitoes. *Plasmodium falciparum* and *Plasmodium vivax* are the most common parasites; *Plasmodium falciparum* is the most deadly. Most recently *Plasmodium knowlesi* that is common in monkeys has been identified in humans. The *Anopheles* species breed in freshwater that is collected in puddles, ricefields, and hoofprints.

The number of persons actively infected with malaria is estimated at 247 million worldwide. About one million fell victim to malaria in 2008. Most of the deaths occur in sub-Saharan Africa. An African child dies every 45 seconds from malaria in part because children do not develop the immunity that comes from years of exposure. However, this immunity which is found in adults does not provide complete protection. The following population groups are at risk of developing malaria: young children, pregnant women who are non-immune, semi-immune, or semi-immune HIV-infected women, persons with HIV/AIDS, international travelers from non-endemic areas, and immigrants and their children from non-endemic areas. Persons afflicted with sickle cell anemia are less likely to be infected with malaria.

Malaria is resistant to chloroquine and sulfadoxine-pyrimethamine. If resistance develops to artemesinin there will be dire consequences because that drug represents the only antimalarial drug available at the moment. The key to preventing this resistance is using artemesinin in combination with another drug.

There are two forms of control that have proven effective: insecticide-treated mosquito nets and indoor spraying with residual insecticides. As with antimalarial drugs, however, resistance to insecticides is a serious problem in part because developing new, alternative insecticides is expensive and time-consuming.

Based on comparisons between countries according to the severity of malaria transmission, it has been estimated that malaria can reduce GDP by as much as 1.3 percent in countries that are heavily impacted by this disease. In some countries where malaria is a serious problem, prevention and treatment account for upwards of 40 percent of public health expenditures, 30-50 percent of inpatient hospital admissions, and 60 percent of outpatient health clinic visits [WHO 2009g, pp.viii-ix; WHO 2010b, pp.1-3].

Hepatitis
Hepatitis B(HBV) and C(HCV) are transmitted from person to person by means of contaminated blood and injection drug use. Additionally, HBV and HBC are contracted through sexual intercourse and other close contact. Both types attack the liver. Until 1992 when blood supplies in the United States were not carefully screened, HCV was spread through blood transfusions and organ
transplants.

An estimated 350 million persons worldwide are infected with HBV and approximately 600,000 every year from HBV complications. HBV is not spread by contaminated food or water or through casual contact in the workplace. It is endemic to China and other parts of Asia.

There is a long-lasting HBV vaccine available that should be administered to everyone below age 18. In the United States this vaccine is administered to every newborn at birth and with other vaccines in the first year of life. Protection with vaccination exceeds 90 percent until age 40 after which it tends to drop off. Vaccination is recommended for: persons with high-risk sexual behavior; partners and household contacts of HBV infected persons; injection drug users; persons who frequently require blood or blood products; recipients of solid organ transplants; those at risk of HBV infection including health workers; international travelers to countries with high rates of HBV; and newborn infants of an infected mothers.

While there is no specific treatment for acute HBV, the chronic form of the disease can be treated with interferon and anti-viral agents. However, treating HBV is expensive and out of reach for many in developing countries, and chronic HBV is known to cause 80 percent of all primary liver cancer worldwide. Even so, about 90 percent of healthy adults with HBV develop antibodies and recover and will be completely rid of the virus in six months.

Worldwide an estimated 130 - 170 million persons are actively infected with HCV and more than 350 thousand die each year from HCV.¹ There is no vaccine available for HCV. In the United States about 50 percent of all liver transplants are performed on persons with end-stage HCV.

Prevention depends on avoiding behaviors that spread the disease including injection drug use, sharing straws for snorting cocaine, and drinking alcohol. Infected persons are advised to avoid tasks that draw down energy levels. HCV ranges from a mild infection that lasts a few weeks to a serious, lifelong infection. An acute infection has been known to kill [WHO 2008c, pp.1-2; CDC 2009b, p.1; HFI, pp.1-3,5-9; HBF, p.1].

Table 14.1 summarizes the most recently available information on the estimated number of persons newly infected, actively infected, and killed worldwide by these six infectious diseases.

**Infant Mortality and Life Expectancy**

Infant mortality and life expectancy are two significant indicators of the human toll taken by disease (see Table 14.2). Across the world, infant mortality has fallen from 96 deaths per 1,000 live births in 1970 to 52 deaths per 1,000 live births in 2005. In the least developed countries, the rate has fallen from 152 to 97. In high-income countries there were 6 deaths per 1,000 live births in 2005 compared

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¹ At the time of this writing, the updated Hepatitis C Fact Sheet had not been published. Current information was supplied on April 29, 2010 by email from Melinda Sue Henry of the WHO’s Immunization, Vaccines, and Biologicals unit.
Table 14.2. Infant Mortality and Life Expectancy by Region and Development Status

<table>
<thead>
<tr>
<th></th>
<th>Infant Mortality Per 1,000 Live Births</th>
<th>Life Expectancy at Birth Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entire World</td>
<td>96</td>
<td>52</td>
</tr>
<tr>
<td>All developing countries</td>
<td>109</td>
<td>57</td>
</tr>
<tr>
<td>Least developed countries</td>
<td>152</td>
<td>97</td>
</tr>
<tr>
<td>Arab States</td>
<td>129</td>
<td>46</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>84</td>
<td>25</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>86</td>
<td>26</td>
</tr>
<tr>
<td>South Asia</td>
<td>130</td>
<td>60</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>144</td>
<td>102</td>
</tr>
<tr>
<td>Central-Eastern Europe &amp; CIS</td>
<td>39</td>
<td>22</td>
</tr>
<tr>
<td>High Income</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>Middle Income</td>
<td>87</td>
<td>28</td>
</tr>
<tr>
<td>Low Income</td>
<td>130</td>
<td>75</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>206</td>
<td>165 **</td>
</tr>
<tr>
<td>Zambia</td>
<td>109</td>
<td>102</td>
</tr>
</tbody>
</table>

*: shortest life expectancy in the world. **: highest infant mortality in the world.


to 24 per 1,000 in 1970. In low-income countries the death rate in 2005 was roughly 12 times higher than in high-income countries. For a baby born in Sierra Leone, the country with the highest infant mortality in 2005, the risk of dying in infancy was 27 times greater than for a baby born in high-income countries.

For all humankind, life expectancy at birth has improved from 58.3 years in 1970-75 to 66.0 years in 2000-05 (see Table 14.2). As with infant mortality there are vast differences from place to place,
especially when income level is taken into consideration. In high-income countries, life expectancy increased to 78.7 years in 2000-05 from 71.5 years in 1970-75. At the same time, life expectancy in low-income countries also improved, increasing to 59.2 years from 49.1 years.

Among least developed countries, life expectancy stood at 52.7 years in 2000-05, up from 44.6 years in the early 1970s. Several countries, almost exclusively in Africa, have experienced actual declines in life expectancy: Ukraine, South Africa, Botswana, Namibia, Lesotho, Swaziland, Uganda, Zimbabwe, Kenya, Rwanda, Ivory Coast, Zambia, Congo, Central African Republic, and Democratic Republic of Congo. Life expectancy in 2000-2005 ranged from 81.9 years in Japan to 39.2 years in Zambia. In the case of Zambia, life expectancy between 1970-75 and 2000-05 fell by 10.9 years [HDR 2007/2008, pp.261-264].

**Fundamental Causes**

Several factors account for the disease and death around the world. Some are natural phenomena and more or less uncontrollable: drought, hurricanes, earthquakes, monsoons, volcanic eruptions, floods, and tsunamis. Others relate to economic globalization including most importantly the development and widespread utilization of modern transportation and delivery systems that allow the overnight transmission of a disease from one part of the world to another via human and animal carriers and parcel and freight traffic.

Still other factors relate to human failure or frailty in prescribing the correct medication or dosage, continuing a drug regimen as directed, remaining faithful to one’s spouse, supporting one’s children, turning away from the huge but often illicit financial rewards of the present in order to pursue long-term personal development and the dividends that follow from that development in the future.

Three other factors contribute powerfully to disease and death. The first is the unfortunate, though at times inevitable, consequences of using powerful drugs to fight infectious disease. Resistance to life-saving drugs is a natural and unstoppable biological process wherein the exposure of certain microbes to an antibiotic leads to a mutation and the emergence of microbes that are resistant to that antibiotic. Second, the very same hospital wards that offer hope for successful treatment of injury and disease have become the breeding ground and transmission system for “super infections” that now are regarded as a major health care crisis. In the United States alone, two hospital-acquired infections – sepsis and pneumonia – accounted for an estimated 48,000 deaths adding $8.1 billion to health care costs in 2006 [Eber and others, pp.347-353]. Third, and as a consequence of antimicrobial resistance, pharmaceutical companies are called upon to discover, develop, and manufacture new antimicrobials, but every new compound brought to market in the United States costs more than $1 billion for research and development and takes seven years from the start of clinical trials until it is approved for use in humans [Tufts, p.1]. In this regard, the Drug Resistance Working Group of the Center for Global Development in 2010 sounded this warning:

> The most common childhood diseases in developing countries – malaria, pneumonia, other respiratory infections, and dysentery – are no longer curable by many of the older antibiotics or other drugs available in poor countries. The consequences are...
devastating: bacterial acute respiratory infections, for example, kill more than three million children every year and malaria kills two million children. Many cases of these illnesses are caused by strains now resistant to common drugs.

Resistance to drugs also has a startling impact on the cost of curing patients. In many poor countries, expenditures for drugs represent a large proportion of overall health-care costs, ranging from 20 to 60 percent of total expenditures on health... it costs as much to cure one patient of extensively drug-resistant TB as it does to cure 200 patients of susceptible TB...

The costs of global inaction are borne in the short term by those stricken with a resistant form of disease who lack either access to health services or the money to pay for more costly, second-line treatments. In the longer term, the consequences are shouldered by all of us – and by future generations – who must rely on a shrinking collection of medicines that work [CGD, p.xiv].

**ILLITERACY**

Our interest in this section centers on adult and child illiteracy along with the related topic of public education expenditures.

**Adult and Child Illiteracy**

Data published for the United Nations Development Programme, though incomplete, give evidence of four principal trends in literacy across the globe (see Table 14.3A). First, literacy has been improving over time for persons 15 years of age and older (adults) as well as for persons 15-24 years of age (youths). The age ranges used to define “adult” and “youth” are taken directly from the source document [HDR 2009, pp.171-174; HDR 2007/2008, pp.269-272].

Second, for adults and youths alike there are wide differences in literacy from one region to the next. Third, in every one of the six regions for which data are available, proportionately more youths than adults are literate; no doubt the differences by age would have been much greater if the available data allowed comparisons between 15-to-24 year olds and persons 25 years of age and older. Fourth, and as expected, literacy for both adults and youths is related to income and economic development.

Table 14.3B shows that there are several countries, mainly in Africa, where adult and youth literacy is below 50 percent. Mali has the lowest adult literacy rate -- 26.2 percent -- in the world. The world’s lowest youth literacy rate -- 33.0 percent -- is found in Burkina Faso.

**Public Expenditures on Education**

Table 14.4 presents information on public expenditures for education as a percent of GDP. Countries are classified into two groups: those that spend more than six percent of GDP on education and others that spend less than three percent. This scheme, while it excludes countries in the three-to-six percent range, identifies countries where public spending indicates that education is an important priority and differentiates them from countries where education is not a top priority [HDR 2007-
We note four trends regarding those countries where public expenditures equals or exceeds six percent of GDP. First, none of the southern European countries – Portugal, Spain, Italy, Greece – are included in this group. Second, with the exception of Cuba and Bolivia, no other major Latin American country assigns a top priority to education. Third, with the exception of Ukraine and Belarus, every one of the countries of the former Soviet Union including the Russian Federation are spending less than six percent of GDP on education. Fourth, included in this high-priority group are several African countries and a small number of Middle East and Asian countries.

### Table 14.3A. Adult and Youth Literacy Rates by World Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Adult Literacy Rate</th>
<th>Youth Literacy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15 years of Age &amp; Older</td>
<td>15-24 Years Old</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing Countries</td>
<td>68.2</td>
<td>77.1</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>---</td>
<td>90.7</td>
</tr>
<tr>
<td>Central-Eastern Europe &amp; CIS*</td>
<td>97.5</td>
<td>99.1</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>87.6</td>
<td>89.9</td>
</tr>
<tr>
<td>Arab States</td>
<td>58.2</td>
<td>70.3</td>
</tr>
<tr>
<td>South Asia</td>
<td>47.6</td>
<td>59.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>54.2</td>
<td>59.3</td>
</tr>
<tr>
<td>High Income</td>
<td>98.4</td>
<td>98.6</td>
</tr>
<tr>
<td>Middle Income</td>
<td>82.3</td>
<td>90.1</td>
</tr>
<tr>
<td>Low Income</td>
<td>51.5</td>
<td>60.8</td>
</tr>
</tbody>
</table>

* CIS stands for the Commonwealth of Independent States. All CIS countries are former Soviet Republics.


As to those countries where public expenditures on education fall below three percent of GDP, two trends are noted here. First, almost all of the countries in this group are in the southern hemisphere.
principally on the African continent. Second, China has been able to achieve gains in economic development in recent years that have transformed it into a global economic superpower without making education a top national priority.

Table 14.3B. Adult and Youth Literacy by Country

<table>
<thead>
<tr>
<th>Countries where adult literacy is below 50 percent: 1999-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin, Ivory Coast, Senegal, Guinea, Ethiopia, Mozambique, Chad, Burkina Faso, Mali*, Central African Republic, Sierra Leone, Afghanistan, Niger</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries where youth literacy is below 50 percent: 1995-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senegal, Guinea, Benin, Ethiopia, Chad, Mozambique, Niger, Burkina Faso*, Sierra Leone</td>
</tr>
</tbody>
</table>

* Lowest literacy rate in the world.


Table 14.4. Public Expenditure on Education, Percent of GDP

<table>
<thead>
<tr>
<th>Countries where expenditure is equal to or greater than 6.0 percent: 2002-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland, Norway, Sweden, Denmark, Switzerland, Finland, Belgium, New Zealand, Israel, Slovenia, Cyprus, Barbados, Cuba, Saint Kitts and Nevis, Saudi Arabia, Malaysia, Ukraine, Fiji, Tunisia, Cape Verde, Belarus, Saint Vincent and the Grenadines, Bolivia, Vanuatu, Namibia, Morocco, Kenya, Swaziland, Ethiopia, Guyana, Maldives, Botswana, Lesotho*, Yemen, Djibouti</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries where expenditure is less than 3 percent: 2002-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar, Dominican Republic, United Arab Emirates, Uruguay, Libyan Arab Jamahiriya, Albania, Kazakhstan, Ecuador, China, Indonesia**, Peru, Philippines, Georgia, El Salvador, Equatorial Guinea, Lao People’s Democratic Republic, Togo, Pakistan, Mauritania, Congo, Bangladesh, Gambia, Azerbaijan, Tanzania, Guinea, Angola, Zambia, Chad, Niger, Cambodia, Myanmar, Cameroon</td>
</tr>
</tbody>
</table>

* Highest (13.4 percent) in world. ** Lowest (0.9 percent) in the world

Higher Education in Muslim Countries: A Note
Several years ago at conference of ministers from Muslim countries, then Pakistani President Musharraf offered the following assessment of living conditions in the Islamic world.

Today we are the poorest, the most illiterate, the most backward, the most unhealthy, the most un-enlightened, the most deprived, and the weakest of all the human race [Abbas, p.1].

GNP in all Muslim countries, he said, is 20 percent of GNP in Japan. Musharraf cited one central reason for these conditions: a lack of attention throughout the Muslim world to educational and scientific development. There are 430 universities in Muslim countries compared to more than 1,000 in Japan. Britain confers 3,000 doctoral degrees in science every year. The entire Muslim world awards 500 doctorates in science [Abbas, p.2; DAWN, p.3; MSNBC, p.2].

POVERTY AND HUNGER
Poverty Defined and Measured
There are two standards by which poverty is defined and measured: the absolute (minimal-living) standard and the relative (income-distribution). The minimal-living standard addresses the question: ‘How much does one need to live at a minimally acceptable level?’. The income-distribution standard addresses the question ‘How much does one have relative to others?’. In the following we use “minimal-living” and “income-distribution” because they differentiate between these two standards with greater clarity.

Students of poverty are divided as to which standard to use. In the United States, the official definition of poverty from the very beginning has incorporated minimal-living, dismissing out of hand income-distribution. Some countries have opted for the income-distribution, rejecting minimal-living.

This divide, which gives the impression that how one defines and measures poverty in the end is entirely arbitrary, is unfortunate and unnecessary. There is nothing arbitrary about the question that is fundamental to the minimal-living standard. Indeed it originates in the individuality of every human being. Every human is unique, truly one of a kind, distinct and apart from every other human being. Nor is there anything arbitrary about the question that is basic to the income-distribution standard. That question originates in the sociality of every human being.

An income-distribution standard makes sense only in the developed world where it should be used alongside the minimal-living standard but never as a replacement for that standard. Employing both concepts allows us to incorporate both dimensions of human nature into the definition and measurement of poverty.

However, common sense alone tells us that outside the developed world where hundreds of millions of human beings struggle to survive from one day to the next, poverty must be defined and measured first in terms of minimal living. It is meaningless to set the official poverty threshold at, say, one-half
the median income for all persons when large numbers of persons above that threshold cannot afford the bare essentials for human survival.

In the following we focus on the numbers and proportions of persons who are poor and changes in poverty with the passage of time. A World Bank report published in 2009 is the source of the information in Tables 14.5A and 14.5B on the cost of a common basket of goods and services consistent with the Bank’s concept of extreme poverty. In preparing its estimates of global poverty, the Bank set the poverty threshold at US$ 1.25 a day -- the average of the poverty thresholds of the 15 poorest countries in the world for which there are data. It is appropriately a minimal-living standard [World Bank, p.48].

**Estimating Poverty**

There are three noteworthy trends in global poverty between 1990 and 2005. First, there has been a dramatic reduction in the numbers and rates of persons in extreme poverty in the East Asia and Pacific region. Second, poverty rates remained high in the South Asia region and in sub-Saharan Africa over the 1990-2005 where more persons fell below the $1.25 per day poverty threshold in 2005 than 15 years earlier. Third, elsewhere in the developing world, the rate of extreme poverty was quite low in both 1990 and 2005 (see Table 14.5A).

**Table 14.5A. Persons Living on Less than $1.25 a day by World Region: Number and Percent**

<table>
<thead>
<tr>
<th>Minimal-Living Standard: $1.25 a day:</th>
<th>Nbr of Persons millions</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
<td>2005</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>873.3</td>
<td>316.2</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>9.1</td>
<td>17.3</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>49.6</td>
<td>45.1</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>9.7</td>
<td>11.0</td>
</tr>
<tr>
<td>South Asia</td>
<td>579.2</td>
<td>595.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>297.5</td>
<td>388.4</td>
</tr>
</tbody>
</table>


Table 14.5B identifies the countries where in 2000-2007 fewer than 2 percent of all persons are living below the $1.25 poverty threshold. This table also identifies those countries where more than 50 percent are impoverished at that standard. Most the countries where extreme poverty is most severe are in sub-Sahara Africa. The worst are Tanzania, Liberia, and Burundi where more than 80 percent of the population somehow survive on less than $1.25 a day.
**Hunger**

The United Nations Food and Agriculture Organization considers a person as undernourished when caloric intake is below the minimum dietary energy required for light activity and a minimum acceptable weight for attained height. This minimum varies from country to country and year to year depending on the gender and age structure of the population. FAO uses “undernourished” and “hungry” interchangeably [FAO, p.8].

The FAO estimates that in 2009 a total of 1.02 billion persons worldwide are undernourished -- a substantial increase from its estimate of 915 million in 2008. In the 1970s and 1980s the number of hungry persons worldwide actually declined for two major reasons: investments in agriculture and a combination of better grain yields and declining grain prices. However, this trend has been reversed for the past 20 years.

Table 14.6 indicates that overall in the developing world the percentage of hungry persons actually declined between 1990-92 and 2004-06. There is, however, a very serious hunger problem in the Democratic Republic of Congo and to a lesser extent in Eritrea and Ethiopia. Over the period 1990-92 to 2004-06 the percent of the population that is undernourished has increased in North Korea, Pakistan, Uzbekistan, El Salvador, Guatemala, Venezuela, Tanzania, Madagascar, Swaziland, Zambia, Gambia, Liberia, and Sierra Leone. There is no information on hunger in most of the Near East and North African countries or in the war-torn and ungoverned country of Somalia [FAO, pp.48-49].

Every day, the World Food Programme operates 60 planes, 40 ships, and 5,000 trucks. Even so, this program in 2009 reached fewer than 1 in 10 of the world’s undernourished population [WFP no date. P.1; WFP 2010, p.4].

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**Table 14.5B. Persons Living on Less than $1.25 a day by Country**

<table>
<thead>
<tr>
<th>Countries where fewer than 2 percent are living below $1.25 a day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Chile, Croatia, Czech Republic, Egypt, Estonia, Hungary, Iran, Jamaica, Jordan, Korea, Latvia, Lithuania, Macedonia, Malaysia, Mexico, Poland, Romania, Russian Federation, Slovakia, Slovenia, Thailand, Ukraine, Uruguay</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries where more than 50 percent are living below $1.25 a day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola, Burkina Faso, Burundi, Central African Republic, Congo, Guinea, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Nigeria, Rwanda, Sierra Leone, Swaziland, Tanzania, Timor-Leste, Uganda, Zambia</td>
</tr>
</tbody>
</table>

Source: *Human Development Report 2009*. Data are not available for some countries including the United States.
Table 14.6. Proportion of Population Undernourished by Region and Development Status

<table>
<thead>
<tr>
<th>Region</th>
<th>1990/92</th>
<th>1995/97</th>
<th>2000/02</th>
<th>2004/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing World</td>
<td>20</td>
<td>18</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Asia &amp; Pacific</td>
<td>20</td>
<td>17</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>East Asia</td>
<td>15</td>
<td>12</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>24</td>
<td>18</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>South Asia</td>
<td>25</td>
<td>22</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
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*: highest incidence of undernourishment in the world.


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FIVE REVOLUTIONS

Five factors probe more deeply into the nature and the causes of disease, death, illiteracy, poverty, and hunger, and thereby contribute to an understanding as to why those problems persist in certain parts of the world and not in others. Nearly 50 years ago, Barbara Ward identified four of those factors which she identified as revolutions. These four revolutions, she asserted, have swept over the Western world since the 1850s but are not widely evidenced in the poor countries of the world.

The four are the biological revolution that broke through the cycle of peaceful population growth and violent diminution, the intellectual revolution of materialism and this-worldliness, the political revolution of equality, and the scientific and technological revolution that involves the application of savings and the scientific method and insight to everyday business affairs [Ward, pp.40-41]. We add a fifth: the sexual revolution that encourages individual freedom to initiate an intimate relationship and to leave as the circumstances warrant and thereby to have multiple partners either coincidentally or sequentially.

Before the biological revolution of modern medicine and sanitation began to reduce mortality and extend life expectancy, populations tended to grow until the limits of economic resources had been reached, and then decline due to malnutrition and starvation or war with a neighboring tribe over control of resources. Until this revolution, tribal war, and with it disease and hunger, were revisited in every generation. Wars of this type even today are being waged in several African countries.

By the intellectual revolution, Ward means that archaic civilizations, notably tribal in nature, are backward-looking, tend to hold on to the old ways, to mystery and magic rather than hard work and reason. Holding fast to tradition and not being able to embrace change surely is descriptive of Native American Indian tribes and in part account for their impoverishment.

There is no concept of equality in traditional societies. Wisdom resides entirely with the elders, and the young must wait their turn before their ideas are given a hearing. Extreme conservatism is the order of the day. The political revolution of equality breaks down the hierarchical nature of traditional societies, and the backward-looking ways that dominate such societies and subordinate merchants to warlords and landlords.

In tribal societies there is little or no science. Mystery and magic predominate, effectively putting the exercise of the human will before the use of the human intellect in the manipulation of the physical matter of the universe for human ends. And there is no sustained saving in traditional societies, blocking investment in infrastructure and thereby holding back economic development [Ward, pp. 40-61].

The sexual revolution, that took hold after Ward’s remarks were published, has influenced disease, death, poverty, and hunger in several ways. The father who walks away from his wife and their children for another partner leaves them in a state of poverty when her earnings and his failure to provide drop the mother and children below the poverty threshold. One reason gay men were among the first to become infected with HIV is that anal intercourse is more forceful than vaginal
intercourse and for that reason tends to break open blood vessels exposing the circulatory system to the virus. As with homosexual intercourse, heterosexual intercourse with multiple partners puts a person at risk of contracting an infectious disease passed to those partners by any one of their prior partners.

The only absolutely certain protection against contracting a sexually transmitted disease is for partners to have intercourse only with one another. Further, drug resistance makes it difficult or even impossible to cure certain sexually transmitted diseases, such as genital herpes. Eric Noji of the National Center for Infectious Diseases asserted in 2001 that the most important reason public health officials worldwide underestimated the serious threat of infectious disease was that they had not anticipated that economic growth and prosperity would lead to a change in sexual mores and to drug abuse, thereby facilitating the microbe to launch an offensive far more devastating than the threat of antibiotics and vaccines had briefly presented to its existence [Noji, p.231].

**Remedies**

Taking as a given that economic development depends on these five revolutions, it follows that remedies should be designed to contribute to the advancement those revolutions in the developing world. In the following we suggest one remedy for each of the four revolutions (excluding the sexual revolution), in terms of the need that calls forth the remedy and the limits beyond which that remedy cannot or should not be applied. Limits often mean hard choices and in some instances lead squarely to a dilemma.

Regarding the biological revolution, spraying homes and the breeding sites of mosquitoes with DDT reduced the incidence of malaria significantly in the post-WWII period [Bate, p.697]. But even though Bate asserts that there is no scientific study that demonstrates the harmful effects of DDT on human health, a paper published in 2001 suggests the danger inherent in the use of DDT that is “still highly persistent in the environment and [is] uniformly present in the lipid-containing tissues of humans and in breast milk samples” [Reigart and Roberts, p.1193]. The authors’ first recommendation is to “limit as much as possible the use of pesticides in the home” [Reigart and Roberts, p.1195; emphasis added]. Most important for economics is that with the enactment of the Food Quality Protection Act of 1996 in the United States regulatory intervention no longer is justified in terms of a favorable cost-benefit calculation but instead requires reasonable certainty of no harm to human health [Reigart and Roberts, p.1194; emphasis added].

The intellectual revolution of materialism and this-worldliness is necessary for better provisioning human material needs. Even so, there are other human needs -- the needs of the human spirit for truth, goodness, and beauty -- which cannot be disregarded in the implementation of an economic development remedy. As with Galileo and the Church centuries ago, and creationism and evolution much more recently, faith and reason must be reconciled lest the one dominate or destroy the other. Failing to achieve that reconciliation can impoverish the human body, the human spirit, or both. If truth is one, and if faith and reason are two authentic pathways to the one truth, reconciliation is possible.
The political revolution of equality too is necessary for economic development, in particular in relation to tribal, class, or caste societies that operate on the practice of systematically including some and excluding others. But the exclusionary rule is necessary in the formation and successful functioning of any group, whether the group is a producer or consumer cooperative, trade association, labor union, business establishment, garden club, political party, or friends of the opera. The pursuit of equality encounters the constraint of individual freedom that is necessary to unleash competitive energies. By freedom we mean both types affirmed by Berlin and Sen: noninterference from others or negative freedom (“liberty” to some), and the fullness of person -- the absence of imperfections such as physical disability, illiteracy, mental illness -- or positive freedom [Waters. pp.273-274].

In a system of markets, both freedom and equality are necessary for economic development. The key to a proper balancing of the two is in the administration of the exclusionary rule. Groups should be free to exclude as long as exclusion is not discrimination by intent or effect. Thus, equality can be achieved without sacrificing freedom.

As for the revolution that Ward identified as the most important of all, it is clear that human well-being depends critically on science and technology in ways that are obvious even to the casual observer. For example, entrepreneurial ideas and schemes often originate in the scientific method and are technologically expressed in the form of new products and services, new materials, and new processes of production.

Two limits apply to this revolution. The first is the destructive impact on human beings from the implementation of new technologies: loss of employment, loss of work that is creative and meaningful, loss of a sense of oneness with others in the workplace. The second limit is the pernicious consequences for natural resources and the environment: depletion of renewable and nonrenewable resources, contamination of the air, soil, and water upon which all living creatures depend. The massive oil spill associated with the Deepwater Horizon disaster in the Gulf of Mexico is an example of what can happen when this limit is dismissed as improbable.

There is one remedy linked to the scientific/technological revolution that seems to offer great promise. Distance learning facilitated by the internet and other innovations in telecommunications make it possible to bring science and technology to developing countries at a fraction of the cost of building a traditional brick and mortar campus and hiring competent persons to handle the teaching responsibilities. It is encouraging to see so many mainstream colleges and universities in developed countries moving in this direction, not to mention the “virtual universities” that are reaching students without massive investments in classroom, library, and residential facilities. In this regard, closing the “digital gap” between rich and poor nations is critically important. Besides, distance learning offers reasonably safe personal access to this revolution and the intellectual revolution in those nations where religion dominates reason.
Bringing a complete end to poverty, hunger, and disease is not possible. However, reining them in is possible, and the vast experience of developed countries over more than 150 years points the way. The very heart of the problem lies in helping developing countries embrace the scientific/technological revolution. Developed countries should be under no illusion: this task will take many more years and much greater and smarter human effort.
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CHAPTER FIFTEEN

RECONCILING HUMAN TRAFFICKING WITH
THE PRINCIPLE OF EQUALITY

We never can abolish slavery, until we honestly accept the fundamental truth asserted by the Declaration of Independence and secure to all the equal and inalienable rights with which they are endowed by their Creator. Henry George, 1883.

Perhaps no other nation has struggled more openly and painfully with its collective conscience on the issue of human slavery than the United States. From its very foundations in 1776, it has been forced to reconcile the principle asserted in the Declaration of Independence “that all men are created equal and endowed by their Creator with certain unalienable rights, that among these are Life, Liberty, and the pursuit of Happiness” with the widespread practice of buying and selling human beings into slavery. Reconciling equality and slavery first came to a head eleven years later in drafting the fundamental principles that would govern the United States. Specifically, Article I, Section 2 of the Constitution addresses how representatives and taxes are to be apportioned among the states.

Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons [U.S. Constitution, Article I, Section 2; emphasis added].

Delegates who opposed slavery wanted only free persons included in that number, while supporters of slavery were insistent that all persons including slaves were to be counted. By denying slaves the right to vote, delegates who urged including slaves hoped to achieve the desired outcome of greater representation of slaveholders in Congress. The three-fifths compromise clearly did not reconcile this fundamental conflict between equality and slavery.

Two fundamental problems surfaced in the ensuing years. What to do with fugitive slaves? What to do when territories entered the Union as sovereign states? A bloody civil war forced the reconciliation issue to a head. In the end, President Lincoln asserted that emancipation was the answer to those deeply divisive questions and the overwhelming power of the Union armies brutally enforced his edicts.

However, slavery in the United States did not end with the civil war. Even today, it continues across the land though few Americans are aware of it or admit to its true dimensions. In the following we put the U.S. problem of slavery and trafficking today in a global context because slavery today involves human trafficking across many international borders.

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INTERNATIONAL EFFORTS TO BAN SLAVERY

The League of Nations Slavery Convention of 1926, which sought “to prevent and suppress the slave trade” and to bring about “the complete abolition of slavery,” defines slavery as “the status or condition of a person over whom any or all of the powers attaching to the right of ownership are exercised” [League of Nations 1926, pp. 1-2]. This treaty followed three other major initiatives to suppress slavery: the General Act of Berlin of 1885 that addressed slavery in the African colonies of the European states [General Act 1885, Article 9]; the General Act and Declaration of Brussels of 1890 that dealt with the slave trade by land and sea [Declaration 1890, p.1]; and the Convention of Saint-Germain-en-Laye of 1919 that affirmed the “complete suppression of all forms of slavery and the slave trade by land and by sea” [Convention Revising 1921, Article 11].

The Brussels Act was the first comprehensive treaty against the slave trade [Anti-Slavery International, no date-a, p. 1]. The United Nations approved a supplementary convention in 1956 that extended the abolition to include debt bondage, servitude, treatment of married women or women given in marriage as their husband’s or parents’ property, and assignment of children to work where their labor is exploited [UN 1956]. Additional information on the international treaties adopted in the twentieth century relating to sexual exploitation, slavery, and trafficking is available from ECPAT International¹ and the United Nations (see ECPAT 1996, pp.1-22; UN 2002, pp. 3-6).

SLAVERY AND TRAFFICKING: WHAT IT IS AND WHAT IT DOES

Bales [2002, p. 2] supplied a succinct definition of slavery suitable for today’s global realities: “a loss of free will and choice backed up by violence, sometimes exercised by the slaveholder, sometimes by elements of the state.” The UN Commission on Human Rights identifies several contemporary forms of slavery beyond the usual ones, including sale of children, child prostitution, child pornography, exploitation of child labor, sexual mutilation of female children, use of children in armed conflicts, traffic in persons and sale of human organs, exploitation of prostitution, and certain unspecified practices under apartheid and colonial regimes. Debt bondage is like traditional slavery because it is difficult to wipe out the debt that is passed on to the bonded laborer’s children. Sharecropping is a common way of entering debt bondage [Office of the High Commissioner, no date, not paginated].

ECPAT defines commercial sexual exploitation of children as

    an exchange in which one or more parties gain a benefit – cash, goods or kind – from the exploitation for sexual purposes of someone under 18 [ECPAT 2011, p. 1].

The United Nations has provided the following definition of trafficking.

    recruitment, transportation, transfer, harbouring, or receipt of persons, by means of threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of

¹ ECPAT: End Child Prostitution, Child Pornography and Trafficking in Children.
payments or benefits to achieve the consent of the person having control over another person, for the purpose of exploitation (which includes) ... prostitution ... or other forms of sexual exploitation, forced labour or services, slavery or (similar) practices ... servitude or removal of organs [UN General Assembly 2001, p. 32].

Smuggling is the “procurement ... to obtain ... a financial or other material benefit, of illegal entry of a person into a State Party of which the person is not a national or permanent resident” [UN General Assembly 2001, p.41].

Slavery and trafficking rob their victims of their sacred dignity as human beings, a dignity that inheres in the very nature of every human being and is everyone’s birthright. Slavery attacks the whole person -- body, mind, and spirit -- and reduces that person to an object or instrument for someone else’s advantage or enrichment. Slavery and trafficking subordinate one person to another, treating the core social values of freedom, equality, and community with contempt. Slavery and trafficking scoff at Kant’s second imperative that no one may be used for the pleasure of another human being; no one may be reduced to instrumental value. Thus, no one may be regarded as more highly valued -- more equal -- than anyone else.

In the following we present our remarks first on child slavery and trafficking followed by adult slavery and trafficking, then on the reasons this most inhuman practice persists, and finally on what is being done to root out this practice.¹

**SLAVERY AND TRAFFICKING**

*Children.*
The trusting, innocent, dependent nature of children, coupled with their lack of worldly experience, make them especially vulnerable to entrapment in slavery. For that reason, their enslavement is an even greater atrocity than adult enslavement. However, estimating the extent of the various forms of child slavery and trafficking is quite difficult not only because the practice is clandestine but also because the children are silenced by their own fear and survival needs [Office of the High Commissioner 1991, not paginated].²

The International Labour Organization most recently estimated that there are 215 million children worldwide who are child laborers, with boys representing nearly 60 percent of that total. Of the estimated 215 million, roughly 115 million are engaged in activities such as the sale and trafficking of children, debt bondage and servitude, forced labor, compulsory military service, prostitution, and pornography [ILO 2012a, pp. 1-2]. In what appears to be its most recent estimate, UNICEF in 2007 put the number of children who are trafficked every year at 1.2 million. According to UNICEF

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¹ The United Nation’s *Global Report on Trafficking in Persons* is not helpful in arriving at estimates of the scope of trafficking because this report is based on reported cases of trafficking (see UN 2009a, p. 51).

² Though it was prepared more than 20 years ago, this statement is currently posted on the website of the Office of the High Commissioner.
Trafficking includes prostitution, work as low-wage or unpaid laborers, house servants, beggars, and soldiers [UNICEF 2007, p. 1]. ECPAT confirms the 2007 UNICEF estimates by quoting directly from that report.

1.2 million children are trafficked globally every year. These children are exploited into prostitution and pornography or used for cheap labor [ECPAT 2011, p. 29].

In the very same report, however, ECPAT finds that the empirical evidence has serious shortcomings.

... accurate estimates and evidence of the scope and scale of violence against children can be extremely difficult to produce [ECPAT 2011, pp. 41-42; emphasis added].

ECPAT is not alone in its criticism. A 2008 UNICEF-sponsored conference in Rio asserted the following.

There continues to be a lack of reliable, disaggregated data on the prevalence and nature of sexual exploitation of children and adolescents and on children at risk ...

Information continues to circulate that is not based on updated knowledge and the wealth of field-based experience ... [UNICEF 2008, p.4].

Reluctantly we arrive at the conclusion that the best available global estimates of child slavery and trafficking – including the estimates published by the ILO in 2012 and reported in the following section -- are not entirely reliable. Even so, given the attention these problems have received from numerous agencies and organizations around the world, it is clear that child enslavement and trafficking are huge and frightening in their consequences for both victim and perpetrator.

Adults.

Bales was the first (in 1999) to make estimates – approximately 27 million persons -- of the extent of global slavery. According to Bales, these enslaved persons work in agriculture, brick making, mining or quarrying, prostitution, gem working and jewelry making, cloth and carpet making, and domestic services. In addition, slaves clear forests, make charcoal, and work in shops. In the U.S. farm workers have been locked inside barracks and have labored in the fields under armed guards; enslaved women from Thailand and the Philippines have been freed from brothels in New York, Los Angeles, and Seattle [Bales 1999, pp. 1-33, 200].

One year later the United Nations reported that there were upwards of 200 million migrants worldwide of whom approximately 15 million were smuggled into the country where they presently reside (cited by Richards 2001, p.19). Two years later, the ILO stated emphatically that it was not

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1 Perhaps coincidentally, ILO in 2003 put the number of children who are trafficked for child labor at 1.2 million [ILO 2003, p.14].
possible at that time to provide reliable estimates of the extent of forced and compulsory labor around the world [ILO 2001, p. 102].

More recently, however, the ILO has developed a methodology that revises the one it used to produce global estimates on forced labor for 2005. This revised methodology means that ILO estimates no longer can be compared to its estimates for 2005. For that reason we do not include herein the ILO 2005 estimates.

The ILO in 2012 estimated that at any given point in time between 2002 and 2011 about 20.9 million persons were engaged in forced labor.\(^1\) Forced labor includes labor imposed by the State in prisons that operate below ILO labor standards, by military service, or by rebel armed forces. Additionally, forced labor is labor imposed by the private economy either for sexual exploitation or labor exploitation in such economic activities as agriculture, construction, domestic work, and manufacturing [ILO 2012b, p. 13].

Of the 20.9 million persons in forced labor, 15.4 million are adults and 5.5 million are children [ILO 2012b, p. 14]. These estimates have been cited in the U.S. Department of State’s report on modern slavery (see State Department 2012, p. 45). Caveats similar to the ones we observed in the preceding section on child slavery and trafficking apply here: the ILO’s latest estimates for adults in forced labor may not be entirely reliable.

**WHY SLAVERY AND TRAFFICKING PERSIST**

Just as there are two principal parties to the practice of slavery -- the person enslaved and one who enslaves -- there are two sets of reasons as to why the practice persists. On the part of the person enslaved there is a material need grounded in the unrelieved poverty and dearth of opportunities of that person’s pre-enslavement circumstances, though the linkage between poverty and slavery is neither complete nor direct (see, for example, ECPAT 2009, p. 36, 41-42, 78; World Bank 2009, p. 11). Unmet need pushes that person -- if a child is involved, his/her family or guardian may use that unmet need to push him/her -- into labor that through deception, force, and violence is exploited, where the poverty continues and a form of bondage may be imposed.

There is also a fundamental human need for work as such that meets the need to belong and the need to engage in work that is challenging and creative, allowing that human being to develop more fully towards his/her full potential as a person. The need to belong can be denied effectively by several means including language barrier, physical confinement, and passport seizure. The need for creative work opportunities makes the innocent and naive vulnerable to being duped and deceived by the promises of the agents of slavery [Ryf 2002, pp.49-51]. For example, the promise of marriage may entrap a girl into forced prostitution [Walker-Rodriquez and Hill 2011, p. 2]. Both boys and girls may be threatened or tricked into prostitution by false promises of work [ECPAT 2009, p. 41].

\(^1\) Given the standard error associated with this estimate, the range on this estimate is a low of 19.5 million and a high of 22.3 million [ILO 2012b, p. 13].
We prefer this framework for addressing the persistence of slavery rather than the more conventional supply/demand or push/pull model because at the very core of slavery, as mentioned previously, is a devaluing of human beings that strips them of their inherent dignity as persons and reduces them to instruments for the illicit and unjust enrichment of others. Bales reports that in Pakistan, India, Mauritania, and Brazil nearly every slaveholder he met and interviewed regarded himself as a businessman. Indeed these agents of slavery were family men and pillars of the community [Bales 2002, p.4]. This objectification of human beings is best described in the language routinely used to characterize the prostitute: “sex object.”

Objectification, however, is even more common than what is represented by the practice of human slavery and trafficking. Millions of other humans are reduced to objects as John Paul warns in *Evangelium Vitae* (§3) through murder, genocide, abortion, euthanasia, wilful self-destruction, mutilation, torments inflicted on body or mind, attempts to coerce the will itself, subhuman living conditions, arbitrary imprisonment, deportation, slavery, prostitution, the selling of women and children, disgraceful working conditions.

**LIBERATION AND REHABILITATION**

Liberating and rehabilitating children and adults who are enslaved or trafficked begin with the recognition that slavery and trafficking today are a worldwide human tragedy that ultimately reduces to one human being treating another as an exploitable property rather than a human person.

Millions of men, women, and children around the world are forced to lead lives as slaves. Although this exploitation is often not called slavery, the conditions are the same. People are sold like objects, forced to work for little or no pay and are at the mercy of their “employers” [Anti-Slavery no date-b, p. 1].

Antonio Costa, Executive Director of the UN Office of Drugs and Crime that in 2009 published *Global Report on Trafficking in Persons*, asserted that

...many governments are still in denial. There is even neglect when it comes to either reporting on, or prosecuting cases of human trafficking [UN 2009b, p. 1].

Between 2005 and 2010 the Congressional Research Service reported that the United States obligated nearly $500 million for international anti-trafficking projects. However, reports regarding these projects have come under attack by the State Department’s Office of Inspector General for redundancy, excessive length and detail, and for doing “more diplomatic harm than good.” The Government Accountability Office has raised questions about “coordinating, evaluating, and monitoring the effectiveness” of these projects. The CRS also reported apparently credible news accounts of U.S. representatives overseas engaged directly in trafficking and exploitation in Iraq, for example, and Afghanistan. Not surprisingly, the 112th Congress has entertained bills that would cut the level of funding for international projects to combat trafficking [Wyler, pp. 9, 12-13, 22, 31-32].
Nevertheless, the practice of enslavement and trafficking is so widespread today that we cannot use our own ignorance or lack of entirely reliable information as justifications for inaction. For that reason we turn to four international agencies experienced in this area for advice on how to address the problem of human enslavement and trafficking. Those agencies are Anti-Slavery International, ILO, ECPAT International, and the Office of the United Nations Commissioner for Human Rights. In the following our intent is not to be comprehensive. Rather we present selectively those recommendations that have some specificity and therefore make clear what should be done and who is to do it.

Based on its own studies, Anti-Slavery International in 2002 advanced 45 recommendations relating to government responsibilities in dealing with trafficking (see Anti-Slavery 2002). To our knowledge, it no longer holds to that set of recommendations. Instead Anti-Slavery International works with local partners to “investigate and report on slavery and promote action to eliminate this abuse.” It is, in other words, an action agency that targets countries especially in Africa, South Asia, East Asia, Latin America, Europe, and the Persian Gulf. For example it has targeted child trafficking in the cocoa farms of the Ivory Coast, child slavery in the cotton fields of Uzbekistan, and debt bondage in the garment manufacturing workshops of Delhi [Anti-Slavery no date-c, p. 1; no date-d, p. 1; June 2012, p. 10].

The ILO asserts that the abolition of child labor will be achieved more quickly and efficiently when the freedom of association and the right to collective bargaining are respected, workplace injustice is rooted out, and forced or compulsory labor is eliminated. Further, the ILO recommends that the age when a child can begin working should be 15 or the age of compulsory school attendance, whichever is higher [ILO 2012a, p. 1].

ECPAT International’s annual report for 2011 contains numerous recommended actions to protect children. Two are addressed here: Internet access to child pornography and child sex tourism. There are more than one million images of children on the Internet who have been subjected to sexual abuse and exploitation. For that reason ECPAT has become a core member of a coalition that targets this problem in the East Asia Pacific region with the intent of eradicating the profitability of commercial child pornography by tracking payments and shutting down accounts used by illegal enterprises. With regard to child sex tourism, ECPAT has worked on the development and implementation of a code of conduct for the tourism industry that helps combat this problem by persuading tour operators to put in place child protection policies, train staff, and report cases of child sex tourism [ECPAT 2011, pp. 17, 19, 35].

The Office of the UN High Commissioner for Human Rights in 2010 published a lengthy list of recommended principles and guidelines on human rights and human trafficking. The list includes a total of 17 principles and guidelines that are organized around four themes: primacy of human rights; prevention of trafficking; protection and assistance; and criminalization, punishment and redress.

Our interest centers on the first theme. Specifically included in the 14 rights enumerated under that theme are, with the exception of the right to collective bargaining, the three affirmed by the ILO: the
right to associate freely; the right to just and favorable conditions of work; and the right to not be submitted to slavery, servitude, forced or bonded labor. Also included in that list are the right to not be sold, traded or promised in marriage along with the right to life. This UN publication cites eight treaties that are the source of the right-to-life principle including Article 3 of the Universal Declaration of Human Rights [Office of the High Commissioner 2010, pp. 8-11, 16, 52-53].

FINAL REMARKS
Human slavery and trafficking are rooted in a culture of death and despair, where death is regarded as the only answer to intractable pain and suffering, an unwanted pregnancy, pedophilia, serial murders, along with drug kingpins, assassins, cop killers, terrorists. They will persist as long as humankind clings to the cultural value that there is a life not worth living, where some human beings are reducible to disposable objects.

In the end there is no reconciliation possible between slavery and trafficking and the principle of equality without rejecting the sacred dignity of every human being that is affirmed in, and the culture of life and hope that inspired, the assertion by the U.S. Founding Fathers that “all men are created equal and endowed by their Creator with certain unalienable rights, that among these are Life, Liberty, and the pursuit of Happiness.”

No reconciliation possible without asserting that some persons are in fact more equal than others.
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PART IV
A PERSONALIST VISION FOR GLOBAL ECONOMIC AFFAIRS
 CHAPTER SIXTEEN

A NEW ECONOMICS FOR THE NEW ECONOMY

The new economy is a term that is used widely today but has different meanings for each person using it. Often, even in serious economic literature, the term is used undefined, vaguely implying some aspect of the advances in the technology of control and information handling. The range of definitions, where they are given, is wide but, in recent years, there has been some tendency for them to become increasingly precise and narrow. We propose the following definition. The new economy is the economy related to the development and spread of new information and communication technologies and is characterized by the fall of national and cultural barriers, broadening of service sectors by comparison with commodity sectors, prevalence of the financial market over the real (good) market, and variability of final demand.

The new economy involves subordination of the nation-state to a larger, more powerful economic union, such as the subordination of the 25 nation-state members to the European Union, and the subordination of Mexico, Canada, and the United States under NAFTA. This development is driven significantly by the proliferation and spread of electronic communication media and an information technology revolution that increasingly allow and indeed encourage economic affairs to be conducted across national borders but outside the clear control of the nation-state whose borders are being crossed. Supra-national economic unions such as the European Union are facilitated, if not required by wider, more frequent, and faster interactions between and among economic agents that reflect and reinforce a greater awareness of others in economic affairs. This is especially the case with regard to global financial transactions. Of course, powerful economic unions are not new to Europe. By the late Middle Ages hundreds of towns in northern Europe had been formed into an economic union known formally as the Hanseatic League to handle issues regarding currency, shipping, and commercial law, and to settle disputes [Heaton 1948, pp.147-150]. However the motivation for, and far-reaching nature of the development of the European Union is of a different order of magnitude.

In the last 50 years, we have been witnessing the beginning of a new phase in the development of the global economy that already has been consolidated under the influence of factors such as international politics, science and technology, and economics and finance. For example, the practice of buying and selling over the Internet, the emergence of a common currency in the European Union, and the adoption of the dollar as the national currency of Ecuador in 2000 [Embassy, p. 1] and its adoption in effect in Hong Kong and Argentina [Tobin, p. 4], along with serious discussions regarding dollarization through the Americas (see IMF, pp.1-25 and Berg and Borensztein, pp. 1-7) are developments that no one could have predicted with certainty as recently as 30 years ago.

The new economy involves the practice of economic agents working in different countries and serving the world market without a prevailing national base. These agents change their location...
between national territories on the basis of opportunities for growth and profit, and they grow not because they are supported or protected by the nation-state but through their own efforts. They carry out their economic affairs as if the boundaries that define the nation-state do not exist.¹

Internationalization, on the other hand, is characterized by business enterprises and markets that have a prevailing national basis and that have relationships with each other in the context of international trade. The distinction between the characteristics of the new economy noted above and internationalization does not depend on the size of the companies, since some national agents are larger and more powerful than some new economy agents. The difference is that under internationalization economic agents act with some considerable regard for the boundaries that define the nation-state where they originated and the other nation-states where they carry on their business. In 1997 the 100 largest non-financial transnational companies in the world had foreign assets of $1.793 trillion, or 42.6 percent of their total assets, and foreign sales of $2.133 trillion, or 53.5 percent of their total sales. Their combined foreign employment was 5.981 million, or 51.5 percent of their total employment. In terms of foreign asset holdings, General Electric was ranked number one with $97.4 billion. The other top ten companies were: Ford, Royal Dutch/Shell, General Motors, Exxon, Toyota, IBM, Volkswagen, Nestlé, and Daimler-Benz. Of these companies, five are in the automobile sector (Ford, General Motors, Volkswagen, Toyota, Daimler-Benz), two are in energy (Shell and Exxon), and one each in electronics (General Electric), computers (IBM), and food (Nestlé). As to country of origin, five are American, four are European, and one is Japanese [World Investment Report, pp. 1-5].²

From these estimates we can begin to understand the enormity of the challenge of the new economy to nation-states. This challenge becomes even clearer when we begin to analyze the three great areas of innovation today -- information and communication technologies (ICT), finance, and production processes -- which are changing the very concept of national sovereignty. The old idea of the sovereign state as wielding greater power and knowledge than its agents and citizens has been challenged by the spread of technological innovation. This development has led to the consolidation and reinforcement of financial integration and economic globalization through: (1) the emergence of countless startup enterprises bringing to the marketplace products and services originating in scientific and technological research; (2) the successful transfer of this research to established enterprises contributing to important innovations in the process of production and the materials used in production, in the form new products and services and new market penetration, and in the new

¹ If we substitute “new economy” for “globalization” our definition closely matches the one used by Nitikin and Elliott [p. 14]: “... globalization is ... the establishment of the global market free from sociopolitical control.” And Daly’s as well [p. 1]: “Globalization refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes.”

² Three of the ten -- Ford, General Electric, and IBM -- also are ranked among the top ten global brand names in the first-ever ranking of the top 100 global brands by dollar value. To be included in this ranking of 100 “best global brands” a brand such as Starbucks, Coca Cola, or Marlboro is defined as a global brand only if it has sales of at least 20 percent outside its region or home country (see Khermouch and others, pp. 50-57).
ways in which business enterprises are organized and managed; and (3) the introduction and acceptance of systems for accessing information and controlling operations that are complex and powerful and at the same time user-friendly.

The impact of ICT on both the financial and real sectors of the economy is unprecedented in economic history. By enabling companies to organize production in distant locations efficiently both in terms of production costs and markets, the ICT revolution has added an entirely new dimension to the five fundamental economic processes of production, distribution, exchange, consumption, and capital investment.

Technological innovation has been a powerful influence in overcoming barriers of space and time and the institutional and cultural barriers that separate national markets. It has spread throughout countries with important effects on product, resource, and financial markets. These changes, which are central to the new economy, require increasing levels of training and skills that transform the very nature of human work such that knowledge itself is even more critical than at any time in the past. The differences in training and infrastructure from one country to another even from one developed country to another, are vast. In the early 1990s, for instance, the United States government launched a program to develop the so-called “information superhighway.” More recently the countries of Europe launched the same initiative to connect persons, families, private enterprises and organizations, and public agencies to the Internet in order to overcome the information-technology gap that separates the European economy from the United States economy.

At the March 2000 summit meeting in Lisbon, the heads of government and ministers of the (then) 15 European Union countries passed a series of measures aimed at connecting all European schools to the Internet by 2001. But this was not all. One of the European Union’s objectives for 2000 was to define a flexible program of regulations for electronic commerce and the liberalization of telecommunications over the so-called “last mile” in order to drastically reduce the costs of Internet connection [European Commission, p. 2].

IMF Director of Research Michael Mussa has identified improvements in the technology of transportation and communication as one of the two factors -- the other is the reduction in artificial barriers to international commerce -- driving global economic integration since World War II. In the last half of the 20th century world trade in goods and services has expanded at nearly twice the rate of world real GDP, and has lifted the volume of world trade\(^1\) from one-tenth to roughly one-third of world GDP. At the same time, the cost of voice, text, and data communication has dropped significantly due to innovations in ICT that already have had powerful implications for international trade, notably trade in services [Mussa, pp. 1,12].

**THE NEED FOR A NEW ECONOMICS**

We need a new economics, a new description and understanding of contemporary economic affairs, because economic affairs are conducted differently today as compared with the past. Most important

\(^1\) The sum of both exports and imports.
in this regard are the changing roles of economic agents such as consumer and merchant, worker and producer, entrepreneur and financial agent in the new economy. Further, the new roles that they are acquiring significantly change their awareness of other economic agents, notably the ones with whom they interact, and as a consequence also change their self-awareness. The need for a new economics is best demonstrated in the deficiencies of the four premises of the old economics: the individual, the law of nature, certainty, and instrumental value.

The most important premise of the old economics is that the central unit of economic analysis is the autonomous economic agent. Of course, institutions and business enterprises can also be regarded as economic agents but it is helpful, in the first instance, to concentrate on the economic agent and, for the new economics, to define that agent more broadly than *homo economicus*.

Under the old economics, the economic agent exhibits particularly inward directedness, autonomy, and awareness of self and self-interest. The economic agent is represented as intelligent, thoroughly rational, utility-calculating and maximizing, and free to choose in all economic decision-making; competitive, making use of his/her disposition to undertake certain tasks alone for the strictly individual reward or gain. The economic agent of the old economics, though changing and evolving notably as regards human capital, behaves consistently and predictably -- a great convenience for economic analysis -- and behaves in a manner completely detached from community or cultural influence, being essentially solitary, and in the extreme machine-like (see, for example, Blinder, p.18).\(^1\)

For the old economics, emphasis on the autonomous economic agent has proved useful for more than two centuries, and has been, in a sense, validated most recently by the demise of soviet communism and the collectivist philosophy that supported a radically different characterization of economic agents. But this concept of an economic agent is not appropriate for the new economy in which economic affairs are increasingly being centralized in supra-national economic unions. The old model fits well in a world and at a time when decentralization was taking place in political affairs, in the 17\(^{th}\) and 18\(^{th}\) centuries. If, however, the actual roles and characteristics of economic agents have changed in the new economy, it follows that a new economics begins with a re-thinking of the concept of the economic agent. The new economics demands the addition of important characteristics and dimensions not included in the old concept of the economic agent.

The new economics demands recognition of the social role of the economic agent. It could be argued of course that the absence of this recognition was always a weakness of the old economics. However, it is the rise of the new economy that has widened the gap between the old economic and current economic reality, and has thus made more urgent the re-thinking we propose. The new economic agent is both inward-directed and outward-reaching, autonomous and dependent, aware of self and self-interested but, at the same time, aware of others and concerned for their well-being. The new economic agent is intelligent, thoroughly rational, utility-calculating and maximizing, and free to choose, yet also intuitive, emotional, and ethically instructed and governed. In all economic affairs the new economic agent is not only competitive but cooperative, making use of his/her disposition to

\(^4\) For more on the individual as the basic unit of economic analysis, see Chapters Two and Three.
undertake certain tasks collectively for the reward or gain that cannot be achieved or achieved so well when those tasks are undertaken by the agent working alone.

The old economic agent is constant and therefore predictable, and even though changing and evolving with the passage of time, changing and evolving in ways that are quantifiable as indicated conceptually by human capital and that therefore can be incorporated in the mathematical models of the old economics. The new economic agent is unique, one of a kind, valuing both individual and social roles, changing as an economic agent with changing economic conditions and circumstances, but essentially a holistic unified human being, not one part individual, one part social, but a seamless union of the two.

The new economic agent is aware that community and a sense of belonging emerge when he participates constructively in the economic lives of others, that private companies are economic communities which require positive contributions from the economic agents who form those communities, that all existence is co-existence, and that some degree of altruism, benevolence, and generosity are duties within the three central economic activities of work, consumption, and leisure. For the old economic agent, these are praiseworthy but nonessential personality traits.

Adam Smith’s *Moral Sentiments* calls attention to these duties, and Marshall rejects competition as the fundamental characteristic of modern economic systems, affirming instead the importance of neighbourhoods and collective action, of honesty, fidelity, unselfishness, and sympathy [Marshall 1948, pp.5-7]. But the old economic agent was derived not from Marshall’s *Principles* or Smith’s *Moral Sentiments* but from *Wealth of Nations*. In that sense, the new economics and the economic agent re-establish the fullness of Smith’s and Marshall’s original ideas about economic agency.

The new economics sees culture as playing a role in economic affairs similar to the role of weather in aircraft operations. To embrace culture the old economics would have to admit that economic agents exist within communities. Culture relates to the specific, customary ways in which needs and wants are addressed. To illustrate, Americans are enamored of fast-food for breakfast, lunch, and dinner, even to the point of taking those meals alone. Europeans, on the other hand, are willing to expend much more time in preparing and enjoying meals together. Europeans typically set aside the entire month of August for vacations. Americans, especially those who are workaholics, frequently are so busy working they allow little or no time for leisure.

When human beings are not totally self-absorbed and at least from time to time care about one another in economic affairs, the performance of the economy improves, just as the aircraft performs better in good weather. On the other hand, for well over one hundred years, we have witnessed the devastating effects, on developed and developing economies, of the “bad weather” of genocide, ethnic cleansing, civil war, terrorism, drugs, slavery and other social evils. The old economics denies that weather has any role to play in the operation of the aircraft. The new economics affirms what is obvious even to the casual observer: weather has a powerful effect on the aircraft’s performance.
As to work, most normal people desire a job that affords opportunities to use creative talents and energies, and scorns the “dead-end” job. Further, people desire acceptance by others on the job, and it is normal for a person to be distressed whenever he/she is not fully accepted as a member of the work group.

Regarding consumption, people use goods and services for their physical and mental well-being, but more than that often is necessary. They seek truth, goodness, and beauty and stimulation in various forms such as music, art, drama, nature, literature, dance, and sports, and very often eagerly satisfy these desires with expenditures on transportation, meals away from home, lodging, admission fees, photos, souvenirs, and the like.

Human beings are marvelously and mysteriously different in countless ways. What may satisfy one person may be of no interest or value to another. Some like amusement parks, others are drawn to hockey games. Americans like NASCAR racing, Europeans are attracted to Formula One racing. A glass of wine at dinner is commonplace among the French, whereas a pint of Guinness at the local pub in the evening is customary among the Irish. The new economics characterizes the purchase and use of goods and services in this manner as leisure, a third kind of economic activity distinct from work and consumption. The old economics, on the other hand, defines leisure strictly in negative terms: time spent not working.

By the law of nature the old economics means that product markets, resource markets, and financial markets provide a forum for the interaction of economic agents and those markets by their very nature function efficiently and effectively. The law of nature presumes that every economic agent is capable of representing his/her own best interest without assistance, and that the agreements which agents reach freely with other agents automatically fulfil the duties of both agents to the group(s) to which they belong provided they bring no harm to others. There is no need for any intervention on the part of private groups or public bodies unless the prohibition on hurting others is breached. For some, the law of nature says that community does not matter in economic affairs because it is simply a way of referring to a collection of human beings. Community, in other words, is just a manner of speaking. For others, the law of nature means that community can be maintained and supported without the direct contributions of its members, that it exists entirely on its own.

The new economics admits instead that markets are, at times, dysfunctional, and institutions are needed to intervene in order to address that dysfunction. For example, some employers left to their own devices would contaminate the air, soil, or water with their waste discharge. Therefore it is necessary to limit the amount of waste that they are allowed to discharge legally and to fine them and shut them down whenever they exceed that limit which in order to be accepted must be determined ultimately by scientific inquiry. Another limit is the legal minimum wage that forces employers to pay the legal minimum when otherwise they might take advantage of their workers and pay them less.

The old economics relies heavily on mathematical models and data sets to describe and predict. Within the limitations of the model, predictions can be made with certainty. This investigational
methodology is grounded in the Enlightenment and the scientific method. The new economics admits that certainty is not possible in economics because economic agents are complex ever-changing human beings who remain at least in part a mystery even to themselves, and therefore impossible to represent fully in mathematical models. Thus, conclusions drawn from economic research must be couched in terms that reflect some uncertainty. The problem for the professional research economist is how to deal with uncertainty in an open and honest fashion, carefully sifting and weighing the empirical evidence to draw only those conclusions that the data will support. Reducing uncertainty is an even greater challenge today because in the new economy economic agents are embedded in vastly different cultures and their behavior therefore is not always adequately understood and predictable. Further, what in one culture is unacceptable and illegal behavior (bribery) may be acceptable in another (facilitating payment, a cost of business). In this regard, analogy can be a powerful model, though lacking in precision. However, when it is carefully crafted, analogy can be more deeply probing and instructive of economic affairs than a mathematical model.

By “instrumental value” the old economics means that the worth of every economic agent is determined by the contract (explicit or implicit) that sets forth what payment that agent has accepted for the work he/she performs. That is, worth ultimately depends on how useful an agent is as an economic instrument. The new economics rejects that premise. Though in some cultures not all humans are accepted as equals, there is a growing consensus, notably in the West, to respect every human being because there is no ethically acceptable way to value one person more highly than the other.

The new economy, and in particular the immediacy and effectiveness of modern communication, confront us daily, in our living rooms, with examples of suffering engendered by failure of governments and wealth creators to respond adequately to the basic human needs of much of the world’s population, and to respond adequately to environmental concerns. A changing climate of opinion about these issues is having a positive worldwide influence on economic policies that must be taken into account in constructing a new economics.

A major deficiency in the old economics is that microeconomics and macroeconomics have not been integrated into a unified general theory. This predicament originates with its limited concept of the economic agent. There is no such problem when economics proceeds from the premise that the economic agent has a social dimension. To explain, microeconomics represents a description and understanding of economic affairs from the perspective of human individuality. Macroeconomics, on the other hand, sees economic affairs from the perspective of human sociality. An integration of the two branches of economic theory is necessary because humans are fully integrated such that it is impossible to separate the individual being from the social being. Thus the new economics can make the integration of economic theory possible by construing all economic affairs -- working, consuming, saving, investing, lending, borrowing, innovating, brokering, insuring, buying, selling, resting, hiring, dismissing, and the like -- not in terms of the impersonal, mechanical forces of the market but in Marshall’s “the ordinary business of life” language [Marshall, p. 1].
CONSTRUCTING A NEW ECONOMICS

We begin the construction of a new economics with the economic agent. However, in order to do that it is necessary first to begin with economic justice because the knowledge and practice of justice in economics affairs is fundamental to the differentiation of the new economic agent from the old. All three principles of justice -- equivalence, distributive, and contributive – are necessary in economic affairs because they limit the economic gain that at times is excessive and destructive and which the law of nature, the invisible hand of the market, simply does not constrain in any meaningful way. Simply put, the old economic agent requires more than his/her own conscience to assure that justice is done in routine everyday economic exchanges. Ideally, the new economic agent is trustworthy precisely because he/she accepts the duty to respect and protect the dignity of other economic agents and rejects any practice that reduces them to mere instrumental value. See Chapter Five for more on these three principles and how they limit ill-gotten gain. In the following, we address three important pair of economic agents -- the consumer and the merchant, the worker and the producer, and the entrepreneur and the financial agent -- to illustrate what we mean by the new economic agent in more concrete terms.

Consumer and Merchant.

All consumers have to deal with two limits regarding the utility or satisfaction that derives from the act of consuming. Putting the concept of the limit at the center of our understanding of consumer behavior in effect acknowledges the importance of moderation in order to assure that the goods and services sought after remain the means to satisfying human wants and meeting human needs and do not become ends in themselves [Danner 2002, pp. 124-125].

Limit 1 refers to the one unit consumed that produces the largest increase in utility or satisfaction. We reference Limit 1 as maximum marginal utility. Limit 2 refers to the last unit consumed that offers some increase in utility but beyond which disutility sets in. We refer to Limit 2 as the point of maximum total utility. “Pigging out” is a common reference to having exceeded Limit 2 in consuming an especially enticing product and afterward having some regrets for over-indulging. Why do consumers at times exceed Limit 2? Peer pressure may be one reason. The availability of the product free of charge may be another. Another reason may be that the consumer is willing to challenge his/her own limit, thinking that perhaps that limit is higher than it actually turns out to be. Truth to tell, we do not always know the reason because at times even the consumer does not know. In addition, the limits are not the same for every consumer. As regards eating, this is partly because each one of us has his/her own metabolism and tolerances. And as we age, our limits tend to change as well. The hyperactive body of the teenager or athlete requires more calories than the sedentary body of the same person much later in life. In any case, these two limits are embedded in what is obvious to even the casual observer: all human beings are material creatures. It follows that the old economics which asserts that consumer wants are unlimited is not an accurate description of the consumer.

The old economics values liberty above all else. It asserts that customers and merchants alike should be free to see and use one another primarily if not exclusively as the means by which self-interest is
served. The new economics, while respecting liberty, admits that the new economic agent as consumer recognizes a right to be protected from unscrupulous merchants. Further, the new economics admits that merchants recognize a degree of duty to respect that right even when it adversely affects their profits. The new economics also admits some recognition that it is not in single-mindedly serving self that the merchant achieves success as an economic agent. Rather it is through respecting suppliers, employees, and customers appropriately that they are become the means to (instruments of) the merchant’s success.

Worker and Producer.

Work has two principal effects: on the goods and services that are produced and on those who do the work. The new economic agent, as worker, is two-dimensional, at once an individual being and a social being, capable of competing with co-workers and cooperating with them. The worker is actively engaged in economic affairs and not merely a resource to be used in the production process. A major part of the worker’s reason for working is to earn the income to purchase the goods and services that meet physical, mental, and other needs and wants. The amount of income earned through work is likely to depend in principle on the significance of the worker’s total contribution to the production of goods and services. Thus, earnings are linked to the first main effect of work, and therefore are an implicit affirmation of the principle of private property which asserts that what is produced belongs to the person(s) who produces it. For the new economics, the problem is that while an unrestrained labor market automatically eliminates shortages and surpluses it does not necessarily meet the needs of workers. Intervention at times is required in order to address those needs through measures such as a mandated minimum wage, a limit to the length of the workday, a ban on child labor, and inspections to assure the health and safety of the workers.

Work itself helps meet the human needs and satisfy the human wants that derive from the worker’s own nature as an individual being and a social being. As an individual being, the worker has a need for job that provides on-the-job opportunities for the utilization of his/her own special gifts and talents. This is done by incorporating into the worker’s job description specific tasks that require the use of those gifts and talents. The uniqueness of the worker is underscored here.

As a social being, the worker has a need for a job that makes him/her a respected partner in the work he/she is called upon to do. A real sense of belonging follows when the company has made an effective effort to integrate the worker into the organization such that whenever the worker is absent he/she is genuinely missed by colleagues. The worker’s need for acceptance and inclusion is underscored here.

It follows that work is an opportunity for personal development through meeting a need (1) for self-expression, and (2) for belonging to the work team. Self-expression proceeds from and enhances the individual contribution of the worker that flows from authentic self-interest. Attachment to the work group proceeds from and enhances teamwork that flows from the ability to sense the needs of others.
As with the role of principle of diminishing marginal utility in explaining consumer behavior, the principle of diminishing returns explains producer behavior in terms of two limits: Limit 3 or maximum returns and Limit 4 or capacity. The limits applying to producer behavior originate in the human materiality of the economic agent just as we observed regarding the two limits applying to consumer behavior.

Limit 4 refers to the maximum output possible in a day by one worker. Before Limit 4 is reached each additional hour of work adds to total output. Beyond that limit, however, the worker’s total output drops due to physical or mental exhaustion, because at that point he/she makes mistakes that in turn lead to re-work or accidents. We see this kind of limit displayed very dramatically on the highway where from time to time exhausted truck drivers fall asleep, wreck their trucks, destroy some of the goods that they are carrying, or worse yet injure or kill. Limit 4 or capacity applies to everyone who works because everyone who works eventually tires and requires rest on a daily basis.

Limit 3 refers to the single hour of work in which the worker produces more than in any other and is called maximum returns. Before Limit 3 is reached, returns are increasing; after Limit 3 is attained, returns are diminishing. Beyond Limit 4 or when capacity is reached, returns are negative. Limit 3 or the point of maximum returns pinpoints the single hour of work in which the worker is most productive. Diminishing returns reflects our own experience with work. Normally, exhaustion does not suddenly overtake us. Rather, we tire little by little as the workday unfolds, with hourly output declining as the work itself saps our strength, until full exhaustion sets in and mistakes take over.

The machines used in the production process are like human workers in the sense that both are material in nature, the one animate the other inanimate. Both wear out under use and both require maintenance. Human maintenance means time away from work, in the form of a coffee break, lunch hour, over night rest, weekends and holidays off, and vacations to provide for even longer periods of rest and relaxation. Machines do not run indefinitely. They too require downtime that the careful producer does not want to occur when the machines are most needed in the production process. For that reason, producers often schedule maintenance ahead of time in order to assure that the equipment is ready when it is called into use. The scheduling of maintenance is called preventive maintenance and though it can be costly is undertaken for fear that in the absence of such procedures the cost would be even greater. Clearly, the new economics dismisses neither the principle of diminishing returns of the old economics nor the production function that represents that principle diagrammatically. However, the new economics represents the production function in terms of two limits for two related reasons: machines and humans wear down with use and that wearing down effectively limits production and matters critically as regards the cost of production and profitability.

With one possible exception, the new economics represents the cost of production no differently than the old economics. Unit cost and marginal cost are driven by the production function, and as production increases average fixed costs tend to decline. However, the new economics interprets the sharp increase in average fixed costs at capacity in human terms rather than simply in financial terms. To explain, the observant production manager knows that capacity has been reached at the point where average fixed costs are rising. Once production has been pushed beyond Limit 4,
mistakes take hold and workers are exposed to greater risk of injury or worse, and defective units are produced that require costly re-work. The new economic agent, charged with the responsibility for supervising production, subordinates output to the safety of the work force because the workers’ value as human beings is more significant than their instrumental value as resources in the production process. Additionally, reducing the re-work that attends pushing production beyond Limit 4 and assuring the safety of the workforce have the effect of cutting the cost of production and enhancing the company’s competitiveness and profitability, outcomes of considerable interest to the company’s customers and owners. Putting the concept of the limit at the center of our understanding of worker behavior acknowledges the need for restraint in the production process to avoid re-work and protect workers just as earlier we observed that moderation is required in consumer behavior to assure that the goods and services sought after remain the means to satisfying human wants and meeting human needs and do not become ends in themselves.

Returning once more to the analogy of the economy as a twin-engine aircraft, if consumers can be represented as the passengers, workers in turn can be compared to the ground crews, maintenance crews, flight crews, air-traffic controllers, and regulatory agencies such as the U.S. Federal Trade Commission and the Anti-Trust Division of the U.S. Department of Justice whose job it is to assure that the aircraft is fully operational, the passengers are properly attended during flight, and the pilot maintains a safe distance in flight from all other traffic.

**Entrepreneur and Financial Agent.**

The entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change in the workplace, by introducing new materials in the production process, installing new methods of production, changing how the firm is structured and managed, and in the marketplace, by introducing new goods and services, and penetrating new markets [Schumpeter, 1950, pp. 83, 132]. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the process of production. We much prefer to identify the entrepreneur with the two-dimensional new economic agent, as opposed to simply the one-dimensional economic agent of the old economics, because the entrepreneur is a real person engaged in human action in economic affairs, subject to emotions and social pressures, and not some totally self-interested, self-absorbed, completely rational calculating machine. In philosophical terminology, the entrepreneur is the efficient cause. Dempsey asserts that “The economic function of the entrepreneur signalizes [the] irreducible paramount importance of the human person” [Dempsey, 1958, p. 361; emphasis added].

There is some social pressure on the successful entrepreneur, if not pressure from his/her own conscience, to weigh the negative aspects of innovation against its positive aspects. In this regard, the principle of the double effect comes into play and sets limits on what the entrepreneur should do. The destructive, negative effects should not be greater than the creative, positive effects, and the entrepreneur should not intend the destructive effects as a way of singling out certain persons or organizations for punishment.

In American culture, however, the entrepreneur it seems is not held to account if his/her initiatives do not measure up to these ethical standards. Entrepreneurs often act in ways that are accurately represented and rationalized by the economic agent of the old economics, even when their actions are
significantly destructive. (Admittedly, successful entrepreneurs sometimes turn to philanthropy later, in effect rejecting the law of nature of the old economics.) It may be partly wishful thinking, but we would argue that the new economy is charting a new course -- look, for instance, at the astonishing success of the internet auction house E-Bay -- and that there are pressures from public opinion, and hence governmental regulatory pressures to discourage the entrepreneur from acting in ways that in practice ignore the principle of the double effect. We suggest, then, that the new economic agent, as entrepreneur, ought to accept some degree of philanthropic concern for others, while pursuing their innovational ideas and plans.

The new economics asserts that because firms in the same marketplace compete not just in terms of price and cost, but in terms of new products and services as well, industrial policy no longer can be grounded in the model of perfect competition from the old economics. Indeed, the new economics would remove the loaded terms “perfect” and “imperfect” from the public discourse because vigorous entrepreneurship assures that markets cannot possibly achieve perfectly competitive conditions, and for that reason the types of markets that actually characterize a market economy cannot be called perfectly competitive. The new economics encourages re-thinking of the market system in terms of functionality and dysfunctionality, according to how well the three organizing principles of competition, cooperation, and intervention ultimately satisfy human wants and meet human needs.

The private creation of credit is not the most important characteristic of capitalism, but it is its distinguishing characteristic [Schumpeter 1928, p.326]. No other system operates with private commercial banks making loans to commercial customers on the basis of created credit, that is without the money being saved beforehand. The entrepreneur depends on the credit made available by the banker to carry out his/her entrepreneurial schemes just as the pilot of the twin-engine aircraft depends on the supplier who provides the fuel to power the craft’s engines. There are, of course, other sources of funds in which prior savings is a requirement such as pension funds, mutual funds, and venture capital funds. The central banking authority’s function is to assure that there are adequate supplies of fuel for the economy and in the extreme to prevent an economic “crash.” Subsidies, tax credits, and other forms of relief function like fuel additives enhancing the power of the aircraft’s engines.

Under the concept of the economic agent of the old economics, by maximizing risk-adjusted returns on invested funds, financial executives also meet their public obligations. The new economics admits, on the other hand, that there is considerable divergence between the social rate of return and the private rate of return, that capital markets are not perfect. In making investment decisions, the new economic agent cannot presume that every decision to serve the private good of investors at the same time serves the common good. Instead, the new economic agent admits some duty to evaluate investment decisions in ways that take into account explicitly the difference between investments in such projects as gated communities, private jets, and cosmetic surgery for the rich, and affordable housing, public transportation, and access to health care for the poor.
This obligation derives from a shared acceptance of the equality and dignity of all human beings and a recognition of the need for certain goods and services to sustain their lives and provision their well-being at some minimally acceptable level. In other words, a recognition that the goods of this world are not for the exclusive use of those with the market power to command those goods, but for the general use of all humankind. New economic agents in the form of financial executives admit a need to include the common good in their decision-making. They do so by subordinating the law of nature to a recognition of social responsibility [Worland, 1996, pp. 59-72].

Inter-temporal exchange introduces the risk of default requiring reciprocal trust between the persons involved. This trust may be based on real reciprocal acquaintance as happens in local finance, on reputation with the resulting possible distortion of incentives on each side, or on some surrogate of trust such as contractual clauses that reinforce the borrower’s incentive to honor his/her debt. In international financial contracts in particular, clauses often are introduced to make the problem of reciprocal uncertainty less difficult, but these contractual expedients often have undesired consequences. For instance, linking interest rates to the trustworthiness of the borrower or resorting in general to short-term loans may result in blocking loans for those projects where the expected return is not high enough or is too far in the future. Yet this is a very dangerous choice that could eventuate in selecting only high-risk projects or those in difficulty. International loans may be badly used, may induce governments to put off painful but necessary economic reforms, or may be available only for high-risk, high-return projects.

**JUSTICE AND CARING AND THE NEW ECONOMIC AGENT**

The faithful practice of two principles of economic justice -- the principle of equivalence and the principle of distributive justice -- can contribute powerfully to (re-)establishing trust between agents involved in financial transactions. Under the principle of equivalence, both agents 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, and the creditor is labeled a “loan shark.” 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. Debt restructuring and debt forgiveness for nation-states as well as human persons are justified under the principle of equivalence whenever the burden to the borrower becomes unduly onerous or impossible to bear.

Further, 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 Code of
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 new 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.

However, more than justice is required to forge a true sense of trust because justice by itself can
become cold and calculating if it is not tempered by caring or charity [John Paul 1998, §1]. 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. 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 the new 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 temperatures, but caring is a higher-grade oil than justice.
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 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 the
old economics. Financial agents contribute directly to the real though intangible business asset
“goodwill.” Caring and charity thus become valued economic resources that are absolutely unique in
two ways. First, they acquire value only in the giving and never in the hoarding. Second, they are
never depleted in utilization.
References


CHAPTER SEVENTEEN

NORMS FOR EVALUATING ECONOMIC GLOBALIZATION

Globalization of economic affairs is taking on the appearance of a two-edge sword: some insist that it will divide humankind even further between rich and poor while others claim that it will assist the spread of economic development. This chapter examines recent experience with global financial integration in order to identify the norms by which economic globalization is to be evaluated. Public protests by large and at times violent masses of demonstrators at the 1999 meetings of the World Trade Organization in Seattle and at the 2001 meetings of the G8 in Genoa, along with other meetings on globalization, serve to underscore the explosive nature of economic globalization and the urgent need to find principles for evaluating globalization properly.

There are two central perspectives regarding globalization. The one grounds the discourse in terms of the mainstream economics way of thinking that is widely embraced by Western academic economists. The other perspective, which most definitely is a minority view within economics, addresses globalization in terms of the personalist economics way of thinking.

The first perspective regards itself as entirely value-free even though its own hard-core premises originate in the philosophies of individualism and utilitarianism. The second perspective that originates in the philosophy of personalism finds no fault with being value-laden because in the final analysis there is no other way to proceed in evaluating the economic globalization that is by definition a value-laden task. In other words, the mainstream perspective brings to bear on this question only a few principles from positive economics. The personalist economics perspective brings to bear a larger set of principles from normative economics.

The authors hold fast to the personalist economics perspective as more relevant than the mainstream perspective and therefore more instructive to a proper evaluation of economic globalization. We rest our argument on principles not just from personalist economics but also from two other major sources. The first source is the 1948 *Universal Declaration of Human Rights*. The other source is John Paul II’s many public statements over the years on economic development and globalization specifically and on economic affairs more generally. The mainstream economics view is couched in such language as the individual, efficiency, equilibrium, and costs and benefits. Our view is presented in words such as person, sufficiency, agreement, and rights and duties.

Our comments in the following section center on financial aspects, which are situated in the wider context of economic globalization, and are organized around two themes: (1) economic globalization and financial integration; and (2) the financial system and economic development. Then our attention focuses on other aspects of international finance including financial crises and relevant rules and
institutions, the nature of the system and its evolution through the 1990s, and the need for a new architecture especially to address economic development.

Finally, we present the principles from personalist economics that are instructive as to how globalization is to be evaluated. Our purpose is not to apply our norms in order to evaluate economic globalization. Rather it is to contribute to the public discourse on globalization using recent experience regarding financial integration to refine the norms that properly apply in a careful evaluation of economic globalization. Several general remarks regarding the norms that we are recommending bring our discussion to a close.

**ECONOMIC GLOBALIZATION AND FINANCIAL INTEGRATION**

By economic globalization we mean, first, the practice of economic agents (business enterprises, banks, and finance companies) working in different countries and serving the world market without a prevailing national base. These agents change their location between national territories on the basis of opportunities for growth and profit, and they grow not because they are supported or protected by the nation-state but through their own efforts. They carry out their economic affairs as if the boundaries that define the nation-state do not exist.

By economic globalization we mean, second, which due to the information communication technology revolution (ICT) economic agents are able to interact with other agents across very great distances in a manner of minutes or even seconds at very low cost. For that reason economic agents are less isolated than ever before and more dependent on others, many of whom they may never see face-to-face. The impact of ICT on both the financial and real sectors of the economy is unprecedented in economic history. By enabling companies to organize production in distant locations efficiently both in terms of production costs and markets, the ICT revolution has added an entirely new dimension to the five fundamental economic processes of production, distribution, exchange, consumption, and investment.

Economic internationalization, on the other hand, is characterized by business enterprises and markets that have a prevailing national basis and that have relationships with each other in the context of international trade. The distinction between globalization and internationalization does not depend on the size of the companies, since some national agents are larger and more powerful than some global agents. The difference is that under internationalization economic agents act with considerable regard for the boundaries that define the nation-state where they are originated and the other nation-states where they carry on their business.

Direct investments abroad and multinational or global companies, which establish a more lasting form of globalization than do finance companies, are at the heart of real globalization. World foreign direct investment flows increased in 1999 to $865 billion representing a 16 percent increase over the 1998. As a percent of global gross domestic capital formation, foreign direct investment climbed to 14 percent in 1999 compared to 2 percent in 1979 [Beams, p. 1].

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1 From the *2000 World Investment Report* published by the United Nations Conference on International Trade and Development, as reported by Beams.
a percent of global GDP\textsuperscript{1} rose from 1.1 percent in 1986 to 2.2 percent in 1996 [World Development Indicators, Table 6.1].

**FINANCIAL SYSTEM AND ECONOMIC DEVELOPMENT**

The complex events that link the evolution of financial systems to processes of development have undergone a striking process of acceleration in recent years. While large-scale industrialization in the second half of the 19th century led to the development of many different national financial systems, the processes of globalization in the second half of the 20th century have led to a stratification of different levels of finance in different economic and financial systems. We identify three levels specifically: global finance, national finance, and the system of local (formal and informal) credit. High finance has a substantially global dimension both with regard to the economic agents who work in it and to the financial products that are exchanged in it, neither one having a permanent link with the nation-states in which the financial activity is carried out.

There still are significant traces of the Old Economy linkage between economic development and the financial system within the nation-state. In Germany, there is the close connection between universal banks and the industrial system. In the United States, the stock market remains a great productive apparatus fueling economic development, and banking activities that traditionally were concentrated in New York City are more widely dispersed across the country. In Japan, though it has been hard-hit by economic and financial problems for many years, banks still supply long-term credit through conglomerates. In Great Britain, short-term operations continue to be the prevailing orientation of banking activities. Yet there have been some important transformations in national systems as a consequence of not only financial crises as in the case of small savings and loan associations in the United States at the end of the 1980s and the entire system of large Japanese banks in the 1990s but also institutional innovation. The most significant example relating to innovation is the financial harmonization and monetary union among the 25 member states of the European Union.

The nature of business credit itself, especially when it supports investment in production and economic development, presupposes fiduciary links that require those who supply the credit and those who employ it to know each other. The two parties usually know each other because of multiple interactions for which communication or physical contact is indispensable. This is the domain of local formal and informal finance that necessarily survives the globalization of high finance and the progressive convergence of national financial systems, even though it is subject to their influence. The acceleration of the processes of international financial integration and the globalization of financial markets have important consequences for the role of finance in sustaining the development of businesses, institutions, and countries, and for their different forms of investment.

\textsuperscript{1} More precisely, GDP converted to international dollars using purchasing power parity conversion factors.
FINANCIAL CRISIS, RULES, AND INSTITUTIONS

In pre-industrial economies, financial crises were linked to wars, natural disasters, and the adulteration of money by those in charge of minting it. With the development of local and national systems of finance, financial crises typically became linked to the instability of banking institutions and the systemic consequences of this instability. The fear that a financial institution may run into difficulty produces a general race to convert bank money into a more secure payment form (gold or cash) with the consequence that these real difficulties spread to other financial institutions in a chain reaction. With the development of international and global finance, a financial crisis often takes the form of a macroeconomic crisis that has effects on the currency and financial markets of a country or region, involving many aspects of the entire economic system, in particular the competitiveness of productive sectors and the internal distribution of revenue.

As a result of such crises, rules and institutions have been developed to prevent future financial crises and to deal with their effects. This is the case of national institutions -- normally central banks -- that supply fall-back credit. These rules and institutions usually have been established in different countries to dampen early on the systemic effects of a crisis that has arisen in one or just a few financial institutions. The fall-back lender has the difficult task of supplying support to the financial system, including intervention with the money necessary to block the spread of a financial crisis, at the same time avoiding the risk of encouraging imprudent behavior by the financial institutions hoping to profit from the immediate crisis.

In the global system, rules and institutions have developed for the same purpose. As there is no international government with the power to apply coercive measures, both the establishment and application of rules as well as the effectiveness of financial institutions are based on agreement between the countries involved, particularly the large countries. Some countries have adhered formally to a system of rules for the exchange rate system, the reserve system, and the adjustment system, but countries often have reneged on their commitments regarding exchange rates because they conflicted with other internal and politically more important objectives.

In general, the rules and institutions created to defend a particular financial system can become ineffective or even counterproductive as innovations occur in the products or participants in the financial system. Thus, the system must change continually if it is to be effective. For that reason we need to focus on two fundamental questions. The first addresses the issue as to how to prevent and remedy crises. The second involves which rules and institutional forms are most likely to ensure that the financial system plays a positive role in real development under circumstances of greater globalization. We turn next to those two issues.

NATURE OF THE INTERNATIONAL FINANCIAL SYSTEM

By international financial system we mean the institutions and ways of operating through which surplus funds flow toward countries or other subjects in deficit, the rules concerning the system of exchange rates, and the operational procedures that create and distribute international liquidity. This system has evolved in response to transformations in saving and borrowing countries, to changes in the objectives and obligations of financial institutions, and to technological innovation. The system’s
microeconomic importance depends on its ability to facilitate the flow of funds toward the most promising investments, independently of the country in which the savings are generated. Its macroeconomic importance consists in giving countries more choices in adjusting to changing macroeconomic circumstances. For example, international finance may allow a country in a mild recession to have access to loans that enable it to avoid large cutbacks in consumption and investment spending.

Among potential borrowers, particular attention should be paid to developing countries. Foreign loans have two potential benefits for developing countries: promotion of growth through investment, and support for processes of adjustment to possible internal and external shocks. External finance offers countries the possibility of exchanging present for future buying power. The borrower acquires goods and services for use today in exchange for a promise of restitution in the future. This inter-temporal trade constitutes an opportunity for participants to add to their economic gains.

Inter-temporal exchange introduces the risk of default requiring reciprocal trust between the persons involved. This trust may be based on real reciprocal acquaintance as happens in local finance, on reputation with the resulting possible distortion of incentives on each side, or on some surrogate of trust such as contractual clauses that reinforce the borrower’s incentive to honor his/her debt. In international financial contracts in particular, clauses often are introduced to make the problem of reciprocal uncertainty less difficult, but these contractual expedients often have undesired consequences. For instance, linking interest rates to the trustworthiness of the borrower or resorting in general to short-term loans may result in blocking loans for those projects where the expected return is not high enough or is too far in the future. Yet this is a very dangerous choice that could eventuate in selecting only high-risk projects or those in difficulty. International loans may be badly used, may induce governments to put off painful but necessary economic reforms, or may be available only for high-risk, high-return projects. In any case, the accumulation of foreign debt makes borrowing countries more vulnerable to changes originating in the global financial system.

EVOLUTION OF INTERNATIONAL FINANCE: END OF WORLD WAR II TO 1989

The evolution of financial systems in developing countries has mirrors profound transformations in the global economy. In the post-war period, there have been three phases. The first lasted from the end of the World War II to the beginning of the 1970s. In this period, the main form of access to foreign funds by developing countries was the flow of official capital, direct foreign investment, and the financing of international trade [Akyüz and Cornford, p. 8]. The financing of the trade deficit in current items (that is the excess of payments abroad for goods, services and interest on loans over revenue) took place mainly by means of agreements between governments and international institutions. Financial intermediaries for the most part were interested in their national clients whose international trade they financed. The international operations of financial institutions were strictly limited by rigid national controls, particularly on foreign exchange operations.

The second phase, from the beginning of the 1970s to 1982, was earmarked by fluctuations in the exchange rates of the principal currencies, with related volatility of interest rates. At the same time,
there was an increase in the size of the deficit in the balance of current items in many countries due to the oil price shocks in 1973 and 1979. Consequently, the institutional organization of the international financial system was forced to change. In particular, banking and financial institutions active on the fund market were very innovative in their products and procedures, and were able to capture business opportunities linked to the direct financing of foreign deficits. In this regard, they were helped by the progressive relaxation of controls on the international movement of capital. Their main clients were the governments of emerging countries, above all oil-producing developing countries and the large countries in Latin America.

The internal composition of this flow of capital changed as the amount of direct investments fell, and the indebtedness of developing countries rose significantly both toward commercial banks and to official lenders who offered loans strictly in terms of market conditions without regard for extenuating circumstances. This change and the increased volume of capital movements made developing countries more vulnerable to changes in the international finance system. In 1982 Mexico’s declaration that it no longer could support the burden of its foreign debt triggered a chain reaction that is typical of financial markets in panic. The entire banking system reduced its exposure to developing countries, drawing many other countries into the crisis, including countries whose debt was held by official institutions and whose only crime was financial weakness [Akyüz and Cornford, p. 8].

The third period extends from the Mexican crisis to the end of the 1980s. The significant feature of this phase was that international movements of capital took on the form of transactions between industrial countries. The majority of international loans flowed away from developing countries toward developed countries with particularly high rates of investment, higher rates of return, or lower savings rates. Compared to 1975-1982 when bank loans accounted for 50 percent of net capital inflows to developing countries, bank loans in 1983-1989 fell to 16 percent of net capital flows At the same time, the share of net capital flows going to Latin America and the Caribbean dropped from 43 percent to 16 percent [Akyüz and Cornford, pp.8-12]. Direct investments flowed only toward certain countries such as the United States that became for the first time a borrower in net terms and Southeast Asia because of its prospects for growth and its favorable stock-market reputation.

The processes of deregulation of financial markets and innovation became consolidated in certain parts of the globe that were strictly inter-connected, areas of high finance in which economies of scale and of goal played a very important role. Peripheral countries and economic agents participated as spectators or as occasional clients, giving the international financial system a highly asymmetric configuration. This development that continues to the present produces a hierarchical stratification between global agents and countries, agents and countries that are occasional clients, and marginal or excluded agents and countries. The latter are agents without economic muscle who are excluded from participating actively in a high-finance market but are not free from the negative effects of global development on their real economies, especially if they have elements of intrinsic weakness.
INTERNATIONAL FINANCIAL SYSTEM OF THE 1990s

In nominal terms, net capital inflows to developing countries increased more than 20 times between 1970 and the late 1990s. In real terms, however, the increase is five-fold, and relative to the output of the recipient countries represents a recovery from the stagnant levels of the 1980s rather than any increase since 1970. Specifically, total net inflow of capital to developing countries in 1975-1982 was 4.91 percent of their GNP; in 1990-1998 it was 5.00 percent [Akyüz and Cornford, pp. 8-9].

Cross-border financial activities have become an increasingly important aspect of the international financial system during the 1990s. Every dollar of international trade is “moved” by sixty dollars of international finance, and the process of globalization is not fully played out due in part to the creation of the Euro. Furthermore, due to a relaxation of controls on the outward capital in developing countries, net capital flow doubled between the early 1990s and the late 1990s. A major component of both capital inflows and outflows in developing countries are liquid assets driven by short-term arbitrage opportunities [Akyüz and Cornford, pp. 13-14].

The growth of international finance is accompanied by other changes of which the most relevant is the opportunity to carrying out “precision” financial operations that remove the financial risk from the shares in question and recompose it in a new “derived” instrument that is given a price and put into circulation on the market. The single most important phenomenon in finance during the 1990s, according to Alan Greenspan, was the development and expansion of financial derivatives. At the end of 1998, there were outstanding derivative contracts at U.S. commercial banks -- the biggest players in global derivative markets -- amounting to $33 trillion of which $4 trillion were exchange-traded derivatives. The balance were off-exchange or over-the-counter derivatives. Since 1990 derivative contracts have been growing by an annual rate of 20 percent. While remaining optimistic as to the future of derivatives as a device for financial institutions to unbundle risks and promote wealth creation, Greenspan admitted that there was no economic downturn during the 1990s to test the robustness of derivative markets, and acknowledged that there is a “deep-seated” fear that systemic risks have risen at the same time individual risks have fallen [Greenspan, pp. 1-6]. In any case, such innovation in products favor the integration of national markets, of borrowers and investors, into a single global market, and they also favor the despecialization of insurance companies, investment banks, pension funds and pools.

Integration of financial markets accentuates the macroeconomic instability of countries whose currencies are structurally weak and whose exchange rates, which may be subject to speculative attacks, are controlled by currency interventions on the part of central banks. This makes the system of global finance even more asymmetric. Weak currencies, which are not present in the portfolio of the large financial agent, can only become weaker if for some reason, perhaps only the contagion of a crisis originating elsewhere, they come under speculative attack.

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1 Measured in relation to the import price index of developing countries or, in other words, in terms of its purchasing power over foreign goods.

2 Estimated by Arestis and Sawyer and reported in de Brunhoff and Jetin [p. 8].
The development of derived financial instruments, particularly on exchange markets, made the currency and financial crises of the 1990s more dangerous, shorter but more intense because their leverage effect multiplies their impact on markets as compared to direct trading in currencies. The dynamics of financial and currency crises therefore may be determined largely by operations involving the market of derived products that, while they do not cause a crisis, make it materially worse.

Thus, the international movement of capital recorded in the balance of payments of a given country does not provide a full accounting of its actual financial situation, especially in the face of speculative attack, and may result in policy interventions that are inadequate or counterproductive interventions in economic policy.

NEW ARCHITECTURE FOR INTERNATIONAL FINANCE

It is no coincidence that at the dawn of the new millennium that has been characterized by moments of acute tension on the world’s financial markets, people again are talking about the architecture of the system. This means reopening the question of national and international choices concerning the exchange rate system, the system of international reserves, and the system of adjustment. This latter aspect has shown itself to be the weak link in the international monetary and financial system since it is the point where conflicts most easily arise. Because the financial system is global, an imbalance in one country leads, by definition, to an imbalance of the opposite kind in other countries. Who, then, should bear the burden of taking action, the burden of adjustment?

In the debate on adjustment, the problems of mature financial systems are very different from the problems of emerging countries. For the latter, in particular, there is much discussion about whether and to what extent there is a contagion effect that transmits a situation of financial crisis to countries that are not the object of speculative attacks, but are associated by international investors to events in the country where the crisis developed originally.

The crises of the 1990s came in clusters that are traceable to: (1) the existence of shock in different countries that were struck by the crisis simultaneously; (2) the presence of strong commercial links that therefore mechanically exported the crisis from one commercial partner to the other; or (3) financial connections between the countries that had the same effect as commercial links. It also is possible, however, that a crisis in one country motivated international investors to reconsider the whole set of fundamental questions relating to all of the countries where they had financial exposure. It is one thing to record and another to interpret the facts, but if there is contagion, the architecture of

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1 An IMF working paper centering on private capital flows found evidence that there is contagion based on trade linkages for both foreign direct investment and portfolio flows, that contagion appears to be stronger in the 1990s than in earlier periods probably due to increased financial integration, and that there are strong empirical indications of contagion for countries in the same geographic region. The authors reported that the size of the current account deficit appears to be the most important factor in the decision to invest or withdraw funds [Hernández and others, pp. 16-17].
the financial system has to provide an international or supranational fall-back lender that supplies a public asset that the market by itself cannot produce.

In the present debate, various hypotheses have been formulated concerning the degree of mobility of capital. According to Tobin [p. 5], “worldwide gross volume of foreign exchange transactions is mind-boggling, 1.3 trillion dollars per business day and growing.” Further, 90 percent of these transactions are reversed in a week and most of the reversals occur within day. Among those calling for nation-state controls on capital flows are the academician James Galbraith [p. 4] and the international financier George Soros [Schifferes, pp. 1-2]. Daly [p. 7] takes a much harder line: “We must learn to distinguish internationalism from globalism and abandon the latter in favor of the former.”

In the 1970s Tobin recommended a tax on foreign exchange transactions to reduce currency speculation. There are two major objections to this tax. First, the tax might paralyze currency markets. Second, for economic and political reasons the tax cannot be implemented [de Burnhoff and Jetin, pp. 7-14]. These two objections notwithstanding and even though there has been widespread disapproval of the tax in financial circles, Tobin continues to promote it as a partial remedy for financial integration that “went too far too fast” [Tobin, p. 5].

There are other institutional-type proposals as well. These range from the suggestion of formally creating a supranational fall-back lender, thus restricting in part national monetary sovereignty, to setting up international bankruptcy procedures that would cut off at a certain point the burden connected to positions of unsustainable debt, to extending global financial regulation to some on a voluntary basis and to others on a compulsory basis, to using incentives to discourage investors from short-term foreign debts, to encouraging the holding of adequate official reserves, to promoting foreign banks that would compete effectively with national banking systems. A new and very interesting point in the debate concerns the so-called “bailing in” of private financial institutions. This involves finding contractual or other ways of involving the private system in crisis prevention and management. The bailing-in proposal has the undoubted advantage of urging the principal actors in the global financial system to take on the role of social responsibility in their actions.

Although it is important to dedicate resources to the design of a new architecture for the international financial system, there is no perfect institutional design. Indeed, in a reality where change is a natural part of the financial system, what seems to be an imperfection sometimes turns out to be an important factor of flexibility and resiliency of the system.

NEW ARCHITECTURE AND OLD PROBLEMS: THE DEBTS OF THE POOREST AND THE PROMOTION OF DEVELOPMENT

The great missing pieces in the debate on the new architecture are the rules and institutional forms that best ensure that even in the era of integration the financial system is able to carry out its positive role of supporting real development. It is necessary to reconsider the eminently fiduciary nature of credit and finance if we are to find room for inter-temporal trade in a global financial system about which we have only an approximate understanding. A certain blossoming of local initiatives, in
particular initiatives of micro-credit, represents a positive signal of recovery of the original role of finance. The connection of these initiatives to the Internet is a further sign that the global dimension can leave room for diversity.

We need to reconsider certain facts, including the nature of the foreign debt of the poorest countries. This debt is an increasingly heavy burden because of the mechanical laws of the accumulation of arrears and interest. Moreover, it is inconceivable that the creditors among whom governments and public agencies are conspicuous will get back what they lent a long time ago under vastly different conditions. Paradoxically, private financial institutions have been more willing to redefine the terms of indebtedness of countries to which they granted credit in the 1970s. For them common business sense alone has been sufficient to guide the process of reducing the burden of debt of the developing countries.

The practical results achieved on this question have been very modest. The high point was the agreement to extend the IMF initiative in favor of highly indebted poor countries (the HIPC initiative) on the basis of the consensus reached during the 1999 G8 Summit in Cologne [G8 Communiqué, §§ 29,30] and at the annual assembly of the World Bank and the International Monetary Fund. A procedure was outlined that would speed up, increase, and extend the cancellation of approximately $34 billion of the debt of the poorest countries, reinforcing the link between cancellation and policies to reduce poverty. However, the timing, the size, and the coverage of the HIPC initiative are severely inadequate to deal with the urgent question of re-launching development in these marginal countries. By June 2001 paid-in contributions to the HIPC Trust Fund amounted to less than $1 billion. Debt relief through the World Bank amounted to $1.5 billion by the January 2001, and $1.7 billion from the IMF [World Bank, pp. 1-8]. John Paul II repeatedly invoked the cancellation of the international debt of the most indebted countries on grounds that the poorest countries are unable to pay the interest on the debt without negatively affecting the already-low standard of living of their citizens. In reference to countries with a high level of international debt, we have a situation that is similar to the one that many centuries ago made charging interest illegal.

The experience of the debt crisis of 1982, the repeated financial crises of emerging countries, the increasing difficulty for small, very poor indebted countries to take part in real inter-temporal trade, confirm that the problematic aspects of international finance tend to re-occur, in different forms, and are difficult to avoid or to resolve through mechanical or cold institutional intervention. This consideration opens the way for responsible and ethically motivated action on the part of real living breathing human persons and financial institutions.

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1 In his 1991 encyclical letter Centesimus Annus he stated the following with regard to the foreign debt of the poorest countries: “... it is necessary to find -- as in fact is partly happening -- ways to lighten, defer or even cancel the debt compatible with the fundamental right of peoples to subsistence and progress” [John Paul 1991, §35].

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NORMS OF EVALUATION

We return now to the broader and more compelling issue of economic integration of which financial integration is an essential part. Recent experience with financial integration as presented in the foregoing is instructive because it gives us information that is helpful in making our implicit norms more explicit and therefore in reaching a decision as to which ones to keep and which to change. Indeed experience with financial integration is especially instructive at this time because as Tobin notes [p. 1] trades involving financial assets are the easiest to globalize. For that reason, there is more information available today about what happens when financial markets are globalized than there is for product markets, labor markets, and natural resource markets.

To the extent that greater efficiency in the utilization of global economic resources including financial resources leads to greater sufficiency of goods and services to meet fundamental human material need, fears regarding the negative effects of globalization are significantly relieved. However, it is precisely when greater efficiency fails to address the unmet needs of populations in the developing world that economic globalization becomes an issue enveloped in fear, frustration, and even leads, as we have seen of late, to tension-filled public demonstrations.

As noted in Chapter Three there are four premises from which mainstream economic thinking originates: (1) the individual is the basic unit of the economy, (2) who acts freely, self-interestedly, and calculatedly in a self-regulating economy, (3) whose economic behavior is grounded in reason and, though it changes as economic conditions change, is predictable and knowable with mathematical certainty and empirical precision, and (4) whose ultimate worth is determined instrumentally. The four premises of personalist economics are: (1) the person is the basic unit of the economy, (2) who acts freely but within certain limits, self-interestedly but often with regard for others, and calculatedly but at times impulsively, whimsically, or altruistically, in a self-regulating economy that from time to time must be constrained deliberately in order to serve the common good -- the needs that originate in humans living in community and that are met only when community members are prepared to act collectively -- and to protect the weak and the needy, (3) whose economic behavior is grounded in reason and faith, changing as economic conditions change but at times reflecting moral rules and principles, predictable and unforeseeable, and knowable with mathematical certainty and precision but sometimes mysterious and beyond human understanding, and (4) whose worth at times may be construed instrumentally but finally is not reducible to economic calculus because it rests squarely on the conviction that humans have a worth and dignity beyond measure.¹

Thus, the central differences between mainstream economics and personalist economics all originate in and are reducible to the differences between the individual and the person. Anyone who disagrees with the norms that we are recommending likely will find that the disagreement originates in the premises that inform our selection of norms.

¹ The very first sentence of the Preamble of the Universal Declaration of Human Rights affirms the inherent dignity of all human persons. Nowhere in Declaration does one find any affirmative reference to human beings having instrumental value.
Norms are of two general types: actuating and limiting.\(^1\) An actuating norm evaluates economic globalization in terms of a desired outcome. A limiting norm evaluates globalization in terms of an unwanted outcome. Our actuating and limiting norms are presented in Table 17.1 and Table 17.2. In both instances the premises of personalist economics were most informative. Two principal sources are cited as supporting these norms: the Universal Declaration of Human Rights and the various public statements of John Paul II. At times this support is explicit, and at other times it is more implied. In citing John Paul II we see no reason to document every public statement relating to these norms. Rather, we have focused on his public statements made since the late 1980s when economic globalization increasingly has become a matter of public discourse and concern. Table 17.2 also explains why limits are necessary.

**Actuating Norms.**
Table 17.1 supplies a list of 15 actuating norms or desirable outcomes for evaluating economic globalization. They include sufficient goods and services to meet personal and common needs and wants, opportunities to work and for the private ownership of the means to provision need, efficiency in the allocation of human and natural resources, and individual freedom in the global marketplace and workplace.

**Limiting Norms.**
There are a total of ten limiting norms or undesirable outcomes for evaluating economic globalization enumerated in Table 17.2. Included in that list are the limits imposed by the carrying capacity of planet Earth, by excessive consumption or consumerism, by ability to service debt, and by human and natural resources.

Table 17.2 also lists 15 reasons for imposing limits that include assuring that profits do not become exploitation of workers or consumers, economic development does not spawn corruption, creative destruction does not make for more harm than good, and development does not deplete economic resources wantonly.

**CONCLUDING REMARKS**
It is clear now that the sovereignty of nation-states is eroding and that at least two major trends of governance have developed, with certain areas overlapping, which aim to combine market autonomy with institutional regulation. One trend is international integration, the other is international cooperation. In the context of international integration, areas of free exchange and customs unions (such as EFTA and NAFTA), common markets (EC), and monetary unions (EMU) have been created. In the context of international cooperation, ever since Bretton Woods (1944) we have seen the creation and growth in importance of organizations in charge of commercial cooperation (GATT, now WTO), of monetary and financial cooperation (IMF, BRI), of cooperation in development (the

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\(^1\) A satisfactory norm for evaluating economic globalization must have two elements. An actuating principle is necessary to specify what globalization should do. A limiting principle indicates what it should not do. See Becker [p. 11].
TABLE 17.1 ACTUATING NORMS OF EVALUATION

Actuating Norm of ..... 

Sufficient goods/services to meet personal needs/wants. UD Articles 22,23,25; Peace 1998 §§4,8; Peace 1999 §§9,13; Peace 2000 §§9,13,14,17; CA §§19,43; SRS §34.

Sufficient goods/services to meet common needs. UD Articles 17,26,27,29; Peace 1999 §§1,2; Peace 2000 §§6,12,13,17; CA §35,43.

Justice in economic affairs. UD Articles 7,23; Peace 1998 §§5,6,8; Peace 2000 §§5,16,17; SRS §34.

Caring or charity in economic affairs. Peace 1998 §§1,2, 8; Peace 2000§15; CA §58.

Opportunities for creativity in work. UD Article 27; CA §25.

Opportunities for participating in workplace decision-making. UD Articles 4,23; Peace 1999, §6; CA §15; SRS §34.

Solidarity throughout economic affairs. UD Articles 15,20,23,27,29; Peace 1998, §§3,4; Peace1999 §9; Peace 2000 §§5,13,15,17; CA §§13,15,27,32,43; SRS §38.

Economic equality. UD Articles 1,21,23; Peace 1998 §§4,6; Peace 2000 §3; CA §15; SRS §34.

Opportunities for private ownership of the means necessary to provision need. UD Articles 12,17; Peace 2000, §13; CA §§6,30,42,43.

Individual freedom in the global marketplace and the workplace. UD Articles 4,5,13,20; CA §39.

Peace/tranquility in economic affairs. UD Articles 26,28; Peace 1998 §7; Peace 1999 §11.


Opportunities to work. UD Articles 23,26; Peace 1999 §8.

Opportunities for rest and leisure. UD Article 24.

Efficient allocation of human and natural resources. CA §34.

Sources: Universal Declaration of Human Rights (UD); selected statements by John Paul II (see references); Trade and Development Report, 2001, UNCTAD.
TABLE 17.2 LIMITING NORMS OF EVALUATION

Limiting Norm of ..... 

Excessive consumption or consumerism. Peace 1999 §2; CA §§36,41,57.
Excessive hours of work, addiction to work or workaholism. UD Article 24; CA §15.
Excessive leisure or forced idleness. Peace 1999 §§2,8; CA §§33,41.
Ability to service debt. Peace 1998 §4; Peace 1999 §9; CA §35.
Carrying capacity of the planet. Peace 1999 §4,9,10; Peace 2000 §17; CA §37; SRS §34.
Speculation. SRS §43; CA §§43,48.
Human and natural resources. SRS §34; CA §§32,33.
Ability of the needy to fill the employment opportunities available. CA §33.
Ability and willingness of developed nations to absorb immigration from developing nations. CA §§28,35,52,57

Sources: Universal Declaration of Human Rights (UD); selected statements by John Paul II (see references).

Limits are necessary to assure that ..... 

Economic development does not deplete economic resources wantonly.
Consumption does not become consumerism, materialism.
Creative destruction does not result in more harm than good.
Creativity does not become triviality, human objectification, obscenity.
Freedom does not infringe on others’ rights, does not become license or discrimination and does not lead to piracy and counterfeiting.
Equality does not become uniformity, does not undermine production.
Economic development does not become corruption.
Justice does not become cold and calculating.
Solidarity does not become exclusion and collusion.
Efficiency does not become marginalization and unemployment.
Profits do not become exploitation of workers or consumers.
Full employment does not become inflation or paid idleness.
Economic development does not become environmental contamination.
Tranquility does not become suppression.
Democracy does not become marginalization and denial of minority rights.
World Bank, regional-continental banks), of regional-continental aggregations (Mercosud), and other forms of functional or sectoral coordination (OECD, ILO). Two other institutional types of international cooperation must be mentioned: (1) the G8 that was founded in 1975, a date that some consider to be an institutional turning point in globalization; and (2) the European Union that is the most advanced example in the movement beyond the nation-state.

All these systems of cooperation should be accentuated with the aim of combining global markets and international solidarity. The speed of development of ICT, other technologies and the financial and productive forces of globalization are eroding traditional forms of national sovereignty. It is proving a severe challenge to supra- and international institutions, whether these be formal or informal, voluntary or compulsory, which have played an important role despite their difficulties and failures in reconciling market freedom with the rules that are the concern of the institutions.

The crucial problem for the future lies in the combination of institutional rules and the autonomy of markets with cooperation and coordination. If we start from the assumption that with globalization single nation-states no longer have the capacity to formulate and apply rules that are valid for transnational agents, then we have the problem of supranationality.

Over the last 50 years many steps have been taken in this direction, but there still is a need to prevent the more powerful developed states from being tempted to act, more or less deliberately, as world financial leaders. It is unlikely that such action would be compatible with the rules of an agreed and shared supranationality. It is also necessary to enable weaker states to take on stable international commitments, and this is possible only if internal democratic institutions are reinforced.

Economic globalization and financial integration can and must represent a great opportunity to produce positive effects, in particular for the reduction of the gap between the rich and the poor, so long as we persevere in ensuring that within the context of institutional, supranational rules, economic bodies, and markets are free to move autonomously for the effective development of each human person and of the whole human person.
References


John Paul II. Centesimus Annus, Origins: CNS Documentary Service, May 16, 1991, Volume 21, Number 1; referred to in Tables 17.1 and 17.2 as CA.


John Paul II. *Sollicitudo Rei Socialis*, Boston: St. Paul Books and Media, 1987; referred to in Tables 17.1 and 17.2 as SRS.


PART V
MORE FROM JOHN PAUL II
CHAPTER EIGHTEEN
JOHN PAUL II’S VISION OF THE SOCIAL ECONOMY

John Paul II’s views on economic systems have been construed along a wide spectrum of opinion by countless numbers of commentators some of whom, it seems, have been seeking approval for their own views in what he says rather than searching for the meaning that John Paul himself intends to convey. For instance, John Paul is labeled by many as favoring capitalism, and by others as supporting socialism. A few have been scrutinizing his statements in hopes of finding support for a “third-way” position. In what follows, John Paul is quoted directly and at considerable length in order to represent his views more accurately. The result is an account with many more direct quotes than is customary in scholarly work but there is no other way to proceed and remain faithful to John Paul’s vision of the social economy. The references section contains a few citations to his published work that are not employed directly herein. Eight general topics are covered in what follows: consumption, distribution, capital investment, work as such, leisure, labor, development, and the market economy versus the command economy.

CONSUMPTION

In mainstream economics the premise that wants are unlimited is universally affirmed. Indeed, every principles textbook begins with that premise which forcefully conditions mainstream thinking about consumer behavior. At the same time, the concept of need has been removed from mainstream thinking as normative and therefore inherently arbitrary. Need counts for nothing. Wants, on the other hand, are everything.

Another centrally important premise, but one that is stated and affirmed more subtly, is that having is good and having much is better. Affluence, in other words, is a preferred state. Only two constraints on affluence are recognized in mainstream thought: the negative impacts (1) on the natural environment and (2) on others from one’s own consumption.

As to the first negative impact, John Paul recognizes the dangers to the natural environment from consumption and identifies its root cause.

In his desire to have and to enjoy rather than to be and to grow, man consumes the resources of the earth and his own life in an excessive and disordered way. At the root of the senseless destruction of the natural environment lies an anthropological error, which unfortunately is widespread in our day. Man, who discovers his capacity to transform and in a certain sense create the world through his own work, forgets that this is always based on God’s prior and original gift of the things that are. Man thinks that he can make arbitrary use of the earth, subjecting it without restraint to his will as though it did not have its own requisites and a prior God-given purpose, which man can indeed develop but must not betray. Instead of carrying out his role as a cooperator with God in the work of creation, man sets himself up in place of God and thus ends up provoking a rebellion on the part of nature, which is more
As to the second negative impact of consumption, that is on humans *per se*, John Paul’s position is much further from mainstream economic thinking than is his position regarding damage to the natural environment. Mainstream economics underscores the cost to one individual attributable to the consumption of another as, for example, the loss of tranquility to one person from another’s use of a snowmobile or chain saw, the injury to one’s personal health from another’s automobile or lawnmower exhaust, the loss of one’s privacy due to the construction of another’s multi-story residence next door, the loss of security to one’s small children from a neighbor’s new swimming pool. John Paul, instead, sees other dangers in consumption: (1) the effective denial of the principle of the universal destination of the material goods of the world by the affluent and comfortable who do not respond adequately to the needs of the poor; and (2) the effect of excessive consumption on the person of the consumer. As to the latter, he voices this warning:

A given culture reveals its overall understanding of life through the choices it makes in production and consumption. It is here that the phenomenon of consumerism arises. In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones. If, on the contrary, a direct appeal is made to his instincts -- while ignoring in various ways the reality of the person as intelligent and free -- then consumer attitudes and lifestyles can be created which are objectively improper and often damaging to his physical and spiritual health [John Paul 1991, § 36].

By re-affirming the principle of the universal destination of the earth’s goods (see, for instance, John Paul 1991, § 6) which states that the material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in their use by the right of private property, John Paul says in effect that “need” must be re-instituted in our economics.

... there are many human needs which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied and not to allow those burdened by such needs to perish. It is also necessary to help these needy people to acquire expertise, to enter the circle of exchange and to develop their skills in order to make the best use of their capacities and resources. Even prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists something, which is due to man because he is man, by reason of his lofty dignity. Inseparable from that required “something” is the possibility to survive and at the same time to make an active contribution to the common good of humanity [John Paul 1991, § 34].

To John Paul, the material dimension of human existence matters much but is subordinate to the spiritual dimension. Indeed, extravagant regard for one’s own material existence, which increasingly characterizes contemporary western culture, “... consumes the resources of the earth and [one’s] own...
life in an excessive and disordered way” [John Paul 1991, § 37]. The danger is that consumption, carried to an extreme, reduces the consumer to a mere material being. Instead of having more, which modern economies celebrate and mainstream economics tacitly affirms, John Paul urges men and women to be more, to develop the full potential of their personalities, to be a complete human person, and not just a self-absorbed human being.

However, just as the well-to-do live apart from the poor, poverty is addressed apart from wants in mainstream economics. In principles textbooks, for example, the two topics are treated entirely separately, with little deliberation given to the fact that most of the world’s consumers are impoverished and are not free to indulge their wants, while only a minority of humans have their needs met and are at liberty to satisfy their wants. As Davis has stated: “... mainstream economic theory today ... denies needs can be distinguished from wants and indeed denies that the concept of need has any legitimate standing in economics whatsoever” [Davis, p. xvii].

Manifestly, both wants and needs proceed from human nature. As Danner states, following Mounier and in line with John Paul’s own thinking, humans are a union of the material and the spiritual, at once totally body and totally spirit. Unlike the rider and horse, the material and the spiritual are fully integrated and inseparable in human existence [Danner, p. 2].

In addition to such basic needs as food, shelter, clothing, health care, transportation, human materiality accounts for wants as well. If humans were not embodied, there would be no hands to drive the car that is prized, no body to drape the suit or gown that is desired, no palette that yearns for gourmet cooking, no reason to use cologne, rings, necklaces, cuff links, deodorant, and lipstick. Further without a body there would be no way to watch a horse race, enjoy a ballet, cheer the competitors in a swim meet, hear an orchestra or chorus perform, feel the surf breaking on a beach, hold the hand of a child taking his/her first steps.

We are more than the atomistic human individuals of mainstream economics and contemporary Western culture, thoroughly absorbed in want satisfaction through material means. We are instead human persons, a unity of embodiment and self-awareness. We are, to borrow Danner penetrating expression, “materialized spirits” [Danner, p. 2]. Thus, in this life the needs and desires of the human spirit are met and satisfied only through our human materiality.

**DISTRIBUTION**

In a market economy the distribution of the world’s material goods is determined in principle by the contribution one makes toward the production of those goods: the greater the contribution, the greater the claim. When this contribution derives from control of natural resources and from control of human and physical capital that was acquired through one’s own labor or the unexploited labor of others and transferred according to the demands of economic justice, such control rests on the principle of private property that asserts that the thing belongs to the one who created it. This

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1 John Paul spoke of the difference between having and being in an earlier encyclical letter (see John Paul 1987, § 28, wherein he calls attention to this difference as pointed out by Paul VI in *Populorum Progressio*).
principle has been defended in the social encyclicals for more than one hundred years (see Leo XIII, for instance, § 10) and is seen by John Paul as necessary to the production of the material goods of this world.

... to be able through his work to make these resources bear fruit, man takes over ownership of the various riches of nature: those beneath the ground, those in the sea, on land, or in space. He takes all these things over by making them his workbench. He takes them over through work and for work [John Paul 1981, § 12].

But how does one reconcile the principle of private property with the principle of the universal destination of the material goods of this world, or more practically, the right of private property and the right of all humankind to the material goods of this world?

Furthermore, in the Church’s teaching, ownership has never been understood in a way that could constitute grounds for social conflict in labor. ... property is acquired first of all through work in order that it may serve work. This concerns in a special way ownership of the means of production. Isolating these means as a separate property in order to set it up in the form of “capital” in opposition to “labor” – and even to practice exploitation of labor -- is contrary to the very nature of these means and their possession. They cannot be possessed against labor, they cannot even be possessed for possession’s sake, because the only legitimate title to their possession - - whether in the form of private ownership or in the form of public or collective ownership -- is that they should serve labor, and thus, by serving labor, that they should make possible the achievement of the first principles of this order, namely, the universal destination of goods and the right to common use of them [John Paul 1981, § 14; emphasis in the original].

The right of private property is subordinate to the right of all 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. Indeed ownership is justified by and can serve no other end. And, while the private firm must earn a profit to remain economically viable, it exists for the essential purpose of meeting the needs of those who formed it and of the whole of society [John Paul 1991, § 35]. Put differently, the right of private ownership, according to John Paul, is subordinate to the universal destination of material goods.

Although clearly affirming the right of private property, mainstream economics makes no argument whatsoever regarding the right of all humankind to the material goods of this world. John Paul’s position in this matter is grounded in the dignity of all human beings, in their right to life, and in their need for materials goods as the means to guarantee that right. As to their dignity and right to life, John Paul asserts the following.

The Church knows that this Gospel of life, which she has received from the Lord, has a profound and persuasive echo in the heart of every person -- believer and non-believer alike -- because it marvelously fulfills all the heart’s expectations while
infinitely surpassing them. Even in the midst of difficulties and uncertainties, every person sincerely open to truth and goodness can, by the light of reason and the hidden action of grace, come to recognize in the natural law written in the heart the sacred value of human life from its very beginning until its end, and can affirm the right of every human being to have this primary good respected to the highest degree [John Paul 1995, § 2].

Quoting from *Gaudium et Spes* in a context far broader than economic affairs, John Paul maintains that the right of all humankind to the material goods of this world is grounded in the right to life which in turn is rooted in the incomparable value of every human person.

Whatever is opposed to life itself, such as any type of murder, genocide, abortion, euthanasia, or willful self-destruction, whatever violates the integrity of the human person, such as mutilation, tortments inflicted on body or mind, attempts to coerce the will itself, whatever insults human dignity, *such as subhuman living conditions*, arbitrary imprisonment, deportation, slavery, prostitution, the selling of women and children; *as well as disgraceful working conditions, where people are treated as mere instruments of gain rather than as free and responsible persons; all these things and others like them are infamies indeed.* They poison human society, and they do more harm to those who practice them than to those who suffer from the injury. Moreover, they are a supreme dishonor to the Creator [*Gaudium et Spes* quoted directly in John Paul 1995, § 3; emphasis added].

Simply put, the material goods of this world ultimately belong to all human beings because humans are materialized spirits whose very existence and well-being depend on certain material goods and every human life is precious beyond measure. When basic human material needs are not provisioned at least minimally, one may in the extreme take whatever is required because means are subordinate to the ends that they serve.\(^1\)

**CAPITAL INVESTMENT**

Virtually without fail in the world of economics, and nearly always in the world of economic affairs, investment decisions are reduced to a purely financial matter: How to maximize the return on one’s invested monies? Such gain-seeking activities are taken as a natural extension of the self-interested economic agent, automatically regulated where required by the invisible hand of market forces, but never scrutinized by mainstream economists along any standard of ethically or culturally appropriate conduct, and rarely so by flesh-and-blood investors. “The common good is served by each one pursuing his/her very own good.” Included here are decisions to invest in new or existing enterprises, to acquire or sell off physical assets, to relocate facilities, and the like. Even when such decisions make for considerable hardship for workers, suppliers, customers, and others dependent on the company for their economic well-being, all that matters is shareholder value. The company exists for no other purpose. Indeed some have argued, including Nobel Laureate Milton Friedman (see

\(^1\) See McKee [p. 493] for more on this issue.
Friedman, p. 133), that notwithstanding John Paul II to the contrary the company is duty-bound to serve no other purpose.

The payoff from shrewd investment decisions, of course, is financial gain, and the possibilities for future investments. Ultimately it is the promise of great wealth. The mainstream premise is that savings precede investment, and activate it. Great wealth, then, is both a reward for making the right decisions in the past and the stuff that supports economic growth and gain in the future. A Schumpeterian might object to that line of reasoning, arguing just the opposite: investment precedes savings, and savings are the result of successful entrepreneurial decisions. This disagreement is addressed no further in these pages.

If investment in a particular region is insufficient to lift living standards above poverty, following the conventional wisdom, the return there must be too small to justify the risk. A standard remedy is for the public sector to put in place financial incentives such as tax credits, below-market interest rates, wage supplements for trainees, to bring forth the required investment activity. In some instances, such as with enterprise zones, the remedy is focused along strict geographic boundaries. In economic affairs, no reasonable investor or entrepreneur can afford to depart from this logic. In economics, this logic controlled the thinking that created homo economicus.

There is, however, 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 as we have seen earlier both are condemned qualifiedly by John Paul for that very reason. That is, authentic human development means being all the person that one can be rather than having all the wealth and goods that one can possibly acquire.

Charity is a time-honored way for those wealthy persons of conscience to respond to the needs of the poor. For John Paul, however, charity is not enough.

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 toward “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. It is therefore necessary to create lifestyles in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors, which determine consumer choices, savings and investments. In this regard, it is not a matter of the duty of charity alone, that is, the duty to give from one’s “abundance” and sometimes even out of one’s need in order to provide what is essential for the life of a poor person. I am referring to the fact that even the decision to invest in one place rather than another, in one productive sector rather than another, is always moral and cultural choice. Given the utter necessity of certain economic conditions and of political stability, the decision to invest, that is, to offer people an opportunity to make good use of their own labor, is always determined by an attitude of human sympathy and trust in providence, which reveals the human quality of the person making such decisions [John Paul 1991, § 36].
Aware of the critical role profit in the market economy, John Paul nevertheless encourages investors to put the provision of work for others ahead of gain for one’s self. Worland gives simple and powerful expression to this aspect of John Paul’s vision of the new market logic.

Financial executives are called upon to finance the “change in life styles, the conversion from affluence” called for by John Paul II. As such repudiation spreads through the cultural system, as institutional defects in the capital market are allowed for, return on investment in the symbols of affluence such as luxury condos falls. As the poor expend the purchasing power generated by expanded employment opportunities, the rate of return on “useful goods” such as affordable housing rises. Pension fund managers fail in their civic duty if they do not make the appropriate rational adjustment to shifting market signals.

In an advanced market economy, it is the love of virtue operating in the souls of investment bankers, brokers and financiers, rather than the “magic of the Invisible Hand” that is to motivate and guide capital accumulation [Worland, p.71].

Elsewhere in these pages we have proposed the acting person/person in action to more fully and accurately represent the characteristics, motives, and behavior of the consumer that are too narrowly represented in homo economicus. The acting person/person in action seems to apply as well to the reconstructed investor.

**WORK AS SUCH**

Human materiality matters in a second principal way that passes without notice in mainstream economics. In addition to physical need, that is the need for food, shelter, clothing, transportation, health care, education, and so forth that plainly derives from our materiality, humans have a need for work as such that derives from the same source. Just as embodiment is essential to driving a car, to wearing a dress, to using a toothbrush, to applying lipstick, to listening to an orchestra, it is essential to repairing that car, to sewing that dress, to designing that toothbrush, to selling that lipstick, to directing that orchestra. There is no human work in the absence of human materiality. Even purely intellectual work requires embodiment to nourish and protect the human brain. Notice that, lacking materiality, a pure spirit such as an angel cannot make music, cannot wait on tables, cannot pump gas, cannot drive a nail, cannot move a ladder. Notice also the time-honored and sensible integration of physical education into literally every elementary and secondary school curriculum.

There are two central aspects to the need for work as such: the need to belong that originates in human sociality and the need for opportunities to be creative that originates in human individuality. A simple example illustrates the point. There is no success in professional basketball unless the

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1 The references section contains five citations to the work (in Italian) of Pietro Pavan whom Giovanni Tondini [pp. 1640-1657] identifies as critical in the development of John Paul’s thinking on the nature and significance of work as such.
players are willing to subordinate themselves for the purpose of making the entire team stronger and more effective. A sense of belonging emerges from this subordinating of the players to the team, and is reinforced most dramatically and physically when the team wins, especially in a championship series. The victory invariably is celebrated by teammates hugging one another, and retired players often remark that they miss most the company of their teammates. But great teams have great players, whose skills and talents make them exceptional, and at times the display of those talents can breathe life into a ragged team: “he carried the team on his shoulders for the entire first period.” Michael Jordan for sure was such a player, creating moves and shots that no one else ever had seen, and inspiring his teammates to do better. Jordan did not return to the game following his first retirement in order to meet his physical need. He returned because of his need for work as such, because baseball did not afford him either the sense of belonging or the creative opportunities that basketball did.

Playing basketball is work for only a handful of persons. Even so, all of us know what a “dead-end job” is and what it means not to belong. Good managers are definable in terms of their ability to provide opportunities for workers to exhibit their talents and skills, to organize those workers into a team, and to turn a profit at the same time.

John Paul’s recognition of the need to belong is embedded in his assertions that the fundamental dimension of human existence is co-existence (see John Paul 1994, p. 36) and that a person grows through “increased sharing in a supportive community” (see John Paul 1991, § 41) and is implied in his call to “solidarity and common action” as a reaction against “the degradation of man as the subject of work” (see John Paul 1981, § 8).

Elsewhere in *Laborem Exercens* John Paul explains what he means by “man as the subject of work”:

Man has to subdue the earth and dominate it, because as the “image of God” he is a person, that is to say, a subjective being capable of acting in a planned and rational way, capable of deciding about himself, and with a tendency to self-realization. As a person, man is therefore the subject of work. As a person he works, he performs various actions belonging to the work process; independently of their objective content these actions must all serve to realize his humanity, to fulfill the calling to be a person that is his by reason of his very humanity [John Paul 1981, § 6; emphasis in the original].

Whereas mainstream economics recognizes work only in the objective sense, John Paul is unyielding in his argument that the subjective sense of work is the more important.

... the primary basis of the value of work is man himself, who is its subject ... in the final analysis it is always man who is the purpose of the work, whatever work it is that is done by man -- even if the common scale of values rates it as the merest “service,” as the most monotonous, even the most alienating work [John Paul 1981, § 6; emphasis in the original].
However, it is with regard to the need for creative opportunities that John Paul is most eloquent, instructing not from social ethics but from theological doctrine, citing Genesis and Revelations.

The word of God’s revelation is profoundly marked by the fundamental truth that man, created in the image of God, shares by his work in the activity of the Creator and that, within the limits of his own human capabilities, man in a sense continues to develop that activity, and perfects it as he advances further and further in the discovery of the resources and values contained in the whole of creation [John Paul 1981, § 25; emphasis in the original].

John Paul cites Gaudium et Spes to make clear that he means work not just of the most challenging and fulfilling kind but also work involving “even ‘the most ordinary everyday activities... [wherein men and women] can justly consider that by their labor they are unfolding the Creator’s work...’ “ [Gaudium et Spes quoted in John Paul 1981, § 25; emphasis in the original].

The foregoing rouses two comments. First, for economists there is nothing new in John Paul as to what work means in terms of the goods and services produced. Nor is there anything especially novel as to what a lack of work does to jobless person and their families. What is insightful in John Paul is his call for consideration as to what work itself does to those who toil for a living. Second, and very much related to the first, work is the main means for humans to have more and to be more. The choices they make in this regard powerfully determined who they are, what they are, and to whom or to what they belong.

LEISURE

Work is such a central human activity that economics defines two other states in terms of work. Unemployment is the generally involuntary and unwanted lack of work, a state in which work is missing. Leisure is the voluntary and wanted absence of work, a state in which work is not present.

By construing leisure as time spent not working, mainstream economics does not differentiate between lack of work and absence of work. Leisure and work are linked in zero-sum fashion: more of the one means less of the other. Implied in this construction is that leisure is desirable simply because it is free of work that is onerous. Defining leisure in terms of what it is not assures that economics has little to say about leisure. What can studying work or the lack of work possibly tell us about the absence of work?

To be analytically serviceable, leisure has to be defined in the context of what it is rather than what it is not. Gerard Stockhausen supplies us with the following:

leisure ... [is] non-work that nourishes the health, happiness, and fulfillment of the whole human person. It is time and activity that is not driven by duty,

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1 We are indebted to Gerard Stockhausen [pp. 1672-1683] for much of what follows on leisure.
accomplishment, or productivity, time and activity that celebrate being human rather than having and consuming material things. It thus includes such things as quiet time alone, “quality” time with family and friends, and engagement with the arts [Stockhausen, p. 1673].

From this perspective, leisure is energetic rather than lifeless, purposeful instead of aimless. More precisely, leisure is like work in the subjective sense in that it is activity that helps a human being become more fully a human person. But it is activity that complements the human development that occurs in the workplace and originates in work itself. In other words, human development depends on both work and leisure.

In a very real sense, humans are works of art in progress. They paint their own living portraits with work and leisure, becoming 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.

In the context of economic affairs, according to John Paul, there are two chief threats to human development: disordered work and consumption.

The historical experience of the West, for its part, shows that even if the Marxist analysis and its foundation of alienation are false, nevertheless alienation -- and the loss of the authentic meaning of life -- is a reality in Western societies too. This happens in consumerism, when people are ensnared in a web of false and superficial gratifications rather than being helped to experience their personhood in an authentic and concrete way. Alienation is found also in work when it is organized so as to ensure maximum returns and profits with no concern whether the worker, through his own labor, grows or diminishes as a person, either through increased sharing in a genuinely supportive community or through increased isolation in a maze of relationships marked by destructive competitiveness and estrangement, in which he is considered only a means and not an end [John Paul 1991, § 41].

Stereotypically both disorders are revealed, though not well understood, in the form of the workaholic and the compulsive consumer. To the one, working is everything; to the other, acquiring and having is everything. Neither one understands or values leisure. Both are like a canvas that a deranged artist has slashed with a knife, both are grotesque caricatures of what was meant to be. Drug abuse and pornography, John Paul says, reflect a human life in disarray through disordered consumption [John Paul 1991, § 36]. Filling that void, repairing that torn canvas, is the purpose of leisure. In this regard, John Paul compares human work and leisure to the six days of God’s own work in creating the universe and His one day of rest [John Paul 1981, § 25].

Following John Paul, a well-ordered human person is one who knows the difference between the needs of the body and the needs of the spirit, and understands that the means that meet the one do not also meet the other. Leisure is absolutely necessary to acquiring that knowledge and understanding.
The challenge to the economic order and to economics 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, living works of art in progress who require leisure to become what they were meant to be: very nearly divine.¹

LABOR

Having already addressed the need for work as such, we are left in this section with two other themes regarding labor: the priority of labor over capital and the rights of labor. Both are centrally important features in John Paul’s vision of the social economy.

Increasingly in economic affairs, and possibly to a greater extent in mainstream economics itself, labor is regarded only as a factor of production, in no way essentially different than the other factors of production. Profit maximization routinely justifies replacing costly resources with cheaper resources, whether that means replacing labor with capital or lower-wage workers for higher-wage workers and quite irrespective of the needs of the displaced workers and their families, even when the firm is operating profitably with the higher-wage workers. As we indicated earlier, the conventional wisdom is that the firm exists solely for the purpose of serving the interests of the stockholders -- a view that John Paul does not share. In this regard, notice how commonplace the expression “human resources” has become, and how that expression reinforces a thinking about labor that has the effect if not the actual intent of objectifying labor. In American history, there is one especially horrifying example of the objectification of labor -- slavery -- and more than 140 years after the Emancipation Proclamation we are still dealing with the effects of that objectification. Today, objectification in the workplace² can take on a variety of forms, typically less severe than the enslavement of black Africans in America, but of serious consequences nonetheless: sexual harassment, starvation wages, excessive hours, unsafe working conditions, forced labor, termination without cause, suppression of union activities, discrimination, monopoly administration and disposal of the means of production, and the like. John Paul argues in effect that such practices reflect a confusion in the workplace over the difference between person and thing.

Everything contained in the concept of capital in the strict sense is only a collection of things. Man, as the subject of work, and independently of the work that he does -- man alone is a person [John Paul 1981, § 12].

Notice, for instance, that in economics the routine use of “equilibrium” to describe conditions in a labor market tends to reinforce the view of the worker as an object, whereas “agreement” is much more consistent with a view of the worker as person.

¹ See John Paul 1995, §84 paraphrasing the 8th Psalm, verses 5-6.

² Objectification occurs in the marketplace, for example, through the use of advertising images in which men and women are presented as “sexual objects,” in exercise equipment and regimens in which “buns of steel” are extolled, and in thrill-seeking adventures such as bungy jumping in which humans are momentarily reduced to falling objects.
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” in which labor is considered only according to its economic purpose. This error in turn is connected to the error of materialism.

This fundamental error of thought can and must be called an error of materialism, in that economism directly or indirectly includes a conviction of the primacy and superiority of the material, and directly or indirectly places the spiritual and the personal (man’s activity, moral values and such matters) in a position of subordination to material reality. This is still not theoretical materialism in the full sense of the term, but it is certainly practical materialism, a materialism judged capable of satisfying man’s needs, not so much on the grounds of premises derived from materialist theory, as on the grounds of a particular way of evaluating things, and so on the grounds of a certain hierarchy of goods based on the greater immediate attractiveness of what is material [John Paul 1981, § 13; emphasis in the original].

To remedy the consequences of the error of economism, John Paul re-affirms the principle of the priority of labor over capital [John Paul 1981, § 12].

While both labor and capital are factors of production, production is to serve the material needs of labor, and capital is merely a means toward that end. Meeting those needs -- physical need, the need to belong, the need for creative opportunities -- effectively puts an end to the practices enumerated above including starvation wages and termination without cause. Capital strictly defined by John Paul as a collection of things per se has no such needs.

In Centesimus Annus [§ 41] John Paul makes clear that the priority of labor over capital means that the needs of workers are not to be compromised for the sake of maximum returns and profits. This rule forces mainstream economists to re-think the profit-maximization rule. John Paul is saying, in effect, that the profit-maximizing firm is an analytical and pedagogical anachronism. Even more so because it has far more serious consequences in practical everyday economic affairs, John Paul’s rule subordinating profits to the needs of labor should prick the consciences of owners and managers who all too readily set aside all else for the sake of the company’s bottom line.¹

The responsibility for meeting the needs of workers, John Paul states, is shared by private employers or what he calls the “direct employer” and persons and institutions of various kinds including public and private organizations or what he calls the “indirect employer.” Both employers have a duty to establish a labor policy that respects the rights of workers, including most importantly the right to own the means of production and to share in the profits of the firm.

This group in authority [capitalist owners and managers] may carry out its task satisfactorily from the point of view of the priority of labor; but it may also carry it

¹ In teaching economics to university students, we present profits as a necessary condition for the survival of the firm in a market economy. Profits, therefore, are the means to the end of meeting human material need.
out badly by claiming for itself a monopoly of the administration and disposal of the means of production and not refraining even from offending basic human rights. Thus, merely converting the means of production into State property in the collectivist system is by no means equivalent to “socializing” that property. We can speak of socializing only when the subject character of society is ensured, that is to say, when on the basis of his work each person is fully entitled to consider himself a part-owner of the great workbench at which he is working with every one else. A way toward that goal could be found by associating labor with the ownership of capital, as far as possible ... [John Paul 1981, § 14].

The following rights of workers relate to the “indirect employer” [John Paul 1981, § 18]:

- deriving from the right to life and subsistence, the right to suitable employment for all who are capable of it;
- deriving from the right to suitable employment, the right to instruction and education.

These rights of workers relate to the “direct employer” [John Paul 1981, § 20]:

- the right to just remuneration for work done; ¹
- the right of women to fulfill their tasks as mothers without discrimination on the job;
- the right to medical assistance and compensation for on-the-job injury;
- the right to a day of rest;
- the right to a pension and insurance for old age;
- the right to a workplace free of hazards to physical health and moral integrity.

All of these rights, including the need of workers to secure them, give rise to the right of association and its corollary, the right to strike without personal penal sanctions [John Paul 1981, § 20]. But John Paul voices several warnings with regard to the activities of unions, as in the following:

[Unions] are indeed a mouthpiece for the struggle for social justice, for the just rights of working people in accordance with the individual professions. However, this struggle should be seen as a normal endeavor “for” the just good: in the present case, for the good which corresponds to the needs and merits of working people associated by profession; but is not a struggle “against” others. Even if in controversial questions the struggle takes on a character of opposition towards others, this is because it aims at the good of social justice, not for the sake of “struggle” or in order to eliminate the opponent. It is characteristic of work that it first and foremost unites people. In this consists its social power; the power to build a community. In the final analysis, both those who work and those who manage the means of production or who own them must in some way be united in this community [John Paul 1981, § 20; ¹

¹ A complex matter involving all three principles of economic justice: the principle of equivalence that governs the individual dimension of the worker’s fundamental human nature, and the principles of distributive justice and contributive justice that together govern the social dimension of the worker’s human nature. See Chapter Six.
emphasis in the original].

John Paul pays special attention to three classes of workers: agricultural workers, the disabled, and émigrés. As for agricultural workers, the right of ownership of the land they work is implied in *Laborem Exercens* [§ 19] and is asserted by him elsewhere (see John Paul 1994b, p. 133). The disabled have a right to work according to their capabilities and without discrimination. Émigrés, whether permanent or seasonal workers, have a right to leave their native land and a right to return. Further, they have the same rights as native workers, plus the right to be free of any discrimination or exploitation by virtue of their immigrant status [John Paul 1981, §§ 22-23].

**DEVELOPMENT**

Economic development has been a matter of central concern since Adam Smith’s *Wealth of Nations*. Quite apart from whatever development may mean to mainstream economists, to John Paul it means addressing the living standards of the “innumerable multitude of people” living in developing nations [John Paul 1987, § 133]. Barbara Kraemer separates the guidelines for reform in *Sollicitudo Rei Socialis* into five domains: political order, human rights, solidarity, structural reform, and nature [Kraemer, pp. 1727-1738]. A “healthy” political order is a necessary condition for economic development wherein are present the “free and responsible participation of all citizens in public affairs ... the rule of law ... and respect for the promotion of human rights” [John Paul 1987, § 44].

John Paul is most explicit regarding the linkage between development and human rights.

True development, in keeping with the *specific* needs of the human being -- man or woman, child, adult or old person -- implies, especially for those who actively share in this process and are responsible for it, a lively *awareness* of the *value* of the rights of all and of each person. It likewise implies a lively awareness of the need to respect the right of every individual to the full use of the benefits offered by science and technology [John Paul 1987, § 33].

Neither is he shy about specifying the rights he has in mind [John Paul 1987, § 34]:

- the right to life at every stage of human existence;
- the rights of the family as the basic unit of society;
- the right to justice in the workplace;
- the rights inherent in the life of the political community as such;
- the rights based on the transcendent vocation of human beings, including the right to freely express one’s religious beliefs;
- the right to one’s identity, in its historical and cultural dimensions;
- the right to share fully in the economic development process which derives from the fundamental equality of all.

Solidarity is the virtue required in order to foster economic development in an interdependent world.

When interdependence becomes recognized in this way, the correlative response as a
moral and social attitude, as a “virtue,” is solidarity. This then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all [John Paul 1987, § 38; emphasis in the original].

As to areas in need of structural reform that he sees necessary to relieve the poverty of the masses in developing nations, John Paul points to the following [John Paul 1987, § 43]:

- in the international trade system, protectionism and bilateralism that disadvantage products and raw materials from developing countries;
- in the world monetary and financial system, excessive fluctuations in exchange rates and interest rates that worsen the balance of payments and compound the international debts of poorer countries;
- in the technology domain, denial of access to developing countries to needed forms of technology and transference of useless technology to those countries;
- in international organizations, manipulation by the few to the disadvantage of the many.

As to special considerations regarding nature in the development process, John Paul focuses on three constraints. First, developers must protect and preserve the ecological balance in the natural environment. Second, they must operate within the limits imposed by natural resources, notably those that are nonrenewable, and take into account the needs of future generations. Third, developers must avoid “haphazard industrialization” which is dangerous to human physical well-being [John Paul 1987, § 34].

John Paul cautions that authentic development is not reducible to a technical problem. It is most fundamentally a human problem that cannot be remediated just by self-interest and the impersonal forces of the market system. The virtue of justice for sure is required in this matter, but justice alone will not do. Preference in development is to be given to the growing numbers of the poor worldwide, not just in developing countries but in advanced countries as well. John Paul sees this option as an exercise in Christian charity, and to underscore its connection to that virtue refers to it as “this love of preference for the poor” [John Paul 1987, §§ 41-42]. No doubt, John Paul would point to Mother Teresa as an exemplar of this special love of the poor.

**MARKET ECONOMY VERSUS COMMAND ECONOMY**

Because there are two principal types of economic systems there are only two methods for allocating economic resources: through a system of markets (the Many) or by means of central planning (the One). It is tempting to conclude that if John Paul embraces the one type/method, he must condemn the other, and indeed his critics and supporters have done just that. A handful of observers have tried

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1 Understood by us as referring to the three principles of economic justice enumerated in the preceding footnote: equivalence, distributive justice, and contributive justice.
to fit him into a “third-way” niche, one that is neither market nor command.¹

Those who see him as an advocate of the command system or a “third way” might refer to the following from *Laborem Exercens:*²

In order to meet the danger of unemployment and to ensure employment for all, the agents defined here as “indirect employer” must make provision for *overall planning* with regard to the different kinds of work by which not only the economic life but also the cultural life of a given society is shaped; they must also give attention to organizing that work in a correct and rational way. In the final analysis this overall concern weighs on the shoulders of the State, but it cannot mean one-sided centralization by the public authorities. Instead, what is in question is a just and rational *coordination*, within the framework of which the *initiative* of individuals, free groups and local work centers and complexes must be *safeguarded*, keeping in mind what has been said above with regard to the subject character of human labor [John Paul 1981, § 18; emphasis in the original].

Or to the following from *Centesimus Annus:*

The state must contribute to the achievement of these goals [relating principally to the workplace] both directly and indirectly. Indirectly and according to the principle of subsidiarity, by creating favorable conditions for the free exercise of economic activity, which will lead to abundant opportunities for employment and sources of wealth. Directly and according to the principle of solidarity, by defending the weakest by placing limits on the autonomy of the parties who determine working conditions and by ensuring in every case the necessary support for the unemployed worker [John Paul 1991, § 15].

Or this:

... [Man] must therefore respect the natural and moral structure with which he has been endowed. In this context, mention should be made of the serious problems of modern urbanization, of the need for urban planning which is concerned with how people are to live and of the attention, which should be given to a “social ecology” of work [John Paul 1991, § 38].

¹ For many years especially in the 1980s following the public release of *Laborem Exercens* we attempted to force John Paul II’s vision into a “third-way” mold.

² As stated previously, by “indirect employer” John Paul means persons and institutions of various kinds including public and private organizations.
Others who would classify John Paul as a supporter of the market system and an opponent of the command system can find support in the following:

It would appear that on the level of individual nations and of international relations the free market is the most efficient instrument for utilizing resources and effectively responding to needs [John Paul 1991, § 34].

And this:

The second factor in the crisis [in the Marxist systems in the late 1980s] was certainly the inefficiency of the economic system, which is not to be considered simply as a technical problem, but rather a consequence of the violation of human rights to private initiative, to ownership of property and to freedom in the economic sector [John Paul 1991, § 24].

Earlier in *Laborem Exercens* John Paul asserted the principle of private ownership of the means of production:

... The Church’s teaching has always expressed the strong and deep conviction that man’s work concerns not only the economy but also, and especially, personal values. The economic system itself and the production process benefit precisely when these personal values are fully respected. In the mind of St. Thomas Aquinas, this is the principal reason in favor of private ownership of the means of production [John Paul 1981, § 15].

Notwithstanding the efforts of those who construe his support for planning, private property, intermediate bodies, and the like according to their own personal agendas, John Paul adamantly refuses to take a stand for one system against the other two.

... the Church does not propose economic and political systems or programs, nor does she show preference for one or the other, provided that human dignity is properly respected and promoted, and provided she herself is allowed the room she needs to exercise her ministry in the world.

The Church’s social doctrine is not a “third way” between *liberal capitalism* and *Marxist collectivism*, nor even a possible alternative to other solutions less radically opposed to one another: rather, it constitutes a *category of its own*. Nor is it an *ideology*, but rather the *accurate formulation* of the results of a careful reflection on the complex realities of human existence, in society and in the international order, in the light of faith and of the Church’s tradition [John Paul 1987, § 41; emphasis in the original].

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For mainstream economists efficiency is the principal standard by which the performance of any economy is to be judged. While conceding that market economies allocate resources most efficiently, John Paul clearly does not accept efficiency as the most important norm by which to judge economic performance. Rather he insists that the most important norm is “the universal destination of goods and the right to common use of them” [John Paul 1981, § 14].

... what is being proposed as an alternative is not the socialist system, which in fact turns out to be state capitalism, but rather a society of free work, of enterprise and of participation. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the state so as to guarantee that the basic needs of the whole of society are satisfied [John Paul 1991, § 35].

As we have demonstrated already, John Paul has been highly critical of market economies for their failures to adequately address human material need, broadly construed to include physical need and the need for work as such, in the developing countries of the world as well as the developed countries. For mainstream economists and other advocates of the market system, the lesson in the writings and public statements of John Paul is that human beings are far more consequential than economic systems. Thus, what matters most is not how efficiently an economic system allocates resources but how well it meets human material need.

SUMMING UP

John Paul speaks to a wide range of issues and questions central to economics and economic affairs. It would be presumptuous to offer this account as a thorough examination of everything that John Paul has said, written, and means in this regard. What follows are several comments that attempt to highlight some of the key arguments that he has set forth on the eight topics that have been addressed herein. Those views, then, are compared and contrasted with the views of mainstream economics and modern economic affairs.

First, to John Paul human beings are “materialized 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 but because every human is made in the image and likeness of God and is redeemed by the sacrifice of His Son, signifying that each has a dignity and worth beyond human measure. In mainstream economics and modern economic affairs, human value commonly is determined instrumentally. One’s own worth is determined by the value attached to one’s work.

Second, to John Paul men and women alike are called to become all that they were meant to be by their Heavenly Father. In mainstream economics and everyday economic affairs, men and women are encouraged to link their personal development to the things they possess. In other words, to John Paul being is more important than having. The dominant view especially in modern western culture is having is all that matters.
Third, to John Paul labor is more important than capital or, put more generally, humans are more important than things. Indeed, humans alone have rights because they are persons, because they are endowed with an intelligence and free will that differentiate them from all other creatures. Aquinas calls them “the crown of creation,” and no doubt John Paul concurs. In the world of economic affairs and mainstream economics, intentionally and otherwise humans often are reduced from persons to things, objectified more and more in both the workplace and the marketplace.

Fourth, to John Paul humans are more than the one-dimensional self-interested and self-absorbed individuals of mainstream economics and contemporary western culture. They are two-dimensional persons with an identity as separate and unique human beings never to be taken simply as a cog in a machine or as totally subordinate to the whole, and at the same time united in solidarity with family, company, neighborhood, region, nation, and all humankind. To John Paul human existence always is coexistence. He replaces the modern world’s individualism and collectivism with personalism.

Fifth, to John Paul materiality matters importantly to human nature, and material means are necessary to meet human material needs. To a large extent, mainstream economics and modern culture agree. However, John Paul warns that material means will not satisfy the nonmaterial needs of humans, and condemns the “consumerism” of advanced western economies for perpetuating that false and dangerous value. Consumption is good, he says, unless it leads to a life spent in the enjoyment of material things as ends in themselves.

Sixth, to John Paul work has two main purposes: the objective purpose of transforming resources into goods and services and the subjective purpose of transforming the laborers who perform the work into more fully human persons. Further, he insists that it is the subjective aspect of work that is more important. Mainstream economists and worldly humans affirm only the objective purpose of work.

Seventh, to John Paul human work is the continuation of God’s Act of Creation which lasted six days and was followed by a day of rest. In like fashion, humans require a seventh day of rest to contemplate what they have done. Put differently, humans require both work and leisure to become more fully who they were meant to be; leisure has the positive connotation of input to that development. To the modern world, including the world of economics, leisure has only the negative connotation of time spent not working.

Eighth, human beings have a right to private property on grounds that a person has a right to what he/she creates with his/her own hands. This right is necessary to assure greater production, and in this regard John Paul is in agreement with mainstream economists and men and women of commerce and industry.

Ninth, the material goods of the world are intended for the use of all humankind because all human life is precious and material goods are necessary to sustaining that life. Thus human beings have a natural right to the material goods of the world and, just as means is subordinate to end, the right of private property is subordinate to that right. Here, John Paul is not in agreement with mainstream
economics and the modern world of economic affairs.

Tenth, workers have rights in order to assure the preservation of their fundamental human dignity and access to the means necessary for their material survival, such as the right to associate, the right to strike, the right to a safe workplace, the right to a day of rest. To some extent, mainstream economics and others engaged in economic affairs also affirm these rights but more likely as legal rights rather than natural rights. In other instances, the two parties are much further apart as for example with regard to the workers’ right of ownership of the means of production, the right to suitable employment, the rights of the migrant workers, and the rights of mothers who work, all of which John Paul forcefully affirms and defends.

Eleventh, to John Paul respect for human rights is critically important to the economic development process. Further, more than justice is required to achieve development. Christian charity must be brought to bear by according preference to those most in need of help so that they are better able to acquire the material goods they need. To mainstreamers along with men and women of the world, economic development too often is construed as a problem to be resolved by the invisible hand of the market system with no mind to justice or charity.

Twelfth, to John Paul companies are established not just for the sake of their owners but also for the whole of human society -- a corollary to his view that the world’s material goods are intended for all human beings. Profits are necessary for the viability of the company, but provisioning human material need is not to be sacrificed to maximum profits. Clearly, there is a wide breech between John Paul on this matter and mainstream economics and modern western economies.

Thirteenth, and last, John Paul agrees that the market system allocates resources efficiently and responds to needs effectively, but only for the few with the financial resources to command the goods required to meet their needs. For the many, the market system has afforded little opportunity to provision their material needs. He is much more critical of the market system for this failure than are persons in business and mainstream economists. John Paul insists that the Church proposes no economic system per se, meaning no system apart from its performance record, and rates the performance of the market system as superior to the performance of the command system. If, however, the market system continues to prove unable to provision the material needs of the masses of the world’s poor as in the southern hemisphere, it is certain that John Paul would not hesitate to denounce that performance as unacceptable.
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John Paul II. The Acting Person. Dordrecht: D. Reidel Publishing Company, 1979 (published under the name Karol Wojtyla before he was elected pope).


Nobel Laureate Milton Friedman for years insisted that the firm’s one and only purpose is to produce a profit for its owners/shareholders. His concept of community excludes everyone except the owners/shareholders on grounds that they alone actually own the firm. Many in mainstream neoclassical economics enthusiastically concur with him, as do many others especially libertarians. Their view of human nature and existence is individualistic.

Personalist economics, on the other hand, insists that community is inclusive of everyone with a stake in the company including shareholders, management, labor, suppliers, and customers. Their well-being is tied to the company. Also tied to the company are the towns and cities where the company operates (minimally in terms of its demands on the infrastructure and its impact on the quality of the air, soil, and water). This view of human nature and existence is personalistic.

How do we argue effectively that the inclusive, personalistic perspective is better than the exclusive, individualistic perspective? A part of the answer is found in the owners/shareholders’ legal right to the profits of the company and their use of the company for that purpose. Indeed, because the owners/shareholders fully expect a profit when they commit to becoming owners/shareholders and depend on that profit to justify maintaining that commitment, the company cannot survive without profits.

Even so, common sense alone tells us the owners/shareholders have no absolute right to achieve their ends at the expense of others. That right, in other words, is constrained by others who rely on the company at least in part to meet their needs. For its workers, the company is a reliable source of employment. For its suppliers, it is a reliable demand for their products/services. For its customers, the company is a reliable supply of the goods and services it produces. For the cities and towns where it has located its operations, it is a reliable taxpayer and one which respects and values the environment. Subject to the company’s ability to support its stakeholders and still survive as a profitable enterprise, helping meet the needs of others whose fortunes are tied to the company gives meaning to the concept of the good company.

We identify and classify the characteristics of the good company along eight dimensions: (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) worker rights, private property, and work as such; (5) capital and labor; (6) leisure; (7) personalist capital; and (8) sustainable development. In the main we have looked to the papal encyclicals of John Paul II for instruction. The references section lists the specific publications of John Paul’s used in preparing this commentary on the good company.
We rely heavily on John Paul for four reasons. First, he spoke to a wide range of issues and questions central to economics and economic affairs. Second, John Paul was keenly aware of and to some extent instrumental in the collapse of the command economies of Soviet bloc of nations which occurred during his years as Holy Father and which had profound effects on world economic affairs. Third, economic globalization spurred by the information-communication-technology revolution also took place during his years as Bishop of Rome which he used to great advantage in expressing and amplifying the teachings of the Church across the entire world. Fourth, as a Christian existentialist he spoke often and eloquently on person and personalism which we in turn have applied to our own understanding of economic agency.

Inspired by John Paul, we have argued that *homo economicus* and individualism no longer serve us well in understanding economic affairs because they are rooted in the script stage of human communication and that *acting person/person in action* and personalism are much more instructive regarding economic affairs because they developed during the electronic stage of human communication. The *acting person/person in action* matters importantly herein because the firm, whether it is a *good* company or not, is organized around various types of specialized economic agents who produce a good or service. For more on the stages of human communication and the acting person see Chapters Two and Four.

**THE EIGHT DIMENSIONS OF THE GOOD COMPANY**

*Subsidiarity and Decision-making in Economic Affairs.*

The principle of subsidiarity states that (1) larger, stronger organizational units of society should not take over the functions of smaller, weaker organizational units, but instead (2) should help the smaller, weaker units function more effectively. The *good* company understands that in a market system decision-making is decentralized based on the principle of subsidiarity and in essence embraces Abraham Lincoln’s own formulation of the principle:

> In all that the people can individually do as well for themselves, the government ought not to interfere [McGinnis, p. 41].

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

Subsidiarity encourages a sense of community through the establishment of private organizations midway between the state and the person, including supra-firm alliances and inter-firm partnerships. The *good* company is able to differentiate between alliances and partnership that are cooperative positive-sum organizations and those that are collusive zero-sum schemes. See Chapter Seven for more on the principle of subsidiarity.
Justice and Ill-gotten Gain.

Justice is one of the four practical virtues which according to the Aristotelian tradition and the teachings of the Catholic Church characterize the good person [Catechism, pp. 443-445] and therefore the good economic agent and the good company. Doctor of the Church Thomas Aquinas states that justice directs us to render to others that which is owed [Dempsey, p. 164].

In economic affairs, there are three specific principles of justice: equivalence, distributive, and contributive. 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.

Limits on the amount of gain in economic affairs are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. It is the faithful practice of the three principles of justice that determine the limits required to assure that economic affairs are amicable, orderly, and mutually advantageous.

More than justice, however, is required to forge a true sense of trust because justice by itself can become cold and calculating if it is not tempered by caring or charity. Caring which is an important characteristic of the good company helps develop a sense of trust and solidarity by affirming that all human beings are equal and never should be used solely for the personal gain of others. For more on justice, see Chapter Five.

The Duty of the Firm in Selling to the Poor.

The good company has an obligation in economic justice to refrain from selling activities that have a negative impact on human physical need. 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. Otherwise, those poor customers are forced to turn elsewhere for assistance where the available sources of help may not be adequate to the task of meeting those needs. By respecting these principles in combination with the principle of contributive justice, the good company avoids injury not just to the poor but to the rest of society as well.

The good company has a special concern for the person of the consumer such that it does not leave it entirely to “the invisible hand” to address the issue of poverty or fall back on “caveat emptor” to escape responsibility for substantial, harmful effects on human physical need that derive directly from it operations. The firm cannot perform its duty to the needy without first evaluating its product line in terms of meeting needs versus satisfying wants, and honestly addressing the question ‘Are we
inducing our poor customers to satisfy a want at the expense of meeting their needs?’

**Worker Rights, Private Property, and Work as Such.**
Catholic social teaching on worker rights and private property can be traced unambiguously to Leo XIII’s 1891 encyclical *Rerum Novarum*. More recently, John Paul has affirmed Leo’s statements, expanding on both, and has asserted the worker’s need for work as such.

The *good* company is committed to the following worker rights: the right to just remuneration; the right of women to fulfill their tasks as mothers without discrimination on the job; the right to medical assistance and compensation for on-the-job injury; the right to a day of rest; the right to a pension and insurance for old age; the right to a workplace free of hazards to physical health and moral integrity; the right to justice in the workplace.

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 from control of human and physical capital that was acquired through one’s own labor or the unexploited labor of others and transferred according to the demands of economic justice, such control rests on the principle of private property which asserts that the thing belongs to the one who created it. Respecting this principle as grounded most fundamentally in economic justice is the duty of the *good* company.

Even so, the right of private property is subordinate to the right of all 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 and of the whole of society.

For economists work means having the income to buy the goods and services produced, and 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 that originates in human sociality and the need for opportunities to be creative that originates in human individuality. This need in general is not recognized in mainstream economics. 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.

**Capital and Labor.**
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 John Paul II for that very reason. Aware of the critical role of profit in the market economy, John Paul 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.
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” in which labor is considered only according to its economic purpose. This error in turn is connected to the error of materialism. To remedy the consequences of the error of economism, John Paul re-affirms the principle of the priority of labor over capital which means that the needs of workers are not to be compromised for the sake of maximum returns and profits. This principle, along with opportunities for worker participation in the ownership and profits of the firm, defines the good company.

**Leisure.**
Leisure is complementary to work in the subjective sense in that it is activity that helps a human being become more fully a human person. In other words, human development depends on both work and leisure. Humans are works of art in progress. They paint their own living portraits with work and 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 that 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, living works of art in progress who require leisure to become what they were meant to be: very nearly divine.1 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 by John Paul in the worker’s right to a day of rest [John Paul 1981, § 20].

**Personalist Capital.**
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 that parallels the accumulation of physical and human capital – by investing in good habits. The wicked person destroys personalist capital by investing in bad habits.

The acting person/person in action 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 person in action is the economic agent who accumulates personalist capital by acting virtuously and who destroys it by acting viciously. The

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1 See John Paul 1995, § 84 paraphrasing the 8th Psalm, verses 5-6.
innocent person refers one who has not yet begun to engage in action that has effects on his/her development and therefore has no stock of personalist capital.

Mainstream economists assert that an economy functions best when it maximizes utility, when it achieves Pareto optimality. Libertarians are likely to argue that an economy functions best when it maximizes human freedom. Personalist economics, in contrast, claims that 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.

These ideas regarding personalist capital are entirely our own. There is no explicit affirmation for them in Catholic social teaching. However, the need for a life of virtue in worldly affairs long has been a part of CST. Accordingly, we argue that personalist capital is consistent with CST and a logical extension of that teaching tradition into economic affairs. Further, we assert that 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. For more on personalist capital, see Chapters Four and Ten.

**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 [Renard, pp. 7-15, and Joseph Becker, p. 11]. 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 that minimize their depletion and any damage to the natural 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, management, labor, suppliers, and customers.

The limiting principle is set forth by three negative norms: the natural, political, and economic environments. As to the first negative norm, the good company constructs its plans and 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 private-personal (the market) and private-collective decision-making processes (intermediate bodies) simply 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 that derives from its own innovational activity undertaken as a part of meeting the need of the human spirit for creative opportunities.

For more on sustainable development, see Chapter Ten. See Whittington for a detailed bibliography on the Catholic Church and ecological degradation.

**CONCLUDING REMARKS**

To be a viable enterprise, the typical firm produces goods and services for profit. Its owners would not buy into the firm in the absence of profit and depend on that profit to justify maintaining their commitment. However, strict individualists argue that making a profit is the firm’s one and only purpose. All other economic agents are effectively excluded.

Catholic social teaching understands that the firm must make a profit in order to continue operating. But to CST making a profit is not the firm’s one and only purpose. Rather profit 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, their needs and concerns, in effect uses them as means to the end of making profits. CST instructs the firm that every human being is a person with a sacred dignity and as economic agents may not be reduced simply to the means by which the firm makes its profits.

Ideally, the inclusive good company knows the difference between ends and means, conducts its operations accordingly, and can, can, in the long run be as profitable as the exclusive profit-maximizing firm. Paraphrasing McCloskey (see p. 4), profit is the good that economic agents generate by acting virtuously.
References


CHAPTER TWENTY

JOHN PAUL II ON SOCIAL MORTGAGE:
ORIGINS, QUESTIONS, NORMS

One of the greatest injustices in the contemporary world consists precisely in this: that the ones who possess much are relatively few and those who possess almost nothing are many. It is an injustice of the poor distribution of the goods and services originally intended for all. This then is the picture: there are some people -- the few who possess much -- who do not really succeed in “being” more because through a reversal of the hierarchy of values, they are hindered by the cult of “having”; and there are others -- the many who have little or nothing -- who do not succeed in their basic human vocation because they are deprived of essential goods [John Paul 1987, §28].

Based upon and justified by the Church’s principle that “God intended the earth with everything contained in it for the use of all human beings and peoples” [Gaudium et Spes, §69], John Paul II in Sollicitudo Rei Socialis (hereafter SRS) argues that private property is not exclusively private in nature, that it has a social function. Borrowing language that applies to residential property sales in which the buyer borrows some of the funds necessary to purchase the property and acquires the title, John Paul asserts in SRS that “private property … is under a “social mortgage” [John Paul 1987, §42].

Property has a social function in the sense that the property holder is a social being, joined together with others in a network of communities such as family, neighborhood, place of worship, workplace. For Catholics that community is called the Body of Christ. At the same time, private property has an individual function in the sense that the person holding that property is an individual human being, unique and apart from all other human beings. Thus the owner of private property is accountable for the manner in which the goods produced by means of that property are held for his/her own use or released for the use of others.

The social function of private property means that ownership confers stewardship. Just as a conventional mortgage binds the homeowner to repay the institution that made ownership of that home possible, a social mortgage obligates the owner of private property to give back to the community so that those with no private property holdings have access to the same basic services such as health care, education, transportation, police and fire protection that helped make possible the personal development of that property owner. Homo economicus of the libertarian persuasion recognizes the duty in accepting a conventional mortgage, but not the duty in a social mortgage. The
acting person of the personalist persuasion knowledges both.

Writing more than 50 years ago, Thomas Divine supplies three arguments in defense of the individual function of private property and three others for its social function. Following Aquinas and fellow Jesuit Duff, Divine asserts that the institution of private property provides for the needs of society -- the social function -- through the greater productivity of private property holders, the enhanced order characteristic of a society in which property is managed privately, and the greater peace and harmony that derives from the contentedness of property holders. Private property provisions the needs of the individual -- the individual function -- by endowing the property holder with economic independence, making the holder more secure, and promoting creativity and personal development. The Compendium of the Social Doctrine of the Church, which John Paul commissioned and was published in 2004, contains no reference to these Thomistic arguments in defense of private property (see Compendium, p. 282).

Drawing on Aquinas, Divine argues that there two aspects to the common use of private property.

In the first place it means that the owner of private property must be willing to share his wealth with others in time of need. For the right to the necessities of life would take precedence over the right to conveniences or luxuries. To quote again from Aquinas: “If the need be so urgent and manifest that it must be remedied by whatever means are at hand …, then it is lawful for a man to satisfy his need by taking either openly or secretly another’s property; and in so doing he is not guilty of theft or robbery in the proper sense.” That he also considers this community of use to extend beyond mere cases of dire need is clear from his statement in the seventh book, lesson eight, of the Commentary on the Politics: “Goods should be the property of individuals as far as their ownership and management is considered, but should be common in their use as through the act of liberality and friendship.” Those who can afford to do so are expected to contribute to a worthy cause [Divine, Chapter 27].

Thus two virtues -- friendship and liberality -- govern the use of private property as opposed to its ownership and management. [Divine, Chapter 27]. Fellow Jesuit economist and contemporary Bernard Dempsey concurs with Divine on the three arguments in defense of private property (see Dempsey, pp. 170-175) and drawing upon Aristotle’s Ethics offers a definition of the virtue of liberality that moderates between avarice and prodigality: “the virtue by which we make good use of all those external goods which are granted us for our sustenance” [Dempsey, p. 180].

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1 Divine’s unpublished book-length manuscript is undated. However, Divine’s biography by Herbert Zollitsch, also unpublished but available in the Divine archives in Marquette University’s Raynor Memorial Library, indicates that Divine’s manuscript was completed in 1960. Accordingly, we use that date in the references section.
Dempsey puts the issue of the social function of property in broader but simpler terms.

The error of modern times is not the advocacy of “communism.” “Common use” is an ancient and correct idea. The modern error is the belief that common use is attained only through state action [Dempsey, p. 183].

In what follows, we include as private property these assets: land, structures, equipment, mineral deposits, patents, copyrights, and financial assets, provided they are income-producing in cash or in kind at the moment. Some private property holdings, such as an abandoned manufacturing facility, farm land that has been devastated by a flood, timber land that has been destroyed in a wild fire, may produce nothing that can be released for the use of others. Clearly, there is no social mortgage associated with those holdings, at least for the moment. What concerns us is the obligation of the holder of property that does produce goods that can be held for his/her use or shared with others.

Concerning residential property specifically, income-producing rental property clearly is under a social mortgage. Similarly, because it is income-producing in kind (in terms of the various public services that are routinely made available to the property owner), owner occupied housing also falls under this obligation. However, ability to pay sets limits on that social mortgage and is reflected in such practices as the homestead exemption in Louisiana where the primary residence is not subject to property taxation unless its assessed value exceeds $75,000. Further, Louisiana freezes property assessment for senior-citizen homeowners whenever their annual income falls below a predetermined threshold provided any improvements fall below another predetermined threshold.¹

In addition to the virtue of liberality, social mortgage involves the virtue of justice. Social mortgage is a matter of contributive justice because it focuses attention on the obligation one has as a property owner to support and maintain the community. However, as indicated above, there are limits on the burden associated with social mortgage that derive from the property holder’s ability to pay, making the obligation also a matter of distributive justice.

Further, income-producing property is under social mortgage that in some instances is affirmed in tax law thereby making the obligation a matter of legal justice. Strict compliance with the legal demands of property taxation, however, does not necessarily exempt the property owner from the moral obligation that John Paul implies by social mortgage. That duty clearly is a matter of conscience and is addressed below in the section on the norms that explain what is owed under social mortgage.

Certain items that are owned and held privately for personal use including eyeglasses, household furnishings, clothing, jewelry, televisions, though exchangeable for cash, along with human body parts such as corneas and kidneys, are not assets in the sense that they produce a stream of income and therefore are not our concern in the following.

¹ See http://www.latax.state.la.us/Menu_FAQ/FAQ.aspx#faq6.
Our primary concern is with John Paul’s use of social mortgage in the context of contemporary economic affairs. For that reason, we do not attempt an exhaustive review of the use of the terms social mortgage, social obligation, or the social function of private property in Catholic social teaching. Thus, even though Rerum Novarum addresses property extensively, we do not turn to that encyclical. First, in SRS John Paul references Leo XIII and his landmark encyclical only in sections 1 and 8 and then without any relevance to the meaning of social mortgage. Second, SRS is a reflection on and celebration of Paul VI’s Populorum Progressio and an extension of his remarks on economic development. Third, unlike Rerum Novarum, SRS employs an essentially macro-economic perspective as evidenced by repeated contrasts drawn between the northern and southern hemispheres, developed and developing countries, wealthy and poor nations, and draws on justice much more often than Christian charity indicating that John Paul intentionally is appealing persons and organizations outside the Christian world.

In the following, our remarks are organized around the origins of social mortgage, two elemental questions regarding social mortgage, and the norms that explain what is owed under social mortgage.

**ORIGINS OF SOCIAL MORTGAGE**

In SRS John Paul identifies two sources for his claim that “private property … is under a social ‘mortgage’.” The first is his address at the Third General Conference of the Latin American Episcopate in Puebla, Mexico, on January 28, 1979.

[It is] when the growing wealth of a few parallels the growing poverty of the masses ... that the Church’s teaching, according to which all private property involves a social obligation, acquires an urgent character [John Paul 1979a, §III.4; emphasis added].

Notice that in this address he uses social obligation, not social mortgage, and asserts that the “Church’s teaching … acquires an urgent character” due to the widening gap between the wealth of the few and the poverty of the many. It certainly is possible that to John Paul social mortgage and social obligation are synonyms. It is possible too that he used social mortgage in SRS, instead of social obligation, to underscore his sense of urgency in this matter.

We are inclined to think that he intended to use them in the second sense because in the very same section of the encyclical (see SRS, §42) where he uses social mortgage he calls attention to the preferential option for the poor and to the growing gap between the rich and poor even in developing countries where property owners have the means to comply with this duty. Such an interpretation is entirely consistent with the virtue of liberality that Dempsey asserts informs us that the proper end of the use of external goods is the sustenance of men [Dempsey, p. 180]. We argue, therefore, that in SRS John Paul not only calls attention to the preferential option for the poor but constructs the meaning of social mortgage chiefly in terms of that option. Because poverty is a normative concept, it follows that social mortgage is a normative concept too. Put differently, in SRS we construe John

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1 In SRS justice is cited in §§10, 18, 26, 28, 33, 36, 38, 39, 41, 47, and 49. Charity is referred to only in §§40 and 42.
Paul to mean that the end intended is the provision of sustenance first and foremost to the many throughout the world who are poor and social mortgage is the means to that end.

The second source is his ad limina address to Polish bishops on December 17, 1987. A third appears one day later in *L’Osservatore Romano* but is simply a publication of his ad limina address. Both sources, along with the ad limina address in *L’Osservatore Romano*, are footnoted in *SRS* immediately following social mortgage.

Even though in *SRS* he does not refer to his May 15, 1982 comments to workers in Portugal, John Paul in that address states that “… the private ownership of property is always under social mortgage, and so must always serve the common good …” [John Paul 1982, §8]. Nor does he cite in *SRS* his use of “social mortgage” on two occasions in 1979. Clearly, then, social mortgage predates John Paul’s use of it in *SRS* by at least eight years, and due to his repeated use of it indicates that we should probe more deeply into his meaning.

In researching the origins of social mortgage we encountered two problems. First, the *Compendium of the Social Doctrine of the Church* does not include social mortgage in its extensive index, even though the expression is used again in 2001, 2002, and 2003 in addresses by others that are posted on the Vatican website and by John Paul himself in 1999.

Second, in 2004 Cardinal Trujillo attributes social mortgage to *Populorum Progressio* and states that in this regard Paul VI renders “a faithful interpretation of St. Thomas.” A careful search of *Populorum Progressio* reveals no such use of social mortgage though the underlying concept is present in the encyclical. Further, it is not St. Thomas but St. Ambrose that Paul VI cites regarding the use of private property:

> You are not making a gift of what is yours to the poor man, but you are giving him what is his. You have been appropriating things that are meant to be for the common use of everyone. The earth belongs to everyone, not to the rich (quoted in Paul VI, §23).

Additionally, Ketteler in 2007 states that it was John Paul who used social mortgage for the first time though he does not trace its origins to 1979. We conclude that social mortgage originated with John Paul in 1979 but the fundamental concept itself dates as far back as St. Ambrose in the fourth century.

1 See John Paul 1979b and 1979c.


3 We found two other uses of social mortgage. Unity Trust Bank in the United Kingdom uses it to call attention to its mortgage program that helps “charity and voluntary organizations purchase new or additional premises.” See Unity Trust Bank. The Russian city of Kazan in the Republic of Tatarstan uses “social mortgage” in referring to its housing construction program. See Ilsur Metshin.
John Paul in his Puebla remarks (§III.4) affirms the role of Ambrose on “the delicate question of property.” Nevertheless, he makes no mention of him in SRS. Similarly, Aquinas is mentioned approvingly on the question of property in John Paul’s Puebla address, but not in the Compendium or SRS. We conclude that in using social mortgage John Paul intended to move beyond the strict meaning that Ambrose attached to the ownership and use of the goods of the world and Aquinas, perhaps to emphasize the changing nature of property in 20th century economic affairs.

Along with references to Ambrose and Aquinas in his Puebla address, John Paul mentions Paul VI’s Populorum Progressio and John XXIII’s Mater et Magistra as important to the development of the Church’s teaching on property. However, there is very little reference to Mater et Magistra in SRS and only one citation (a footnote) in Section VI of SRS, which includes §42 where social mortgage is used. Populorum Progressio is cited several times in the footnotes of Section VI but only once in the text. We conclude therefore that in using social mortgage John Paul intended not something different than the teachings of his predecessors, notably with regard to Christian charity,¹ not something indicating that all property is owned by the State and simply on loan to different human beings and is subject to forfeiture and seizure by the State whenever that property does not serve the common good, for in doing so he would reject Aquinas on the individual function of private property and deny the very individuality of the human person. Rather, John Paul intended something additional, perhaps in this instance reflecting his own experience in Soviet-dominated Poland where private property was greatly restricted. Six years prior to SRS and just three years removed from his beloved Poland John Paul in Laborem Exercens called attention to way in which the communism system destroys private property.

The Marxist programme … sees in the class struggle the only way to eliminate class injustices in society and to eliminate the classes themselves. Putting this programme into practice presupposes the collectivization of the means of production, so that, through the transfer of these means from private hands to the collectivity, human labor will be preserved from exploitation.

This is the goal of the struggle carried out by political as well as ideological means. In accordance with the principle of “the dictatorship of the proletariat,” the groups that as political parties follow the guidance of Marxist ideology aim by the use of

¹There is nothing in SRS, for example, that rejects the Church’s teaching on Christian charity as expressed by Leo XIII in Rerum Novarum in which that virtue is underscored as in the following.

True, 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, “for no one ought to live other than becomingly.” But, when what necessity demands has been supplied, and one’s standing fairly taken thought for, it becomes a duty to give to the indigent out of what remains. “Of that which remaineth, give alms.” It is a duty, not of justice (save in extreme cases), but of Christian charity — a duty not enforced by human laws [Leo XIII, §22].
various kinds of influence, including revolutionary pressure, to win a *monopoly of power in each society*, in order to introduce the collectivist system into it by eliminating private ownership of the means of production. According to the principal ideologists and leaders of this broad international movement, the purpose of this programme of action is to achieve the social revolution and to introduce socialism and, finally, the communist system throughout the world [John Paul 1981, §11; emphasis in the original].

We suggest that the “additional” is found in his emphasis on justice rather than Christian charity and his sense of urgency in the matter as stated in *SRS*.

One of the greatest injustices in the contemporary world consists precisely in this: that the ones who possess much are relatively few and those who possess almost nothing are many. It is an injustice of the poor distribution of the goods and services originally intended for all [John Paul 1987, §28].

There is no justification then for despair or pessimism or *inertia*. Though it be with sorrow, it must be said that just as one may sin through selfishness and the desire for excessive profit and power, one may also be found wanting with regard to the *urgent* needs of multitudes of human beings submerged in conditions of underdevelopment, through fear, indecision and, basically through cowardice. We are all called, indeed obliged, to face the tremendous challenge of the last decade of the second Millennium, also because the present dangers threaten everyone: a world economic crisis, a war without frontiers, without winners or losers. In the face of such a threat, the distinction between rich individuals and countries and poor individuals and countries will have little value, except that *a greater responsibility rests on those who have more and can do more* [John Paul 1987, §47; emphasis added].

Notice that John Paul is paraphrasing Jesus as reported by the Evangelist Luke.

> When much has been given a man, much will be required of him. More will be asked of a man to whom more has been entrusted [Luke 13:48].

**TWO ELEMENTAL QUESTIONS REGARDING SOCIALMORTGAGE**

John Paul’s assertion that private property is under a social mortgage raises two elemental questions. First, why is the principle of private property subordinated to the principle of the universal destination of the goods of the world? Second, what kinds and amounts of social mortgage payments or other transfers are sufficient to satisfy the demands of the social function of private property?

To address these questions, it is necessary to differentiate private ownership of property from how that property is used as John Paul suggests in *SRS*.

> … the *option* or *love of preference* for the poor … is an option, or a *special form of*
primacy in the exercise of Christian charity, to which the whole tradition of the Church bears witness. It affects the life of each Christian inasmuch as he or she seeks to imitate the life of Christ, but it applies equally to our social responsibilities and hence to our manner of living, and to the logical decisions to be made concerning the ownership and use of goods [John Paul 1987, §42; emphasis in the original].

The principle of the universal destination of the goods of the world addresses the issue of the use of the goods of the world. The principle of private property deals with ownership.

Regarding the first question, the principle of private property, which states that a person has a right to what he creates with his own hands, is not an absolute principle because, as John Paul argues, God created the universe for the benefit of all humankind. The goods produced through the ownership of private property are the means by which human material need is met and for that reason alone private property is subordinate to the universal destination of the goods of the world.¹

Further, humans who do not own private property are thereby limited in their access to the goods produced by that property and if all human beings truly are created equal how can they claim equality if they are denied access to all that they need to survive as humans? In other words, private property ownership is a lower-order principle and therefore subordinate to the use of that property.

Two extreme types of economic systems are to be avoided. (1) A market economy based entirely on private property in which all goods are produced and held by one person who shares none of them. Everyone else is left to fend for themselves. The system collapses from nearly universal unmet need in the midst of surplus production or underutilized production capacity. (2) A command economy based exclusively on public property in which goods are produced by some and are shared with everyone on the basis of need. The economy collapses from unmet need due to an insufficient incentive to produce.

In both instances, the problem is production: too much production that is not shared resulting in unmet need or too little leading to the same outcome. As we have just seen, in his 1981 encyclical Laborum Exercens John Paul roundly condemns the second system. Six years later in SRS, he agrees to the first provided property is under social mortgage: those without property, those who are needy, must not be left to fend for themselves. The universal destination of the goods of the world demands nothing less.

¹ In the very same section of SRS where he introduces social mortgage, John Paul cites Populorum Progressio on the primacy of the principle of the universal destination of the goods of the world in which Paul VI says the following.

Now if the earth truly was created to provide man with the necessities of life and the tools for his own progress, it follows that every man has the right to glean what he needs from the earth … All other rights, whatever they may be, including the rights of property and free trade, are to be subordinated to this principle [Paul VI, §22; emphasis added].
As to the second question about the kinds and amounts of social mortgage payments or other transfers that satisfy the demands of the social function of private property, there are two basic forms: private and public. Examples abound. One very common private arrangement is the business enterprise that employs persons who have no private property of their own. The employees share in the goods produced in that enterprise through the wages paid by the owner of that property. A second private form is the voluntary transfer of funds generated from production at private enterprises to organizations that provide services for those in need either by those enterprises acting individually or collectively through such community-based appeals as United Way. A third is through enterprise-based plans that provide employees an opportunity to acquire ownership in the enterprise. A fourth, and very common form of private arrangement, is the direct transfer from one person to another of goods or the money to buy the needed goods.

Examples of public arrangements that qualify as social mortgage payments include taxation, regulation, mandates, patents, and eminent domain. Taxation transfers some of the proceeds from the ownership of private property to public use to provide for such public services as police and fire protection, transportation and education. Regulation restricts the ways in which a private property owner may use his/her holdings by setting limits, for example, on hazardous emissions into the environment and through zoning ordinances that set limits on the specific activities -- residential, commercial, industrial -- that are acceptable in a given geographic location.

A public mandate such as a minimum wage or health insurance coverage for workers forces the private property owner to transfer some of the proceeds from production originating from private property to needy others who do not own that property. The protection afforded by a patent allows the holder of that patent time to recoup the cost of developing the patented item in a market that must respect that property right. However, when protection for that intellectual property expires, other companies are free to manufacture and sell a comparable item that has the effect of cutting away some of the excess profits involved and thereby making it available to the public at a lower price.

Eminent domain is an extreme form of public transfer in that a public body actually seizes private property on the basis of its claim that the property has a social function that completely overrides its private function. In return, the owner is owed a public payment that approximates the fair market value of the property.

Whether public or private in nature, social mortgage transfers are justified only as a means by which individual or collective need is addressed.

In the end social mortgage is grounded in social justice as set down by Pius XI in his 1937 encyclical *Divini Redemptoris.*
Atqui socialis justitiae est id omne *ab* singulis exigere, quod ad commune bonum necessarium sit [Pius XI, §IV; emphasis added].

Carefully translating the Latin version from the same website into English produces the following.

Now it is of the very essence of social justice to demand from each individual all that is necessary for the common good.²

“The from” indicates obligation. Thus, by social mortgage John Paul deliberately emphasizes the urgency regarding the obligation of contemporary private property holders under social justice.

**NORMS THAT EXPLAIN WHAT IS OWED UNDER SOCIAL MORTGAGE**

Because what is owed to another depends very much on how one defines and measures that obligation, social mortgage as with all contingent being is constituted of two norms, one positive, the other negative (see Table 20.1). The positive norm functions in the actuating mode and explains how much of the goods produced by owners are to be shared with others. The negative norm operates in the limiting mode and explains why no more than that must be shared.

**Table 20.1 Norms Explaining What is Owed Under Social Mortgage**

1. Positive Norm

   Unmet human material need

   Basic
   - absolute standard
   - relative standard

   Beyond basic ► matter of conscience for private property holder

2. Negative Norm

   Ability of private property holders to meet need

   Individually

   Collectively
   - public action

¹ The Vatican website incorrectly renders this passage in English as follows: “Now it is of the very essence of social justice to demand *for* each individual all that is necessary for the common good” [Pius XI, §51; emphasis added]. Notice that “for” indicates entitlement.

² The author is grateful to John Czyzynski, SCJ for help in translating the Latin text correctly into English.
private action preferred according to principle of subsidiarity

The principal positive norm is the material need that humans are not able to meet acting alone or, simply, unmet human material need. That need may be defined in absolute or relative terms. An absolute standard addresses the following question: How much income does an individual/family need to purchase the goods and services required to maintain a minimal standard of living? A relative standard address this question: How much income does this individual/family have relative to the income of others?

The chief negative norm is the ability of private property holders to meet that need. Following the principle of subsidiarity, unmet need is to be addressed preferentially through private action because private persons and groups in general are closer to the parties requesting assistance and therefore better able to detect false claims of unmet need and to rank authentic unmet need by its scope and intensity.

Regarding the positive norm as to how much must be shared with others under social mortgage, at minimum it must be sufficient to address basic human needs. This norm, we are convinced, must be constructed to incorporate both an absolute standard of need and a relative standard because human beings are at once individual and social beings, with the absolute standard reflecting human individuality and the relative standard human sociality.

To simplify, basic need clearly (a) is unmet when the income of the party seeking assistance is below both standards, (b) is met when income is above both standards, and (c) is marginally unmet when income is below one of the standards and above the other. Due to differences in the cost of living, the thresholds that express those standards in measureable form will vary from place to place and one time period to another.

We recommend incorporating in this norm the official poverty standard for the United States, which is an absolute standard and for that reason alone is seriously flawed, precisely because it has been in use for 50 years, has achieved widespread acceptance, and therefore is socially significant.

For purposes of assigning greater specificity to the duty of property owners under social mortgage, assume that the absolute threshold for a family of four is annual income of $18,900 and the relative threshold is $20,350. A family of four with annual income of $14,670 has basic needs that clearly are unmet, while a similar size family with income of $31,569 has no such needs. A family of four with income of $19,472 has needs that are marginally unmet. In distributing the goods available for sharing among the needy, more must be given to those whose incomes fall furthest below the lower

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1 A second serious flaw is that from the very beginning poverty threshold income has been estimated at three times the cost of a nutritionally adequate diet as determined by the Agriculture Department on grounds that consumers in the late 1950s and early 1960 typically spent one-third of their income on food. This multiplier has not changed over the years though clearly consumer expenditure patterns have. The threshold income estimate is further flawed because it makes no allowance for differences in the cost of living from place to place.
of the two thresholds. In our example that would mean families with incomes below $18,900, with more given to those with the lowest incomes. The marginally needy would be provisioned only when the more severely needy have been assisted.¹

The negative norm that explains why no more than the goods that meet basic human material need are to be shared by property owners under social mortgage is problematical especially in a wealthy country. In a poor country, the overall level of production from private property may be so small as to make earning a living difficult even for property holders. What is shared is widespread impoverishment. In a wealthy country, however, the level of production from private property may be so substantial as to make possible a level of assistance well beyond basic human material need.

The question then is how much above that basic-needs threshold is owed under social mortgage? The answer lies in the conscience of the property holder because if as a result of government intervention more than the goods required to meet basic need is demanded of the holders of that property, those holders may respond by reducing production making it more difficult to reach that threshold of support. Government action in other words may be self-defeating.

Better to leave that decision to one’s own conscience provided it is properly informed to avoid the crass materialism to which John Paul calls our attention in his warning that “the more one possesses the more one wants” [John Paul 1987, §28]. By having and wanting more, the holder of private property puts his/her development as a person at risk of becoming a genuine homo economicus, a rational, utility-maximizing human driven by an acquisitive desire.

The properly informed conscience could lead to strictly private action either individually or collectively or to public action. Here again preference is given to private action as against public action on grounds that being located closer to the parties claiming assistance, private action likely is better informed as to true extent of human material need.

Quoting Gaudium et Spes Paul VI offers the following helpful advice regarding private gain and human material need based on the principle of subsidiarity.

> When “private gain and basic community needs conflict with one another,” it is for the public authorities “to seek a solution to these questions, with the active involvement of individual citizens and social groups” [Paul VI, §23; emphasis added].

¹ Public programs of aid to the needy sometimes are based on a qualifying threshold that is a multiple of the official poverty threshold, usually 150 percent or 200 percent higher than that threshold. We find that such standards are unsatisfactory because there is no hard evidence of a direct linkage between those higher thresholds and need. For that reason, we think it unwise to use multiple standards to determine what is owed the needy under social mortgage.
One major problem remains regarding the properly informed conscience on human need beyond the basic minimum. In the end unmet human material need, or hardship, is a normative concept that is defined and measured differently by the various persons who use the concept according to each one’s own value system. Thus, even among men of good will, agreement on the specifics of need beyond the basic minimum is difficult to achieve and depends very much on free and open discussions between the private and public sectors as suggested in *Gaudium et Spes* and affirmed in *Populorum Progressio*. Such discussions are likely to be an ongoing activity rather than a one-and-done task especially when living standards are changing over time.

**CLOSING REMARKS**

Our interest in *Sollicitudo Rei Socialis* centers on three issues. The first relates to the sense of urgency that John Paul displays regarding the worldwide divisions between the few who have much and the many who have little. The second has to do with his emphasis on justice rather than charity as the principal virtue that ought to motivate our responses to those divisions. The third concerns his introduction of social mortgage as a means to address those divisions. Simply put, we have been interested in ends, means, and motivation.

In the rest of our closing remarks we concentrate on social mortgage because we have offered some specifics that allow us to move further along in making it operational.

“Social mortgage” is a normative concept whose meaning depends critically on the persons who use the expression and for that reason consensus on how it is defined and measured is difficult to achieve. Nevertheless, we hope our suggested norms that explain what is owed under social mortgage contribute to wider acceptance at least with regard to basic human material need thereby (1) moving the discourse toward greater specificity regarding the proper norms and critical values -- criteria -- that express those norms in measurable form, and (2) forging wider agreement on how best to make social mortgage an operational concept, to make it socially significant.

As to need beyond the basic necessities, we have argued that the issue primarily is a matter of one’s private conscience and that coercive public action is called for when the private conscience is asleep and cannot be awakened and enlightened through public discourse. Even so, and very much in accordance with the principle of subsidiarity, a poorly informed private conscience is better than a badly informed public consensus because public action has far wider effects than private action.
References


_Gaudium et Spes._ Pastoral Constitution on the Church in the Modern World, 


CHAPTER TWENTY-ONE

JOHN PAUL II ON ECONOMIC FREEDOM

The individual today is often suffocated between two poles represented by the State and the marketplace [John Paul 1991, §49].

John Paul spoke eloquently in 1987 about freedom in the United States on the occasion of his meeting in Miami with President Reagan to celebrate the bicentennial of the U.S. Constitution.

*Among the many admirable values of this nation* there is one that stands out in particular. It is freedom. The concept of freedom is part of the very fabric of this nation as a political community of free people. Freedom is a great gift, a great blessing of God.

From the beginning of America, freedom was directed to forming a well-ordered society and to promoting its peaceful life. Freedom was channelled [sic] to the fullness of human life, to the preservation of human dignity and to the safeguarding of all human rights. *An experience in ordered freedom is truly a cherished part of the history of this land.*

This is the freedom that America is called to live and guard and to transmit. She is called to exercise it in such a way that it will also benefit the cause of freedom in other nations and among other peoples. The only true freedom, the only freedom that can truly satisfy, is the freedom to do what we ought as human beings created by God according to his plan. It is the freedom to live the truth of what we are and who we are before God, the truth of our identity as children of God, as brothers and sisters in common humanity. That is why Jesus Christ linked truth and freedom together, stating solemnly: “You will know the truth and the truth will set you free” (Io 8, 32). All people are called to recognize the liberating truth of the sovereignty of God over them both as individuals and as nations [John Paul II 1987b, §3, emphasis in original].

Our attention turns first to John Paul’s comments in *Centesimus Annus* on the centrality of freedom to human nature and his warning with regard to the violent suppression of self-interest.

Moreover, man, who was created for freedom, bears within himself the wound of original sin, which constantly draws him towards evil and puts him in need of redemption. Not only is *this doctrine an integral part of Christian revelation*; it also has great hermeneutical value insofar as it helps one to understand human reality. Man tends toward good, but he is also capable of evil. He can transcend his
immediate interest and still remain bound to it. The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony. In fact, where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity. When people think they possess the secret of a perfect social organization which makes evil impossible, they also think that they can use any means, including violence and deceit, in order to bring that organization into being. Politics then become a “secular religion” which operates under the illusion of creating a paradise in this world. But no political society – which possesses its own autonomy and laws – can ever be confused with the Kingdom of God [John Paul 1991,§25; emphasis in original].

In *Sollicitudo Rei Socialis*, which was released four years before *Centesimus Annus*, John Paul makes the extraordinary statement that “… one must not overlook that *special form of poverty* which consists in being deprived of fundamental human rights, in particular the right to religious freedom and the right to *freedom of economic initiative*” [John Paul 1987a, §42; emphasis added].

Notice John Paul’s conditional approval of the market economy constructed on freedom and his rejection of socialism as an alternative even in those cases where private capital absolutely controls the decision-making process.

In this sense, it is right to speak of a struggle against an economic system, if the latter is understood as a method of upholding the absolute predominance of capital, the possession of the means of production and of the land, in contrast to the free and personal nature of human work. In the struggle against such a system, what is being proposed as an alternative is not the socialist system, which in fact turns out to be State capitalism, but rather a *society of free work, of enterprise and of participation*. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the State, so as to guarantee that the basic needs of the whole of society are satisfied [John Paul 1991,§35; emphasis in original].

Elsewhere in *Centesimus Annus*, John Paul centers attention on the fundamental error of socialism.

Socialism considers the individual person simply as an element, a molecule within the social organism, so that the good of the individual is completely subordinated to the functioning of the socio-economic mechanism. Socialism likewise maintains that the good of the individual can be realized without reference to his free choice, to the unique and exclusive responsibility which he exercises in the face of good or evil. Man is thus reduced to a series of social relationships, and the concept of the person as the autonomous subject of moral decision disappears, the very subject whose
decisions built the social order. From this mistaken conception of the person there arise both a distortion of law, which defines the sphere of the exercise of freedom, and an opposition to private property. A person who is deprived of something he can call “his own”, and of the possibility of earning a living through his own initiative, comes to depend on the social machine and on those who control it. This makes it much more difficult for him to recognize his dignity as a person, and hinders progress toward building up of an authentic human community [John Paul 1991,§13; emphasis in original].

John Paul’s condemnation of socialism derives importantly from the crisis in Eastern and Central Europe in 1989 where two factors played a critical role: “the violation of the rights of workers” and “the violation of the human rights to private initiative, to ownership of property, and to freedom in the economic sector” [John Paul 1991, §§23,24; emphasis added]. The historical record regarding socialism, he notes, is that human alienation has not been reduced but collectivism has only added to it. The state, he argues, is to be guided by two principles in economic affairs: subsidiarity to assure economic freedom and solidarity to defend the weak, limit the autonomy of the parties who determine conditions in the workplace, and provide basic support for jobless workers [John Paul 1991, §§ 41, 15].

Rather than condemning profits out of hand, John Paul offers the following conditional approval.

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. But profitability is not the only indicator of a firm’s condition. It is possible for the financial accounts to be in order, and yet for the people – who make up the firm’s most valuable asset – to be humiliated and their dignity offended. Besides being morally inadmissible, this will eventually have negative repercussions on the firm’s economic efficiency. 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 endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society. Profit is a regulator of the life of a business, but it is not the only one: other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business [John Paul 1991, §35; emphasis in original].

Economic freedom is the foundation of the modern business economy [John Paul 1991, §32]. Further John Paul re-affirms the Church’s commitment to freedom as a necessary condition to assure the “transcendent dignity of the person” [John Paul 1991, §46]. Even so, he recognizes that freedom in economic affairs is not absolute. Economic freedom, he asserts, is only one element of human freedom. When economic life becomes absolutized, that is

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 end up by alienating and oppressing him [John Paul 1991, §39].

While the right of private property assures that the goods produced belong to the persons who produced them and who thereby have a rightful claim on the use of those goods, that claim is not absolute. There is a second claim on their use based on the principle of the universal destination of the earth’s goods that states that the material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in their use by the right of private property [John Paul 1991, §§30, 34].

**CONCLUDING COMMENTS**

John Paul rejects the notion that the Church has a model for organizing economic affairs. Instead he argues that economies must be organized “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” [John Paul 1991, §43].

Unlike his extended remarks on capitalism and socialism, John Paul does not refer directly to a “third way” of organizing economic affairs. However, twice in *Centesimus Annus* John Paul addresses the significance of intermediary bodies in the social order between the individual on one hand and the state on the other.

… the social nature of man is not completely fulfilled in the State, but is realized in various intermediary groups, beginning with the family and including economic, social, political and cultural groups which stem from human nature itself and have their own autonomy, always with a view to the common good [John Paul 1991, §13]. Apart from the family, other intermediate communities exercise *primary* functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately often happens today. It is in interrelationships on many levels that a person lives, and that society becomes more “personalized” [John Paul 1991, §49; emphasis added].

Personalist economics argues strenuously that, besides capitalism and socialism, there is a third way to organize economic affairs. Waters asserts that the logic of Catholic principles actually *dictates* what he calls a solidarist system [Waters 1993, p. 34] and we prefer to call a personalist system. And John Paul with others has supplied a modern philosophical foundation for a personalist system -- personalism -- to replace the absolutist individualism of the capitalist system and the suffocating collectivism of socialist regimes that he condemns in *Centesimus Annus*.

A personalist economy is modeled after John Paul’s recommendations from *Centesimus Annus*, specifically the following: the market, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination
of the world’s goods, and the legitimacy of profit [John Paul 1991, §§43, 48, 15, 30, 35]. The most important characteristic of a personalist economy is economic freedom. Its distinguishing characteristic is the unique role played by cooperating intermediary groups.

Much work must be done to accumulate the evidence indicating that a personalist market economy offers a viable and practical “third way”. In this regard, we have uncovered a few examples of cooperating intermediary bodies at work in the U.S. economy. For example, PRIDE of St. Louis, which was established in 1972, is a voluntary labor-management organization in the construction industry that meets monthly to identify and deal with stress points that interfere with the completion of building projects on time and within budget. It is an excellent example of private group decision-making that seeks to find ways to deal with problems in the construction industry that cannot be addressed by private individual decision-making and eliminates the need for public group intervention.

Other examples of intermediary groups include Advanced Book Exchange (AbeBooks), Louisiana Offshore Oil Port (LOOP), Business Software Alliance, and Geismar Area Mutual Aid.¹ Still others are needed that demonstrate the diversity of a personalist market economy not only in the United States but in other countries as well. With its history of producer cooperatives, which emphasize cooperation in economic affairs, Italy offers considerable promise.

A personalist economy represents a viable option to both capitalism and socialism because it is organized around private groups positioned between the individual person and the more powerful state, groups that emerge due to the inability of the individual person to adequately address specific economic problems.

By using non-collusive cooperation to work out solutions to problems, intermediary groups that operate in a personalist economy offer promise for slowing the growth of big government thereby helping preserve the free exercise of economic initiative. The most important characteristic of these private groups is a separate administrative organization that subordinates the principle of competition to the principle of cooperation in a dynamic decision-making process that is positive-sum in that these groups seek to achieve gains for all of the parties involved whether they are directly represented in the organization or not. Arising from the social nature of human beings who are encountering similar day-to-day economic difficulties, these intermediary bodies are as diverse as the individual nature of those human members and the specific economic problems they hope to resolve. All of us who affirm John Paul on the need to replace the absolutist individualism of capitalism and the suffocating collectivism of socialism are well-advised to return to his teaching on economic freedom and how it is practiced and protected in a personalist economy by the practical application of the principle of subsidiarity. In other words, a personalist economy and economic freedom are inseparable.

¹ Links to their websites are listed in the references section.
References


CHAPTER TWENTY-TWO

ECONOMIC GAIN AND INTEGRAL HUMAN DEVELOPMENT

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 duty in economic affairs as stipulated by the three principles of economic justice: commutative, distributive, and contributive. Then we explore the role of gift or what we prefer to call gratuitous gain and forgiveness that smooth the rough edges of justice and have real consequences for the economic agents involved. Finally, we examine the role of integral human development in economic affairs, how it is connected to personalist capital, and argue that the primary objective of economic affairs is maximizing integral human development not personal advantage in the form of utility or profit. Our thinking in this matter has been shaped and formed by the encyclicals of Leo XIII, Pius XI, John Paul II, and Benedict XVI.

ECONOMIC 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.

As with mainstream economics, we differentiate between exchange value and use value. Exchange value is what is given up for the good or service acquired through exchange. Use value is what is gotten, that is the usefulness of the good or service to the person who acquires it.

Under competitive market conditions, exchange value should not vary from one person to the next. The price paid for the same dog food in a supermarket is the same for everyone buying that brand of dog food at that store. However, use value is not the same for everyone who buys that dog food because some persons are more deeply attached to their dogs and derive greater pleasure from feeding and caring for them than do others. While exchange value is determined by market conditions at the time and place of the exchange, use value is determined by the value systems of the uniquely different persons involved in the exchange. Exchange value is an objective piece of information. Use value, on the other hand, is a subjective human experience. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up). Without that gain, the exchange cannot be carried out.
However, without a limit to the extent of that gain and its origins, some persons in the exchange process are able to take more than their due while others are left with less. Mainstream economics brushes aside the problem of exploitation and victimization with the invisible hand argument. Every economic agent in the pursuit of his/her own self-interest serves the good of all through the invisible hand of the market. Introducing justice into economic affairs is unnecessary and threatens the value-free nature of mainstream economic science. Personalist economics rejects the invisible hand on grounds that its appeal to magic and rhetoric is no substitute for the call of justice to reason and substance. Personalist economics accepts a value-laden economics as the price for aligning the study of economics more closely with economic reality.

In the workplace, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the clerk’s labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker’s profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more useful than the time and effort involved in working. Without that gain -- economic rent -- the clerk would not accept the job.

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided what is gotten (the price paid by the customer) is more useful than what is given up (the cost to produce the bread), thereby adding to the baker’s profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker’s customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer -- consumer surplus -- can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer’s gain is greater than initially expected.

When a buyer and a seller have exchanged the same item at the same price time after time, both parties know in advance the gains associated with that exchange and the gains forsaken and therefore act with considerable certainty. However, when a new item is exchanged or at least one of the parties enters the exchange for the first time, the gains properly considered are expected gains and there is some uncertainty in that exchange.

Considerable certainty applies as well to the exchange between an employer and a long-time employee. On the other hand, when an established employer hires a new worker, or a new business is recruiting its startup work force, uncertainty attends the decision-making.

Profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is (1) the gain that comes from the producer’s buying inputs in the resource market for use in the production process, and (2) the gain that derives from selling the finished goods in the product market. Thus the producer’s profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.
However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three gains are absolutely necessary to that process. In their absence, exchange tends to break down.

We can simplify the connections between exchange and economic gain and between the market system and freedom, as follows. No exchange without economic gain, no market system without freedom.

**ECONOMIC JUSTICE AND ILL-GOTTEN GAIN**

Economic gain alone does not control exchange. Trust is required and trust demands that the terms of the exchange must be fair to all the parties engaged in that exchange. Limits on the amount of gain in the form of profits, consumer surplus, and economic rent are necessary to prevent one party from taking advantage of the other and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of commutative, distributive, and contributive justice.

The *principle of commutative justice* states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to hand over the good or service in question. For the buyer, the burden is to hand over the money necessary to purchase that good or service. For the worker, the burden is performing the work assigned. For the employer, the burden is paying the worker the wage that they agreed to.

Exchanging things of equal value seems to imply that no is gain involved. On closer examination we see that this is not the case. Exchanging things of equal value means that what is exchanged is of equal *exchange* value, not equal *use* value. Taken together use value and exchange value result in economic gain whenever use value > exchange value.

When a market is reasonably 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. Competition in other words reduces the control that any single buyer or seller has over price, keeps the market price close to the cost of production, and allows a reasonable profit margin but not undue profit. Thus there may be little need for personal restraint. Gain under these circumstances can be represented as follows:

*gain is justified when use value > exchange value restrained by competition.*
A problem arises, however, when the market does not impose this restraint, and agents are free to act, more or less, without restraint. Action of this type can occur when the producer fixes the price through a cartel or when the buyer is simply ill-informed about the market price and overvalues the product or service offered for sale. In such cases, the gain of the seller is ill-gotten because it is based on taking advantage of the buyer. Unrestrained action may involve a buyer who has an opportunity to enhance his/her gain when the seller is unaware of the true value of the product or service offered for sale. The principle of commutative justice in all such cases informs both parties that the only justifiable gain is one that does not deprive the other party of the gain that is rightfully his/hers. Thus:

\[
gain \text{ is justified when use value} > \text{exchange value restrained by faithful adherence to the principle of commutative justice in a situation where competition alone does not provide the necessary restraint.}
\]

Distributive justice defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens among the members of the group under his/her supervision in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees.

Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have “less upside potential” than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

Distributive justice limits ill-gotten gain when the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money that official has gotten dishonestly.

Contributive justice lays down the obligation of the member to the group to which that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues -- a duty -- is the usual requirement for the persons joining and
remaining active in a membership organization. Failure to pay membership dues typically reduces a person to inactive membership status enjoying fewer or even little benefits of membership as compared to those in good standing.

Contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

**JUSTICE AND GRATUITOUS GAIN**

In this section we examine gratuitous behavior as originating in and reflecting the Christian virtue of charity and the secular virtue of caring.

Heinrich Pesch refers to charity as the guardian of justice and both virtues together as the bulwark of human welfare [Mulcahy 1951, p. 68]. 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].

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].

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].

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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].
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 be 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, p. 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, p. 368]. Caring to this writer 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, this writer emphasizes Christian charity, even though it requires a greater leap of faith than does caring, because Leo XIII warns in Rerum Novarum that “... no human expedients will ever make up for the devotedness and self-sacrifice of Christian charity ...” [Leo XIII 1891, §30] and 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 the use of 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\(^1\) 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,\(^2\) 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*.

\(^1\) 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.

\(^2\) 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.
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, and the creditor is labeled a “loan shark.” 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 Code of Good Practices on Fiscal Transparency [United Nations 2001, pp. 81-82]. 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.

However, 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 RPMs, 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. As noted previously, that asset is known as goodwill.

Caring and Christian charity thus become valued economic resources that are absolutely unique in two ways. First, they acquire value only in the giving and never in the hoarding. Second, they are never depleted in utilization. In economic affairs, they produce gratuitous gain.

**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]. 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. The Jesuit social 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, p. 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, p.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

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1 In this section, we draw heavily from a paper presented in Glasgow in June 2012 by Sandonà and O’Boyle.
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, p. 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 Beach Boys, 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 social 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, pp. 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, p. 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:

\[
IHD = f (HC, SC, PerC, MWB)
\]

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:

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

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, p. 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.

… [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, pp. 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, p. 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 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 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.
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PART VII
TEACHING PERSONALIST ECONOMICS
CHAPTER TWENTY-THREE

THE PERSON BEHIND THE PRINCIPLES:
TEACHING ECONOMICS AT THE INTRODUCTORY LEVEL

Over a period of nearly 30 years we taught principles of economics to roughly 8,000 students and recently distilled that experience into an e-text titled PRINCIPLES OF PERSONALIST ECONOMICS: A Critical Examination of Human Persons as Economic Agents that is accessible without charge or password via the Internet. This e-text follows our own understanding of economic affairs as directed by personal instincts, convictions, values, insights and a philosophy that perceives human beings and, therefore, all economic agents as persons as opposed to individuals.

Our teaching evolved significantly since we first took to the classroom -- we retired in 2007 -- and since we first began questioning the validity and the efficacy of the tools that are routinely employed by teachers of mainstream economics and by those who write principles textbooks. Does the invisible hand, for example, faithfully represent what happens in markets or is it just a manner of speaking, is it real or rhetoric? Why is the course called the principles course, the mainstream textbook referred to as the principles text, but the teacher expected to teach laws, as in the law of supply, the law of demand, the law of profit maximization? Is there a better way to teach the law (principle) of diminishing marginal utility which taps into the typical student’s own experience and connects that principle to the principle of demand?

As our thinking about economic affairs developed by wrestling with those questions, we found ourselves questioning other aspects of the principles course and standard text. In teaching how prices are determined, is it more accurate to ask the question ‘Who determines price?’ than ‘What determines price?’ If it is ‘Who determines price?’ does it make sense to continue to explain the market as tending toward equilibrium? And if one takes account of the entrepreneur, is it more telling to characterize the market as tending toward disequilibrium?

Through this Socratic method turned inward on ourself rather than outward on our students, we began to see that much of how one approaches the teaching of the principles course depends on the premises that one begins with, and that the single most important premise in mainstream textbooks is that the basic unit of economic analysis is the individual. Little by little we began to appreciate that our understanding of human nature was not fixed in the concrete of individualism, the dominant Western philosophy originating in the 17-18th century Enlightenment which gave birth to the classical economics of Adam Smith, and that there is more to human nature than individuality. A human is a social being no less than an individual being, a union of body and spirit, of intellect and

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1 Go to www.mayoresearch.org. Click on the Personalist Economics button on the main page and then click the link to Principles of Personalist Economics.
free will, reason and emotion that is better characterized as person and is better represented by the
20th century philosophy of personalism. That discovery changed our way of approaching economic
affairs from gut instinct that there is something inadequate about mainstream economics and that we
referred to at first as social economics to reasoned argument that we now call personalist economics.

As we drew closer to retirement, this approach was strengthened by the insight that the development
of electronic means of human communication beginning with the introduction of the telegraph has
changed our awareness of ourselves no less than of others. Thus, as economic agents, we no longer
are the one-dimensional individual of mainstream economics, a premise suitable perhaps for
economic affairs conducted in the script stage of human communication and directly reflected in
classical economics, but the two-dimensional person, a premise of much greater validity for
economic affairs conducted in the electronic stage.

This difference between what may be learned through our e-text and the standard textbook is driven
home in virtually every topic addressed in the e-text. Four very brief examples follow. First, we
ground the principal pedagogical tool in teaching microeconomics (Marshall’s scissors diagram) and
the main tool in macroeconomics (circular flow diagram) not in things such as
equilibrium/disequilibrium but in the more human language of agreement/disagreement,
accord/discord. Second, in presenting economic affairs in terms of human beings acting as economic
agents, we find it necessary to address the problem of the conditions under which economic agents
act ethically or unethically. Third, defining and measuring poverty is two-dimensional reflecting both
the individuality and the sociality of human nature as confirmed by personalism. Fourth, both the
principle of diminishing marginal utility and the principle of diminishing returns are presented as
originating in the materiality of human nature.

The general goal of the e-text is to instruct the beginning student as to how a capitalist economy
functions and dysfunctions both from a mainstream economics perspective that underscores
economics as the study of things and from a personalist economics perspective that focuses on
human beings as the subject of economics.

The e-text is organized around 34 major topics presented in the following sequence:

Three Definitions of Economics
Three Principles of Economic Justice
Processes, Organizing Principles, Social Values, and Economic Justice
Essential Characteristics of Capitalism
Money and Banking
Private Creation of Credit
Who/What Determines Price?
Consumer Behavior
Starting and Controlling Private Business Organizations
Worker and Producer Behavior
Perfect Competition
Demand, Marginal Revenue, and Market Structure
Monopoly
Monopolistic Competition and Oligopoly
Profit Maximization and the Subjective Dimension of Work
Mainstream Economics, Schumpeter, and Market Structure
The Industrial Commons and Other Workplace Regimes
Humanness, Personhood, and the Acting Person
Capital: Physical, Financial, Human, and Personalist
How Consumption, Work, and Leisure Change the Economic Agent
Re-constructing Microeconomics: A Summation
Macroeconomic Circular Flows
Four Diagnostic Tools
The Classical School, Unmet Physical Need, and the Safety Net
The Keynesian Revolution
The Monetarist Counter-Revolution
The Neo-Classical Counter-Revolution
The Supply-Side Counter-Revolution
Macroeconomic Policy
Subsidiarity and the Proper Role of Government in Economic Affairs
Financial Meltdown 2008
Integral Human Development
Economic Freedom
The Eighteen Tenets of a Personalist Economy

FOUNDATIONS

Three Definitions of Economics.
The e-text begins with three definitions of economics. (1) Economics is the study of the transformation of resources into goods and services. (2) Economics is the study of the nature and causes of the wealth of nations. (3) Economics is the study of human beings as economic agents. The first two definitions lead the student to see economic affairs in terms of things, whereas the third definition focuses attention on human beings. The first two are foundational to mainstream economics with its positivist view of economics and the economy. The third is foundational to personalist economics with its normative conceptualization of the discipline and the economic order.

More and more our own thinking about economics and the economy derives from the view that most fundamentally both rest squarely on human beings and human behavior in economic affairs, that economics is a moral science because the agents who engage in economic affairs are humans: merchants and consumers, employers and employees, resource-holders and producers, borrowers and lenders, entrepreneurs and bankers. This opening topic allows the student to see better our own personalist economics foundations.

This first topic covers some basics regarding certain standard concepts: principles and theory; natural and labor resources; consumer, capital and public goods and services; wealth creation. Additionally,
we introduce the following concepts: the *bads* linked to natural and labor resource utilization; the duality of human nature and the human person; the *limit*. To elaborate, the *bads* associated with natural and labor resources are depletion/contamination and substandard wages/hours/working conditions along with unemployment. Depletion and contamination unavoidably are linked to the production process; substandard wages/hours/working conditions and unemployment to the market system. By human duality we mean human beings are at once individual beings and social beings. This duality gives rise to the way in which economic theory is divided. Microeconomics is grounded in human individuality; macroeconomics is based on human sociality. It follows that the expression “all economics is microeconomics” has no validity. To differentiate humans as seen from a personalist economics perspective as opposed to a mainstream economics perspective, we replace *individual* from mainstream economics with *person* from personalist economics. In this regard, we have found Peter Danner’s *materialized spirit* a most helpful and instructive expression. That is, we humans are a union of matter and spirit.

The first topic addresses the four premises that are foundational to mainstream economics – the individual, the law of nature, instrumental value, and certainty – and contrasts them with the four premises from personalist economics – the person, institutions, sacred dignity, and uncertainty. Emphasis is placed especially on the difference between the individual and the person and how that difference shapes and forms the way we sift through and interpret information about economic affairs and therefore any policy recommendations we are likely to support in a public discourse on economic affairs.

*Limit* plays an important role in the way we understand economic affairs and therefore how we teach principles. Limit, for example, is descriptive of a price ceiling and price floor in teaching price theory and of the much more abstract concept of carrying capacity in teaching the constraining role of environmental pollution in macroeconomic affairs. Justice limits the ill-gotten gains that sometimes occur in interactions between economic agents. Poverty thresholds -- whether they originate in a relative standard or absolute standard -- are limits below which persons/families are identified and counted as poor. Because both the principle of diminishing returns and the principle of diminishing marginal utility are grounded in human materiality, work and consumption are effectively limited by the human body. The limit applies additionally in explaining the role of excess reserves in the loan creation process.

*Three Principles of Economic Justice.*

Having argued in Topic 1 that economics is a moral science on grounds that it addresses human behavior in economic affairs, we proceed in Topic 2 to discuss how that behavior may be judged as morally acceptable or unacceptable. Justice -- rendering to another that which is owed -- provides the general standard to be applied in arriving at an appropriate judgment. In economic affairs, three principles apply, each relating to one of the three interactions between human beings: equal-to-equal, superior to subordinates, and member to group. The principle of equivalence governs the interaction between equals. The principle of distributive justice relates to the interaction between superior and subordinates. The principle of contributive justice regulates the interaction between member and group.
Each principle is defined in a way that makes explicit the duties of the parties involved. Common expressions that one is likely to observe in the marketplace and in the workplace are reviewed in order to underscore that justice has practical day-in and day-out meaning in economic affairs. To illustrate, one common expression affirming the duty of employers to their employees under the principle of equivalence is “a full day’s pay for a full day’s work.” The student then is supplied with everyday types of violations of these principles in the workplace and the marketplace. For instance, insurance fraud is supplied as a marketplace violation of the principle of contributive justice. Sexual harassment is suggested as a workplace violation of the principle of distributive justice.

These three principles are linked more directly to economic affairs by calling attention to the necessary role of economic gain (consumer surplus, profit, and economic rent) in all exchanges and the need to limit that gain in order to constrain exploitation and victimization. Applied faithfully, the three principles effectively limit the gain by rooting out ill-gotten gain.

The student is warned that the invisible hand does not assure the faithful practice of these principles because justice in economic affairs demands more than the pursuit of one’s own self-interest. It demands an awareness of others in the marketplace and workplace and a willingness to set aside personal advantage whenever necessary to discharge one’s duty. Failure in these matters leads to a weakening of freedom when equivalence is disregarded, a deterioration of a sense of community when contributive justice is not practiced, and an erosion of equality when distributive justice is ignored.

We discuss with the student in Topic 2 the issue of justice in wage and salary administration in which the duty of the employer is set forth in the principles of equivalence and distributive justice and the duty of the employee is defined by the principles of equivalence and contributive justice.

Topic 3 is a demonstration as to how an economic system is organized, what social values lie beneath the forces that energize and limit economic affairs, how those social values are linked to economic justice, and how the system is driven by the entrepreneur. There are three principles that organize economic affairs: competition, cooperation, and intervention. The first two operate in an activating mode, while the third operates to limit any excesses with regard to competition or cooperation, such as dumping and price-fixing. Competition and cooperation activate by tapping into human individuality and human sociality respectively.

In demonstrating how these three principles work together in the ideal, we refer to the analogy of the twin-engine aircraft. Clearly the plane is designed to fly on the port engine alone (competition) or the starboard engine alone (cooperation), but it flies higher, faster, and with a heavier payload when both engines operate in synchronized fashion. To fly successfully, however, more than power and lift are required. The control surfaces allow the pilot to direct the plane along a particular course from a specific point of origin to a given destination. Similarly, for the same reason the invisible hand does not guide the aircraft, intervention is necessary to supply direction to economic affairs, improving for
example the chances for a soft landing when the economy passes the peak phase in the business cycle.

These three principles organize the five basic economic processes of production, distribution, exchange, consumption, and investment and their associated functions of (1) transforming resources into goods and services, (2) moving those goods and services from the workplace to the marketplace, (3) transferring the ownership of the goods and services produced to those who will use them, (4) utilizing those goods and services to meet human physical need and satisfy human wants, (5) deploying capital to enhance efficiency and using public goods to develop and maintain the infrastructure of the economy and to meet those needs that derive from human beings living in community.

We explain that economic systems have a special function to meet the need for work as such, that is the need to belong that originates in human sociality and the need for creative employment opportunities which derives from human individuality. Then we relate competition, cooperation, and intervention to their distinct social values and explain how each social value rests on a different principle of justice. Thus, competition depends on the social value of individual freedom that in turn rests on the principle of equivalence. Cooperation depends on the social value of community or teamwork that rests on the principle of contributive justice. Equality is the social value that supports intervention, and equality depends critically on the faithful practice of the principle of distributive justice.

Competition and cooperation are not the guiding force behind economic affairs in a market system. Neither is it the invisible hand. Rather it is the human being who introduces new goods and services, who devises new processes of production, who utilizes new or different resources in the production process, who opens up new markets for the goods and services already being produced, who re-invents the business enterprise. The guiding force is the entrepreneur.

**Essential Characteristics of Capitalism.**  
Topic 4 is an exploration of the essential characteristics of the capitalist system, especially its key institutions. They include private property, private control of decision-making, markets, the activating forces of competition and cooperation, the social values of freedom and community, consumer and producer sovereignty, resource allocation, creative destruction, private creation of credit, the dysfunction and the dilemma of the system. Some of the discussion in Topic 4 is standard mainstream economics thinking, but not all.

Resource allocation is defined in terms of the pulling force of prices that draw economic resources toward those employers who face marketplace shortages and are able and willing to pay and away from those employers who face marketplace surpluses and are not able or willing to pay. Additionally, resources are allocated by the pushing force of unmet human material need that forces resource-holders to accept change and wages below what they would prefer in order to find work that will help them meet that need.
The student is cautioned that for all of the success of capitalist systems, especially since the collapse of command economies of eastern and central Europe, capitalism has a central dysfunction in that it exposes everyone to the risk of unmet human material need. Literally no one is insulated from the creative destruction of the entrepreneur. Therefore, there is no lifetime economic security for any economic agent in a capitalist system. Further, the capitalist system forces us to deal with the following dilemma. The system depends on economic insecurity to help allocate resources but too much insecurity, as in the Great Depression, undermines the stability of the system.

**MICROECONOMICS**

*Money and Banking.*
Microeconomics begins with a discussion of money and banking since the banker is centrally important to the principal agent of economic change, the entrepreneur. In Topic 5 we examine what money is and what it does, what a private commercial bank looks like from the perspective of its profit and loss statement and its balance sheet, and the role of the Federal Reserve System. Here the emphasis is on the bank and banker, the entrepreneur and borrower, and not on the entire banking system. This emphasis allows us to underscore the importance of bank-created credit to the process of entrepreneurial change and thereby highlight the symbiotic relationship between the banker and the entrepreneur. As in Topic 3 where the entrepreneur is introduced, and in Topic 4 that introduces creative destruction and bank-created credit, the presentation in Topic 5 draws heavily on the contributions of Joseph Schumpeter.

We explain that a bank fails for the same general reason that any business fails: it no longer is able to meet its obligations to its creditors. However, bank failure has unique consequences due to its facilitating role in entrepreneurial change.

The importance of the central banking authority is punctuated by our observation that by setting the discount rate, the federal funds rate, and the reserve requirement the Federal Reserve System exercises some control over the price of money and the supply of money.

*Private Creation of Credit.*
This topic on the private creation of credit flows naturally from Topic 5. Our objective in this topic is to illustrate how a private commercial bank in a partial-reserve system makes loans not from accumulated savings but on the basis of its excess reserves and how that capability makes the bank vulnerable to failure. The demonstration is by and large mainstream economics and covers the usual topics: partial-reserve banking, prime rate, promissory note, collateral, loan making, nonperforming loans, and deposit insurance.

The financial *meltdown* of the 1980s brought on by freewheeling thrift institutions that were not properly regulated is addressed to drive home the lesson of the banking system’s vulnerability under partial-reserve banking. This system is contrasted to a 100-percent reserve banking system both in terms of basic operations and risk-taking. The student learns that the best protection against future meltdown is not deposit insurance or the regulatory powers of the Federal Reserve System. Rather the system is best protected by honest and competent senior banking officials.
Who/What Determines Price?

In Topic 7 we explain how a market system automatically and routinely eliminates shortages and surpluses and thereby arrives at a market price. However, the student is urged to think about price determination in human terms by starting with the question ‘Who determines price?’ rather than ‘What determines price?’.

The presentation begins routinely with the principle of supply and the principle of demand and Marshall’s scissors diagram. We use happy hour as a way to indicate that even bartenders know the principle of demand and to set up an example we use in Topic 8 to demonstrate the principle of diminishing marginal utility. We encourage the student to substitute point of agreement for point of equilibrium because the market that is represented by the scissors diagram is a way of speaking about the interaction between human beings who are either buyers or sellers. In everyday terms, no buyer and seller are ever in equilibrium/disequilibrium -- words that are appropriate to describe physical objects. Rather buyer and seller are in agreement/disagreement because those words are proper to characterize a human interaction. The student is advised as to the meaning of market clearing and is cautioned that some markets such as labor markets do not clear as quickly as others such as financial markets.

The exposition on a change in price due to a shift in the supply curve or demand curve is straightforward. Similarly, there is nothing unconventional about the treatment of price controls other than to emphasize that a price ceiling is an attempt to deal with a price that for consumers is unaffordable and a price floor is an effort to remedy a price that for producers is unprofitable. In both instances, unmet human physical need gives rise to government intervention in the market. The key to this presentation is that price controls do not resolve the underlying problem. Rather they simply transform the problem from a price that is unaffordable to a shortage that must be rationed and a price that is unprofitable to a surplus that the government must purchase. Nevertheless, addressing the problem of the unaffordable price opens the door to discussing the difference between a good or service that is needed as opposed to wanted and the invisible hand of mainstream economics.

Finally, we demonstrate that resource allocation is driven by two forces: the pulling force of higher prices offered by producers facing marketplace shortages and production bottlenecks in order to attract the additional resources to address those problems and the pushing force of the unmet human material need of workers and resource-holders who no longer are needed by producers facing marketplace surpluses.

Consumer Behavior.

Topic 8 demonstrates that consumer behavior is characterized by both want satisfaction and need fulfillment and that poverty is a central factor in consumer behavior, which raises the question ‘What to do for the poor?’. In this regard, two principles are essential: diminishing marginal utility and subsidiarity. We argue that embedded in the principle of diminishing marginal utility is the concept of the limit that originates in human materiality. When the unit of analysis is the person, it is clear
that the body itself imposes limits on consumption. Indeed, in the consumption of alcohol beverages, a common expression is *I know my limit*.

There are two specific limits in the principle of diminishing marginal utility: maximum additional utility (Limit I) and maximum total utility (Limit II). Limit I refers to the unit of consumption beyond which each additional unit brings smaller and smaller increases to total utility. Limit II refers to the unit of consumption beyond which it is irrational to continue consuming because each additional unit leads to an actual decrease in total utility. *Pigging out* is another common expression indicating that the person has some regret for going beyond Limit II because consuming beyond that point is harmful. Peer pressure and compulsive buying are two factors that help explain why some consumers irrationally go beyond Limit II. Then we draw the connection between the principle of diminishing marginal utility and the principle of demand.

Consumer behavior is further unpacked in terms of human individuality and human sociality. Human individuality, which is the basis of *homo economicus*, is addressed in terms of human traits such as self-centeredness and autonomy, and human behavior such as acquisitiveness and utility maximization. Human sociality, which along with human individuality forms the basis of the *person in action*, is addressed in like fashion. As for human traits, human sociality makes for a person who is also other-centered and dependent, for instance, and whose behavior can be described as gift-giving and utility-satisficing. The rationally-directed decision-making of *homo economicus* is not dismissed. Rather it is combined with the emotionally-grounded decision-making of the *person in action*.

The social question ‘What to do for the poor?’ then is addressed as a problem in under-consumption. Using the official definition of poverty, the student is informed that roughly 13 percent of the U.S. population is needy. Then the needy are classified as either responsible in the sense that they use their own resources appropriately or irresponsible in that they do not use their resources appropriately. At that point, the problem becomes how to make aid available in a way that it helps the responsible but not the irresponsible. By locating assistance as close to the needy as possible, the principle of subsidiarity helps to identify those who are truly needy, thereby reducing the abuse of persons who falsely claim to be needy and responsible. Also it affords the truly needy better opportunities to express their concerns and needs to the persons in charge of programs of aid, thereby cutting down on the abuse of program administrators who demean and humiliate the truly needy. One other benefit of locating the program as close to the needy as possible -- that is decentralizing program administration -- is that it allows more experimentation with various programs of aid that then can be evaluated in order to determine which programs work best.

*Starting and Controlling Private Business Organizations.*

Topic 9 address first how a private business organization is established and operates either on the basis of owning or working, and then contrasts and compares control of decision-making in the economic order and the political order. Understanding the market economy from the perspective of the private business enterprise is crucial because in a market economy most of the production of
goods and services and therefore its ability to provision human material need depend on private enterprise.

As already stated, there are two foundations upon which a firm in a market system can be established and operated: owning which gives rise to a property right and working which gives rise to a personal right. In Topic 9 we demonstrate that owning and working are related to human material need, specifically physical need and the need for work as such.

This topic then takes up the four ways of establishing a private business in the eyes of the law: sole proprietorship, partnership, corporation, or cooperative. The first three emphasize owning the assets, the fourth emphasizes working at the firm. Further, this topic describes and characterizes the two main types of corporations – public and private -- and the four principal forms of cooperatives - consumer, producer, purchasing/shared services, and worker.

Control of the business, the student learns in this topic, means control of decisions regarding such issues as the good and services to be produced, the wages to be paid to employees, the prices to be charged for the goods and services produced. Legal control is not the same as actual control. Actual control may be exercised by persons and parties other than the owners, such as employees who are not shareholders along with other business enterprises. Employees may gain control through co-determination, gain-sharing, and such participatory-management practices as quality circles, town-hall meetings, and cost-containment. Co-determination involves granting employees direct representation on the board of directors.

Also covered in this topic is the control exercised by managers of investment funds, take-over specialists, and customers, especially huge customers. Topic 9 states that defining control in legal terms and restricting it to the firm’s owners/shareholders is based on a view of human nature that is individualistic. Extending control to include others such as managers, workers, suppliers, and customers is based on the view of human nature that is personalistic. It follow that how one views human nature determines how widely control is shared. Conceivably control of private enterprise will be shared more widely just as the right to vote in the United States has been made more inclusive over the years.

**Worker and Producer Behavior.**

In this topic, the objective is to define the principle of diminishing returns and to link that principle to the cost of production. As with the role of the principle of diminishing marginal utility in consumer behavior, we use limit to present the role of the principle of diminishing returns in producer behavior. Here, too, there are two specific limits: maximum returns (Limit III) and maximum output or capacity (Limit IV).

Both limits are tied to human materiality. Fatigue, boredom, and a loss of concentration set in at Limit III that accounts for the smaller and smaller increments to total output with each additional unit of input. Recognizing these developments, employers typically offer their workers short breaks during the workday and a longer break for lunch to recoup some of their energy. In like fashion,
employers commonly follow a preventive maintenance schedule with their capital equipment, shutting it down at noncritical times for inspection and repair in order to reduce the chances of it breaking down unpredictably at critical times. In that sense, machines are like human beings (not the other way around notwithstanding suggestions to the contrary by some in economics).

Even so, there is a limit (capacity) to the amount of work the human body can endure without a total and substantial break. And ultimately, equipment breaks down and has to be overhauled or replaced. Once this limit is reached, each additional unit of input makes for a loss of production because beyond Limit IV the wear and tear on workers and equipment lead to a greater probability of defective work and injuries. This emphasis on the significance of human fatigue and equipment breakdown is presented to the student in personal terms. That is, one day many of them will be workplace supervisors who need to learn and respect the limits of the workers and equipment assigned to them.

The production function is offered to the student in unconventional form by plotting input on the vertical axis and output on the horizontal axis so that the student can visualize better the linkage between the production function and marginal cost because, for both, output is plotted on the horizontal axis. Improvements in the utilization of labor and natural resources are explained to the student in terms of a production function that shifts to the right. The possibilities for such improvements are couched in terms of the pervasive waste of labor and material resources that characterizes virtually every workplace.

Then we proceed to connect this side of producer behavior to the cost of production. In presenting average fixed cost, we emphasize that the point at which that cost begins to increase because Limit IV (capacity) has been reached signals more defective work and worker injuries. In addressing unit cost, we point out that minimum average total cost is a limit (Limit V) in the sense that the employer cannot survive financially if the market price falls below this limit. Marginal cost is derived for the student and its role in profit maximization is spelled out. Then the connection between minimum marginal cost (Limit VI) and maximum returns (Limit III) is presented in a way that drives home the point that by connecting the two we are really saying that profits are determined importantly by the production function and that wasted labor resources and material resources serve to reduce profits.

**Perfect Competition.**

In Topic 11, the objective is to show why perfect competition is regarded as a standard of excellence. In brief, mainstream economics idealizes perfect competition because it maximizes efficiency, thereby allowing producers to lower prices. But mainstream economics overlooks the fact that the unrelenting drive to reduce the cost of production in order to compete successfully as the low-price producer leads to greater insecurity among workers, suppliers, and even the owners themselves.

There are two major demonstrations in this topic: (1) how perfectly competitive markets operate in the short run and in the long run; (2) why profit maximization occurs at the output level where marginal revenue = marginal cost. Both are handled according to straightforward, mainstream economic thinking. The profit-maximization lesson is one of the most difficult ones in the e-text.
The student quite often associates profit-maximization with capacity or with maximum efficiency even after we have painstakingly taken him/her step by step through the proof for the principle of profit maximization.

At times, we add that the long-run condition of price = minimum unit cost means that the producer is selling the product to the consumer at cost and therefore perfect competition helps serve the principle of equivalence that requires that buyer and seller exchange things of equal value. We also demonstrate why the firm=s marginal cost curve is its supply curve. From the very beginning of our presentation on perfect competition, we warn the student about the mainstream-economics bias in calling this type of market structure perfect competition.

**Demand, Marginal Revenue, and Market Structure.**

Topic 12 presents four visual demonstrations to help the student come to terms with the relationship between demand and marginal revenue in a market structure of imperfect competition versus perfect competition. Marginal revenue is one-half of the information needed for a firm to reach a decision regarding the output/price combination that results in profit maximization. The other half is marginal cost.

The first demonstration shows the connection between the demand curve and the marginal revenue curve, between price and marginal revenue, under conditions of imperfect competition. The second demonstration shows the same connections under conditions of perfect competition wherein price ≡ marginal revenue. The third demonstration shows the same connections under conditions of imperfect competition in a way that differs from the first demonstration. This demonstration is intended to drive home the point that in an imperfectly competitive price > marginal revenue. The fourth and last demonstration shows the relationship between elasticity of demand and marginal revenue.

Upon completion of Topic 12 the student is expected to understand why the typical firm operating in a perfectly competitive market can sell as much or as little of its output as it chooses without influencing the market price, and therefore every additional unit of output produced and sold adds an amount to its total revenue that exactly equals the market price.

Additionally, the student is expected to grasp the concept that the typical firm operating in an imperfectly competitive market can sell one more unit of its output only by lowering its price. In other words, this type of firm must accept the discipline imposed by the principle of demand: the lower the price, the greater the quantity demanded. Further, it must lower the price for every unit it sells not just the additional unit sold.

Finally, on completing this topic the student should be able to explain why any firm that faces a perfectly elastic demand curve has no control over its price – its price is completely determined by conditions in its market – and why any firm facing a perfectly inelastic demand curve has total control over its price.
**Monopoly.**

Topic 13 sets out to explain why in general a monopoly firm is less efficient in transforming resources into goods and services and more likely to generate excess profits than a firm operating in a perfectly competitive environment, and to call attention to the special case of the natural monopoly. Three visual demonstrations are used to enhance the student’s understanding of those concepts.

The single most important characteristic of any firm operating in a monopolistic market structure is its control over price which is attributable to the fact that its product or service is heterogeneous rather than homogenous. The first demonstration presents the case of the monopoly firm operating in the short run contrasted with the long run. In both instances the monopolistic firm generates excess profits, that is profits beyond what are necessary to the continuing operation of the firm.

Topic 13 underscores the dual indictment of the monopoly in mainstream economics thinking: it operates inefficiently and inflates price. This indictment is framed and presented to the student in terms of the second demonstration which graphically compares and contrasts the monopolistic firm and the more efficient perfectly competitive firm.

The third and final demonstration in this topic compares and contrasts the natural monopoly and perfect competition. The natural monopoly, the student learns, is an exception to the general rule that the perfectly competitive firm is more efficient than the monopoly firm. This exception derives from the fact that the natural monopoly has a huge advantage in terms of its average cost of production compared to the unit cost of the firm in a perfectly competitive market. This advantage allows the natural monopoly to waste resources in the production process, to sell at a price that is lower than the price of the firm functioning in a perfectly competitive market, and at the same time generate excess profits.

**Monopolistic Competition and Oligopoly.**

Topic 14 examines the performance of the typical firm operating in a market characterized by monopolistic competition and another firm operating under oligopolistic market conditions. The student learns why in both instances the firm has some control over its price.

Our exposition of monopolistic competition reduces to two cases: low-entry barriers and high-entry barriers. It is presented to the student in the first of three demonstrations in which the student’s attention is drawn to this anomaly: any firm operating under conditions of monopolistic competition is forced to operate inefficiently in order to maximize its profits. This anomaly applies in both the short run and the long run, though in the long run the typical firm is similar to the perfectly competitive firm in that both face competitors who drive the price down to the point where there are no excess profits.

An oligopolistic market structure is one in which there is a small number of sellers all of whom have some control over the market price but one firm claims a large share of the market. This special market structure is distinguished by mutual interdependence and at times by collusion and is presented in terms of two demonstrations.
The kinked demand curve which is derived in the first of these two demonstration helps the student understand the meaning of mutual interdependence. Oligopoly is a unique market structure in that the typical firm cannot use its demand curve to determine what its sales would be with a given price because its competition will react to any change in its price and that reaction in turn will prompt the typical firm to react and so on in a type of chain reaction. Even so, the student will see that it is possible under certain assumptions to derive a workable demand curve.

What is unusual about oligopoly, the student learns in the third demonstration, is that the market often is characterized by price rigidity which means that under certain conditions a change in the cost of production is not reflected in a change in price. Topic 14 ends with the observation that at times the mutual interdependence of the oligopoly market structure leads to a condition known as price leadership where one firm takes command of the pricing decision and the others follow suit.

RE-CONSTRUCTING MICROECONOMICS

*Profit Maximization and the Subjective Dimension of Work.*

Topic 15 explores the role of uprightness and wickedness in business affairs along with profit maximization as governing principles in the typical business enterprise. Our intent is to demonstrate that a firm can operate in an upright manner and earn profits at the same time. Indeed, in the long run, it cannot operate in an upright manner in the absence of profits. Such a firm understands that operating in that manner means that it must restrict itself to the gains that are justifiably its own. Included in its net worth is the asset goodwill that originates in respecting and accepting the gains that rightfully belong to those with whom it engages in everyday affairs.

A firm can choose to operate in a wicked manner and also earn profits. In the long run, however, by not respecting the gains that belong to others, by seizing those gains for its own, the firm engages in practices that are self-destructive because in the end when they are publicly exposed it is illwill not goodwill that attends those practices. Sufficient illwill can destroy the firm by reducing its net worth to zero wiping out the holdings of its owners and leading to its total collapse.

To replace profit maximization as the objective of the firm, personalist economics offers the maximization of personalist capital. To explain, a person who acts in an upright manner in business affairs -- is diligent, trustworthy, fair-minded, honest, hardworking -- develops personalist capital, adding to that person’s value as an economic agent.

Further, the company becomes an upright firm when the persons working there act accordingly. And because persons who act in an upright manner are more effective as economic agents, the firm is more effective, including more profitable though profitability cannot be guaranteed for all times and places. Thus, *the firm ought to maximize personalist capital and thereby will become more effective as a profit-making enterprise.* The key to operationalizing itself as an upright firm is in selecting, training, nurturing, motivating, and retaining employees who conduct themselves in an upright manner, who are better persons and more effective employees because they put virtue into action.
Personalist capital does not replace the role of self-interest in economic affairs. Self-interest, however, is neither a virtue nor a vice and therefore does not contribute to or take from personalist capital. Generosity on the other hand contributes to personalist capital and greed takes away.

Virtue and vice, as in the case of generosity and greed, are not polar opposites. Rather, virtue is grounded in the truth about the good discovered through the human intellect whereas with vice the truth has been lost or is missing due to a poorly informed or twisted intellect that misrepresents the good. In other words, with virtue the good is present. With vice, it is absent.

To be consistent with John Paul II’s assertion of the primacy of the subjective dimension of work, of “being more” versus “having more,” it is necessary to reject profit maximization as the primary purpose of the firm. In its place this topic proposes that the firm’s foremost objective is the maximization of personalist capital. Properly understood, profits are a necessary condition for the firm’s survival and when the firm complies with the demands of economic justice profits are a good. Personalist capital in effect incorporates the subjective dimension of work into microeconomic theory without dismissing the importance of profits or self-interest.

**Mainstream Economics, Schumpeter, and Market Structure.**
Topic 16 explains why instilling more competition, especially in product markets, has for more than 100 years been the official policy in the United States, why this policy has been re-invigorated over the past 30 years, and why a Schumpeterian economist does not fully embrace perfect competition as a standard of excellence. Topic 16 consists of two main parts.

The first part provides a summary comparison of perfect competition and four other market structures: monopoly, natural monopoly, monopolistic competition, and oligopoly in which perfect competition is presented as a standard of market perfection for public policy purposes because the perfectly competitive firm operates at its maximum efficiency, operates more efficiently than the other four with the exception of the natural monopoly, and generates no excess profits.

In the second part of this topic, we argue that whereas mainstream economics represents competition as centering entirely on price competition from a Schumpeterian perspective involves both price and innovation. In this part we recall for the student what we discussed in an earlier topic about entrepreneurship and most especially the introduction of new goods and services. We point out to the student that entrepreneurship means the homogeneity condition posited for perfect competition cannot be met and that virtually all market structures are imperfectly competitive. And because Americans value the new products and services that innovation brings they protect the property rights of entrepreneurs by awarding patents and copyrights. Failing that protection, only fools would be entrepreneurs because no sensible person would undertake the cost of new product development and the risk of bringing it to market knowing that others are free to simply copy the innovation and sell it as their own. Removing the protection, in other words, would kill innovation. Consequently, product
differentiation and imperfectly competitive markets will remain a permanent part of the capitalist economic order.

*The Industrial Commons and Other Workplace Regimes.*

Viewing the workplace as a collection of inert physical assets, which under private ownership are held for the purpose of maximizing the rate of return to the owners, is a perspective on the workplace that is most popular among mainstream economists. This view asserts that property rights are dominant.

Another view identifies the workplace as a collection of inert physical assets that, ownership notwithstanding, are under the control of the workers who by virtue of their labor are entitled to appropriate the whole product. This position argues that property rights are subordinate to personal rights. It has little following in economics.

Topic 17 views the workplace as a set of resources that, as with a natural-resource *commons*, yield more or less product (bounty) depending on how skillfully the organizing principles of competition and cooperation are blended. Here, the purpose is not to maximize profits but to meet human material need and to satisfy human wants. Just as sustainability is a necessary condition for a viable natural-resource commons, profitability is necessary in a functioning industrial commons. In this perspective, property rights and personal rights are subordinate to human material need and wants.

The need/want perspective allows us to factor into our microeconomics a more complete definition of human nature than one finds in conventional economics: clearly, want satisfaction and profit maximization are not the entire story. Further, it allows us insights into recent economic and financial phenomena that otherwise might not occur to us.

For example, systematic initiatives to raise productivity and to enhance quality by installing programs that make explicit use of the organizing principle of cooperation then may be seen as efforts to raise the bounty of the workplace and in so doing change it in the direction of an industrial commons. Leveraged buyouts and hostile takeovers may be seen as attempts to render the workplace into an open-access regime that too often lead in like fashion to the “tragedy of the commons.” Money managers with large institutional funds to invest and short time horizons may be seen in the same light as leveraged buyouts and hostile takeovers. “Taking a corporation private” then is an attempt to close the commons to external control that otherwise might strip the commons bare. Innovation in the industrial order is the equivalent of a new use for the natural-resource commons. Both put at risk the capacity of the commons to meet human material need and to satisfy human wants.

Mainstream economics glosses over unmet human material need as regards to how resources are (re-)allocated in a market economy. The conventional wisdom is that resources are (re-)allocated by means of price signals. A deeper probing of the (re-)allocation process reveals that it is unmet human material need in addition to relative prices that (re-)allocate economic resources. Thus the dilemma as to how to met human material need in a market economy.
The reconstruction of the modern workplace is better represented as an attempt to deal with the problem of unmet human material need in an environment that in practice is competitive more so than cooperative and preoccupied with self to the neglect of others. The key to changing the argument from one of property rights or personal rights to one of need is to see that rights derive from need and that rights are means to accomplishing the end of meeting human material need. As with the pre-industrial agricultural commons which was characterized by a “hierarchy of rights, one above another,” the modern workplace is a hierarchy of rights deriving from the need of various human beings who use the workplace to meet that need.

This reconstruction means a balance must be struck between competition and cooperation as organizing principles and between the social values of individual freedom and community that underpin competition and cooperation respectively. Too little cooperation and too much competition, expose the commons to the excess of the “free-rider,” robbing it of some of its bounty. Moreover, too much cooperation and too little competition dampen the creativity and entrepreneurship of the individual, robbing the firm of its edge in the marketplace. U.S. enterprises, it seems, are discovering that functioning in effect as an industrial commons is one way to remain operational in a global economy where order, stability, security, and tranquility are greatly esteemed but only intermittently attained.

*Humanness, Personhood, and the Acting Person.*

Fifty years ago, John Maurice Clark rejected the strict individuality of *homo economicus* as avowed by mainstream economics, affirming instead human duality in these words:

> Man has a dual nature, individual and social; and however much individuals differ in their relative emphasis on these two sides, none is a whole man in whom either side is completely repressed.

In Topic 18 it is argued that human beings are, as well, body and spirit, the one no less than the other. They are creatures whose very nature demands that they be free to act, at times rationally, at other times emotionally. They are therefore self-determining, and remain persons as long as they live. Crosby underscores the centrality of the human body to personhood.

> For we will think that, given the depth and intimacy of our embodiment, the only safe assumption is that a new human person begins to exist as soon as a new human body is formed, and continues in existence as long as the body is alive.

If we regard any human being as an object with only instrumental value, his/her personhood in a certain sense is denied. To illustrate, prostitutes are not thought of as persons because they have been reduced to sexual objects for commercial purposes. Even so, they still cling to their basic personhood because as long as they are living they can be freed by human intervention that convinces them that sex is a gift not a commodity.
Nothing in economics informs us as to the exact moment in the life cycle when humanness and personhood first are present or prepares us to sort through that pressing issue. Nor is there any compelling reason to belabor that issue if one is willing to accept humanness and personhood as givens and assert that every economic agent is a human person. We, however, are not prepared to rest our case on an assertion which mainstream economics, by valuing human beings strictly as economic instrumentalities, in effect rejects out of hand. Instead, we insist that even though economic agents have instrumental value they have more fundamentally an inherent dignity that makes them nearly divine.

If that sacred dignity is denied for one human being it can be denied for any human being, and with that denial basic human equality is rejected. With human equality set aside, personhood can be denied to anyone who does not measure up to whatever critical value sets the standard for acceptance as a person. In the end that means that personhood is defined by those who claim to be smart enough to set the standard so precisely as to include only those who truly are persons, excluding all others, and are powerful enough and willing to enforce that standard.

Putting the elemental issue of personhood and humanness in the form of a question yields the following. Should humans be regarded as persons by virtue of who, what, and whose they are, that is in accordance with their nature, or by virtue of the value others attach to them, that is in accordance with the judgment of others? A norm of personhood and humanness that is based on human nature is an objective norm. A norm that is based on the value attached by others is a subjective norm. This topic proposes that the proper norm of personhood and humanness is an objective norm.

Our argument that all economic agents are persons rests on two propositions. First, humanness and personhood are inseparably one. Second, becoming a person is not the same as being a person. As to the first proposition, humanness and personhood are one because they originate in a contingent being at the very first moment when that being is brought into existence through the sexual union of a fertile human male and a fertile human female or cloning. This is not to say that they are fully developed human persons when humanness and personhood first are present. Fullness comes later through the normal process of growth and development.

The second proposition is that becoming a person is not the same as being a person. Grisez and Shaw on the other hand understand personhood not as a problem of becoming a person but one of being a person and emphatically insist on the distinction. To appreciate their argument Topic 18 examines what they mean by the three levels of action and how each level is associated with a different type of freedom.

Mainstream economists have incorporated three forms of capital – physical, financial, and human – into their ways of thinking about economic affairs. Our examination of capital in Topic 19 proceeds from the perspective of the individuality and the sociality of the human beings who design, finance, build, introduce, use, and maintain capital and, with human capital, in whom it is embedded.
Physical capital resides in things, is built for a purpose, is purchased and owned by a producer who is free to retain it, sell it, adapt it to other uses, misuse it, neglect it, abandon it. Physical capital can do nothing for itself or by itself, is neither self-improving nor self-renewing. Physical capital is depleted in use and has value strictly in instrumental terms. Physical capital originates in human action, embodies human intelligence, and evolves as human knowledge and understanding advance.

Physical capital cannot materialize without financial capital, and in that sense the two are related as end and means. Unlike physical capital that must reside in things, financial capital is intangible and by definition does not reside in things. As with physical capital, financial capital originates in human action, evolves as human intelligence improves, and requires human direction. The two key economic agents in the fusion of science and technology on the one hand and financial capital on the other are the entrepreneur and the banker.

Financial capital is the command over the human and material resources needed in the construction of physical capital. As with physical capital, financial capital is identifiably either private or public in nature, and a reflection of human individuality or human sociality. In a capitalist economy, private financial capital derives from three sources: savings, the creation of credit by private commercial banks, and the issuance of stocks and bonds. Private financial capital may arise through the efforts of a single person launching a new business and thereby reflecting human individuality or in the case of a more mature enterprise through the efforts of a group of persons working together thereby demonstrating human sociality.

Human capital is unlike the other two forms in the sense that human capital resides in human beings. Human capital is like financial capital in the sense that both are intangible and both are self-renewing. Human capital is like physical capital in that it is potentiality waiting to be actualized. However, physical capital by definition is not self-actualizing. Human capital is.

Because humans are self-actualizing beings capable of self-improvement and self-destruction, human capital can be enhanced or destroyed. Human capital can be exchanged in the sense that the employer gains access to human capital through the employment contract. The extent of that access and utilization depends on the employer’s skill as a manager in converting potentiality into actuality.

Personalist capital refers to a human development process in which certain good habits or virtues are learned, practiced, and acquired and by which a human being 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 bad habits or vices by which a human being deteriorates as a human person. The virtuous person accumulates personalist capital in a way that parallels the accumulation of physical and human capital – by investing in good habits. The wicked person destroys personalist capital by investing in bad habits.

As with physical capital and human capital, there is a distinct return to personalist capital. In general, employers prefer the diligent worker to the lazy worker, and buyers favor the merchant who is always 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 resource prices including wages are determined along with hours of work and working conditions.

Personalist capital is not transferable in the same sense that physical capital is transferable. Physical capital is a thing that is entirely distinct and separate from its owner and therefore can be bought and sold. As with human capital, personalist capital is embedded in a human being, cannot be detached from that human being, and therefore cannot be bought or sold. There is nothing inappropriate in referring to acts of virtue or vice as contributing to the accumulation or loss of personalist capital just because this kind of capital is lacking in materiality. Materiality has nothing to do with personalist capital.

These two aspects of personalist capital – embedded in persons (the individual dimension) and residing in communities of persons (the social dimension) – approximate the relationship between physical capital and the public infrastructure in the sense that physical capital is owned by individual beings and the infrastructure belongs to the community. Put differently, there is no personalist capital in its social dimension and no public infrastructure when humans being act strictly as individual beings.

How Consumption, Work, and Leisure Change the Economic Agent.
Topic 20 addresses consumption, work, and leisure as represented by mainstream economics as compared to personalist economics.

Mainstream economics regards consumption as satisfying human wants and the prudent consumer as the one who maximizes the utility gotten from the available income. The concept of need is disregarded except when the issue of poverty is addressed and only when it is separated from consumer behavior. Whatever the consumer does with the goods and services purchased is strictly his/her own business because no one knows better than the consumer what will best satisfy his/her wants. For that reason, even when the food bought and consumed is virtually the same, there is no difference between having Thanksgiving dinner alone or spending it with family and friends. No consideration that being alone may mean loneliness and loneliness in turn can have a negative effect on the human spirit. This disregard for the human spirit derives from the premise of mainstream economics that the economic agent is an autonomous, utility-maximizing individual functioning mechanically as an embodied creature in a material, physical world where pleasure and pain are measured and compared in a decision-making process that is essentially passive. Anything relating to the human spirit is not economics even when it is tied closely to working or consuming.

Personalist economics holds fast to the view that consumers are beings with a body and a spirit --- an embodied spirit --- and that they meet the needs and satisfy the wants of the body and spirit through the goods and services they buy and consume in a decision-making process which is essentially active precisely because they are living, breathing, existential actualities, not utility-calculating machines. They truly are acting persons.
Personalist economics does not dismiss human need and separate poverty from consumer behavior. Rather, consumption not only satisfies human wants but also meets human needs. Since need is a normative concept, meeting need through consumption invariably involves value judgments as to what constitutes need. Thus consumer behavior is construed in a way that makes sense to the typical consumer who instinctively knows the difference between his/her own personal needs and wants and factors both into the decision-making process. Further, combining needs and wants links consumer behavior to poverty by raising the question as to what society should do for those persons and families without sufficient income to meet their material needs.

Personalist economics views work as having two effects on the working person. First, it provides income to purchase the goods and services which are needed or desired. Second, it provides opportunities to (a) associate with others in the workplace and develop a sense of belonging to a group with shared aims, and (b) to apply and enhance creative talents and energies. Mainstream economics regards the first but not the second as within the domain of the discipline because the first effect is objective in nature representing what the worker contributes to the production of goods and services whereas the second effect is subjective representing what the work itself does to the person of the one who works.

Mainstream economics sees leisure, which it defines as time spent not working, as outside the domain of economics. Personalist economics, on the other hand, sees leisure in terms of both the human body and human spirit and as crucial to personal development. A coffee break and a power-nap at work re-energize the body. A week in the mountains or at the seashore can infuse the human spirit with the beauty of the natural environment. In the end, leisure means setting aside time to care for the human body and spirit in ways other than the ones which are available through work and consumption.

Re-constructing Microeconomics: A Summation.
In summarizing this section on the re-construction of microeconomics, Topic21 focuses on what matters most: the different ways in which economic agency is represented by mainstream economics versus personalist economics.

Mainstream economics asserts that in the end the economic agent, homo economicus, maximizes utility and profit and the economy functions best when it reaches Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably consists in having more.

Personalist economics, in contrast, claims that most fundamentally the economy functions best when the economic agent, the acting person, maximizes personalist capital thereby enhancing him/herself as a human person and rendering him/herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the assertion that the good always inheres in being more.
MACROECONOMICS

Macroeconomic Circular Flows.
In Topic 22 the objective is to show how economic sectors are linked by markets that have one central function (to determine prices), how waste can be represented in the macroeconomic circular flow, and how to personalize the circular flow concept. This topic is the equivalent of the study of anatomy in medical school in the sense that it provides a view of the entire body of the economy. The next topic is the equivalent of the study of diagnosis in that economists are required to sort out what is at the root of any economic disorder before recommending intervention in economic affairs. The last four topics examine the various modes of treatment for macroeconomic economic dysfunction. In contrasting and comparing macroeconomics and microeconomics, we urge the student to view the former as providing a perspective of economic affairs through a wide-angle lens whereas the latter gives a view of the same affairs through a microscope.

The first part of this topic addresses the macroeconomic circular flow in four stages. In stage one, the student is presented a simple two-sector (household, business), two-market (product, resource) model of the economy. At this stage the student is encouraged to think of the circular flow as a macroeconomic view of markets analogous to the microeconomic view of markets afforded by the scissors diagram. Stage two, three, and four, add to the model the financial market, the government sector, and the international sector respectively. The final result is a four-sector, three-market model of economic affairs.

Bringing in the financial sector separately allows us to examine the role of savings versus privately-created credit in economic development. Introducing the government sector and the international sector separately facilitates a discussion of the difference between a budget surplus/deficit and a trade surplus/deficit.

Following up on the international sector, we address the topic of international trade in terms of strong dollar versus weak dollar, warning the student that these terms are loaded in the sense that a strong dollar is not better than a weak dollar, as the terms imply, but a strong dollar in general favors U.S. consumers and U.S. producers who import at the expense of U.S. producers and their worker who compete against imports. A weak dollar has the opposite effects.

The topic ends with a modified macroeconomic flow diagram in which human faces are put to the three domestic sectors of the traditional model: consumers and workers are substituted for household sector, entrepreneurs and producers replace business sector, and government sector becomes public officials. Banker helps bring a human face to the financial market.

Additionally, we incorporate the bads associated with natural and labor resources -- depletion, environmental contamination, and unemployment (but not substandard wages/hours/working conditions) -- by viewing them as flows that originate in decisions made by consumers, entrepreneurs, and public officials and that are dumped into pools or sinks where they remain until they are brought back into the production process by recycling, reprocessing, and re-employment. The exposition on economic bads in the context of the macroeconomy parallels our demonstration of
economic waste in the microeconomy as viewed through the production function and the cost of production. We have added to this part of the presentation carrying capacity as a limit to the amount of contamination originating in human economic activity that can be absorbed without harm to the human population and the rest of the natural world.

**Four Diagnostic Tools.**

In Topic 23 the objective is to present and critique four sets of tools useful in helping to determine what ails the macroeconomy. As in the field of medicine, diagnosis follows anatomy and is informed by it. The four tools are production, prices, labor supply, and poverty or unmet human material need. We point out that the first three tools were developed well before the fourth but only the fourth tool measures economic performance in terms of human well-being. The other three measure economic performance in terms of things.

National income accounting is presented in terms of the macroeconomic flow diagram in which the expenditure approach estimates economic performance by observing activity in the product market whereas the income approach estimates performance by observing activity in the resource market. Both approaches, we explain, provide *estimates* of economic performance in terms of the production of goods and services. The two are especially useful in the same way a second consult from a physician is instructive in matters related to a serious personal health problem. Our presentation of this tool addresses the phases of the business cycle and points out that for a mature economy such as the United States production on average increases by roughly three percent per year.

Information on prices is the second tool useful in diagnosing economic dysfunction. In this regard, we emphasize price index information as helpful in two ways. First, it provides insight as to the trend in the prices of goods and services purchased by consumers to meet their human physical need and to satisfy their wants. *Limit* is useful here as well. A lower limit of a three percent annual increase is relatively safe, but above that limit price increases become evermore dangerous and at ten percent they become alarming. Second, it allows us to convert current-dollar estimates from national income accounting into the more telling constant-dollar figures.

Employment and unemployment information from the *Current Population Survey* (CPS) is the third diagnostic tool useful in macroeconomics. This tool, we affirm, is especially helpful because unlike the estimates from national income accounting that are published quarterly, employment and unemployment information is published monthly, usually on the first Friday of the month following the reference month. Further, given the very large sample size, the standard error of the estimates is quite small. It follows that availability and accuracy make this tool especially valuable in diagnosing macroeconomic ills. In this regard, CPS estimates of employment and unemployment are used as proxies for national income accounting estimates of production during those months in which national income figures are not available. Thus the CPS interviews householders to estimate employment and unemployment not for the purpose of measuring changes in their economic well-being but to approximate what is happening in terms of the production of goods and services.
The commonplace view of unemployment as “the hole in the doughnut,” we explain, is misplaced because the doughnut is deliberately made with a hole in the center and would not be a doughnut without the hole. Rather, unemployment is to be seen as a hole in the pavement, as something that should not be there and is potentially quite harmful. Our review of this diagnostic tool concludes with a discussion of the eight effects of unemployment, four negative and four positive, and the rule-of-thumb that due to the freedom enjoyed by the worker to quit his/her job when it does not measure up an unemployment rate of three percent represents full-employment.

Data on poverty is the fourth and last diagnostic tool covered. This exposition delves into how poverty is officially defined in the United States and how the poor population is measured by means of information gathered through the March CPS. We describe the difference between the absolute standard of poverty that is employed in the United States and the relative standard that is much more common in Europe. The former defines and measures poverty in terms of human individuality and the latter defines and measures it in terms of human sociality. We urge the student to resolve the controversy over absolute versus relative in terms of a new standard that combines both and that would allow a three-part classification scheme -- the poor, the marginally poor, and the nonpoor -- which is more instructive in understanding poverty and in providing aid to those most in need. In contrast to the other three diagnostic tools, there is no rule-of-thumb with regard to the extent of poverty which is indicative of macroeconomic performance that is unacceptable.

The objectives in Topic 24 are twofold: (1) to elaborate on the classical school; and (2) to briefly review the structure of the safety net and to point to its origins in the collapse of the classical school.

According to the classical school, we argue, aggregate demand is the source of a dysfunctioning macroeconomy whether the specific problem is inflation or unemployment. The remedy begins with the premise that aggregate demand is a function of prices and asserts that, if the prices of goods and services and of natural, labor, and financial resources, are allowed to fluctuate freely, stability will be restored whenever inflation is the problem, and full-employment whenever unemployment is the problem. We call attention to the fact that this school collapsed during the Great Depression of the 1930s when clearly the automatic, self-correcting mechanisms of the market system were not capable of restoring full employment.

Topic 24 is brought to a close with an extended discussion of the safety net that originated in the New Deal of the 1930s, specifically in the Social Security Act of 1935. This exposition also follows the medical model that began with the macroeconomic circular flow as the equivalent of studying human anatomy. Whenever the physician has a critically ill patient and is unable to definitively diagnose the problem, he/she treats the symptoms of the problem in order to buy time to arrive at a definitive diagnosis. The safety net treats the symptoms of economic dysfunction brought home dramatically during the Great Depression and expressed by President Roosevelt in his second inaugural as “a nation one-third poorly fed, poorly clothed, poorly housed.” In other words, the safety net is designed to deal with unmet human material need directly that in the 1930s is traceable to unemployment, old age, and death of the primary wage earner.
Thus, the Social Security Act establishes programs of aid in the form of unemployment insurance, retirement insurance, and survivors insurance. Since then, major strands have been added to the safety net to address the problems of the medically indigent, the disabled, persons injured on the job, and abandoned children. While all of these programs have in common the addressing of human physical need, the two major differences between them that are underscored in Topic 18 are that social insurance programs operate on presumed need and establish property rights whereas social assistance programs operate on demonstrated need and establish legal rights.

We point out that the Welfare Reform Act of 1996 relocates control of many safety-net programs from the federal government to state governments in a way that is consistent with the principle of subsidiarity. Further, we call attention to the looming crisis in the Medicare trust fund and the longer-term problem with the Social Security retirement trust fund both of which operate on a pay-as-you-go basis and both of which without restructuring will not be able to pay the entitlement benefits promised in the original legislation.

The Keynesian Revolution.
The objective in Topic 25 is to demonstrate how and why Keynes argued for intervention to address macroeconomic dysfunction through the demand side of the product market. Following the felicitous terminology suggested by Wallace Peterson, we refer to the Keynesian model as a revolution because Keynes swept aside the classical model as hopelessly inadequate. We dwell on just four Keynesian ideas: (1) aggregate demand is a function of income not of prices as the classical school asserted; (2) the liquidity trap; (3) the multiplier; and (4) the role and significance of budget deficits at a time of insufficient aggregate demand.

All four are addressed in conventional fashion with the possible exception of the multiplier that we analogize as follows. Government intervention to stimulate aggregate demand has a multiple impact on the macroeconomy just as dropping a stone into a small pond generates multiple waves radiating from the point of impact. Stretching the fundamental analogy to medicine, we argue that Keynesian economics is equivalent to a silver bullet in medicine in that it proposes a simple, relatively painless remedy for macroeconomic dysfunction.

The student is instructed about the golden age of Keynesian economics in the early and mid-1960s when the Keynesian remedy for unemployment was tried for the first time with such success as to lead the followers of Keynes to declare that all economics is Keynesian economics and that the end of the business cycle was in sight once the proper fine-tuning mechanisms were put in place. The wheels came off the Keynesian revolution due in the main, we suggest, to several serious shocks to the economy originating outside the economy including the civil rights revolution, the sexual revolution, the Watergate constitutional crisis, and the tragic war in Vietnam.

The Monetarist Counter-Revolution.
The objectives in Topic 26 and the two that follow are to present how and why to intervene in macroeconomic dysfunction through the financial market, through the supply side of the product
market, and why some today insist that it is best not to intervene at all. Again borrowing Peterson’s terminology, all three are referred to as counter-revolutions because all three are reactions to the Keynesian revolution, and all three would more or less restore ideas from the classical model.

The monetarist counter-revolution, we explain, is a direct assault on the money-is-a-veil argument in which Keynesians dismissed the role of financial markets in economic affairs. This counter-revolution, championed by Nobel laureate Milton Friedman, argued aggressively that intervention based on Keynesian economics is at best a clumsy way to address macroeconomic dysfunction. Friedman instead resurrected the equation of exchange that had been swept aside in the Keynesian revolution and argued that the much more sensible way to intervene was through the supply of money that if rigidly controlled in terms of annual growth would do far better in addressing inflation and unemployment. The monetarist counter-revolution, we tell the student, replaced the Keynesian revolution in the late 1970s after more than ten years of unsatisfactory economic performance known as stagflation for which Keynesian economics had no clear remedy. The monetarist counter-revolution collapsed with the extraordinarily high interest rates and unemployment of the early 1980s. In fairness to the monetarists it can be argued that monetarism never truly was tried because the Federal Reserve System did not embrace Friedman’s monetary rule to increase the money supply by 3-5 percent every year, year in and year out.

The Neo-Classical Counter-Revolution.
In Topic 27 the neo-classical counter-revolution is described to the student as a much more comprehensive resurrection of classical ideas with two new ones added: continuous market clearing and rational expectations. Continuous market clearing means that government intervention in the market is unnecessary because markets routinely and quickly clear away any shortages that stir inflationary pressures and any surpluses that result in unemployment. Rational expectations means that government intervention is futile because economic agents are able to foresee what the government is about to do in the market system and routinely take whatever steps help them avoid the impact of the government intervention.

We tell the student that neo-classical economics has made major inroads in the discipline reinforced by a strong affirmation of the unfettered market in financial economics. We warn them that labor markets and resource markets do not function like financial markets where the transactions are of a different nature.

The Supply-Side Counter-Revolution.
Topic 28 presents supply-side economics, the third and last counter-revolution. Here what has been resurrected is Say’s law to bolster the argument that macroeconomic intervention should take place on the supply side of the product market. Supply-side economics became the heart of Reaganomics during the 1980s in spite of wide criticism on the part of professional economists who labeled it voodoo economics. We review with the student some of the policies implemented in the name of supply-side economics -- a cut in and an indexing of marginal tax rates, a rollback in the capital gains tax rates, a liberalization of depreciation allowances, and sweeping deregulation of businesses and industries previously under government control -- and call attention to the claim of supply-side
economists that the long economic expansion of the mid-to-late 1980s affirmed the soundness of their analysis and policies. At the same time, we point to the huge increase in the public debt during the 1980s as being attributed to supply-side economics by its critics.

Macroeconomic Policy.
Topic 29 opens with a discussion of the four major schools of economic thought -- Keynesian, monetarist, supply-side and neo-classical -- that shape and form macroeconomic policy today. Because there is such sharp disagreement among macroeconomists today, we cover the salient differences between these four models in the context of the macroeconomic circular flow.

The classical model calls for a small interventionist role for the government sector because the economy has its own automatic recuperative powers located in the product and resource markets and in the financial market. The other three models are alike in that all three advocate a much wider interventionist or regulatory role for the government sector. The Keynesian model and the supply-side model are alike in that they both call for intervention through the product market: the one on the demand side, the other on the supply side. The monetarist model, on the other hand, calls for macroeconomic regulation through the supply side of the financial market.

Most of our effort in this topic is directed toward the one foundation for macroeconomic policy that is widely if not universally affirmed by professional economics: productivity improvement and its role in improving human economic well-being. We begin with an examination of productivity improvement in a hypothetical ballpoint pen factory contrasting zero-sum (no productivity improvement), positive-sum (some productivity improvement), and negative-sum (productivity degeneration) situations. Step by step the student is shown that productivity improvement makes possible higher wages, higher profits, and lower prices, that no improvement means that one of the three parties is able to achieve some gain only at the expense of one or both of the other parties, and that a decline in productivity has negative effects on the economic circumstances of the parties involved.

Then, we display index-number information on productivity, prices, and labor compensation (current and constant-dollar) covering the entire U.S. private-sector economy for the years 1991-1999 which witnessed the longest expansion in economic history. We deliberately focus our attention on that period to see how the gains from an unprecedented economic expansion were distributed across the economy. While the conventional wisdom in economics asserts that wage increases are tied to improvements in productivity, the data for this period indicate that real compensation per labor hour did not increase nearly as much as output per labor hour. We discuss briefly the other sectors of the economy that shared in these gains.

RE-CONSTRUCTING MACROECONOMICS

Subsidiarity and the Proper Role of Government in Economic Affairs.
Topic 30 extends the principle of subsidiarity in defining the proper role of government in economic affairs. Our comments in this topic are selective rather than comprehensive.
The student learns that the principle of subsidiarity applies to all five economic processes: production, distribution, exchange, investment, and consumption. As to the first three, subsidiarity addresses two questions. When should a business enterprise be privately owned and controlled and when should it be publicly owned and controlled? When should intervention to limit competition and cooperation that is running out of control be undertaken by a private organization and when more appropriately should a public agency intervene?

As to the investment process, the student is reminded that the entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change through that process. It follows that whenever the entrepreneur is successful, given a strong preference for private enterprise reflected in the principle of subsidiarity, the need for public-sector intervention and the scope of public enterprise likely are reduced. Regarding the consumption process and given the extent of poverty in the United States, it is necessary to differentiate (1) those poor persons who use their resources responsibly and still do not have enough to meet their needs from (2) others who use their resources irresponsibly. The attention of the student is drawn to the special case of the firm that sells to the poor and its duty under the principle of subsidiarity.

The discussion moves on to address: (1) subsidiarity, subsidy, and need; (2) subsidiarity and outsourcing; (3) subsidiarity and cooperating business firms, and with specific examples both inter-firm partnerships and supra-firm alliances. Topic 24 teaches that positive-sum cooperation at both the supra-firm level and the inter-firm level is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. In the United States, inter-firm and supra-firm cooperation evoke the usual resistance that all entrepreneurs encounter. The successful entrepreneur understands at least intuitively that cooperation is not a substitute for competition and that cooperation is not possible without striking a new balance between the sociality of human beings and their individuality.

**Financial Meltdown 2008.**
September 2008 brought to a head a financial crisis in the United States that quickly locked up financial markets and by shutting down vital sources of credit threatened to spread to product and resource markets and in turn to the entire global economy. Many commentators considered it the worst crisis since the Great Depression.

The meltdown was a long time in the making, having originated with defaults in sub-prime, adjustable-rate mortgages and spreading to giant investment banks in the United States and financial institutions elsewhere that had purchased huge bundles of mortgage-back securities on the promise of a return on their investment that would boost their bottom line. The crisis was further exacerbated by the development of credit default swaps that were intended to provide investors with insurance for any losses deriving from borrowers unable to meet their obligations.

Federal government intervention came swiftly though clumsily as it searched for the right remedies. It settled on bailing out financial institutions considered too big to fail. A vocal minority urged the government to let the markets deal with the problem by eliminating failed institutions. Their pleas
were swept aside as too risky.

Topic 31 addresses the financial meltdown of 2008 in terms of the following eight questions.

- What went wrong?
- Who’s responsible?
- What caused the meltdown?
- Are the assets toxic or the management?
- Why are banks still failing?
- How did AIG get tangled up in this mess?
- Are the economic fundamentals strong?
- How to deal with the public debt?

Examining the meltdown will help us understand better how it happened and how best to deal with it when it happens again. And it will happen again because economic agents operating freely in a market economy make mistakes, at times very consequential mistakes.

**THE VIABILITY OF A PERSONALIST ECONOMY**

*Integral Human Development.*

In Topic 32 we argue that personalist economics follows Amartya Sen’s proposition that the task for economics is to enlarge everyone’s capabilities set and asserts uniquely that the economic agent, the *acting person*, adds to his/her capabilities set by acting virtuously in economic affairs and subtracts from that capabilities set by acting viciously. Acting virtuously contributes to personalist capital just as acting viciously diminishes it. Further, strengthening everyone’s capabilities set enhances integral human development just as weakening that set impairs development. Personalist economics not only adds an important human behavioral element -- personalist capital -- to Sen’s capabilities set but also links that improved set to integral human development and asserts that the ultimate purpose of the economy is maximizing integral human development that is achievable by maximizing that capabilities set.

Personalist economics centers attention on human beings as ends in themselves and not merely as the means that activate economic affairs as suggested by mainstream economic theory. Following Dempsey, personalist economists affirm 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.” Years later, quoting from Paul VI’s *Populorum Progressio*, Benedict XVI asserted the following on the linkage between 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.”
For our purposes as economists, human perfection relates to human perfection in economic affairs and refers to the maximization of integral human development through activity in economic affairs. In other words, the integral human development and human perfection of the *acting person*. Thus the following function:

\[ IHD = f(HC, SC, MWB, PerC) \]

where IHD is integral human development, HC is human capital, SC is social capital, MWB is material well-being, and PerC is personalist capital. *In Sen’s terminology, the independent variables in this function represent the capability set of personalist economics. For our purposes, maximizing IHD results in human perfection.*

Personalist capital is different than the other independent variables in the IHD function in the sense that personalist capital is *entirely* within the control of the *acting person*. The other three, for various reasons, are only partially within the control of the *acting person*, or not at all. Furthermore, only the *acting person* can build up personalist capital for him/herself by acting virtuously or tear it down by acting viciously. Personalist capital, in other words, is uniquely and intensely personal.

Human development is called “integral” to indicate that development encompasses the entire range of human materiality, spirituality, and personality. While human life’s material aspects are successfully treated by mainstream economics, personalist economics also studies his/her spiritual and moral characteristics.

In personalist economics the economic agent is an active, dynamic, creative, human person who is at once a social being and an individual being, who differentiates human material needs from wants, and who has a dignity above and beyond instrumental value. This anthropological conception radically contrasts with the conventional *homo economicus* as an atomized and fragmented individual. By linking integral human development to the capability set of human capital, social capital, material well-being, and personalist capital, personalist economics supports Sen’s capability approach and demonstrates the social, reflexive, and committed nature of the economic agent. Personalist economics also adopts Schumpeterian arguments in favor of the agent’s active, dynamic, and creative characteristics.

*Economic Freedom.*

In Topic 33, we are concerned with three questions. First, what are the ways in which decisions are made in economic affairs? Second, what role does economic freedom play in a market economy? Third, how important is economic freedom in a market economy?

The answer to the first question comes from Becker reinforced by Waters. The answer to the second is based on how a market system actually works. The answer to the third originates with John Paul II’s extended remarks on economic freedom particularly in *Centesimus Annus* and *Sollicitudo Rei Socialis*.
The conventional wisdom regarding decision-making in economic affairs is that there are only two ways: the individual acting alone and the state acting collectively. Efforts to identify a “third way,” which have occupied some Catholic social economists over the years, have been largely abandoned. We are convinced, however, that there is a third way as indicated most effectively by Becker more than 60 years ago.

Though it constrains economic freedom, the third way -- private group decision-making -- limits the need for the state to intervene in economic affairs thereby protecting the individual from an even greater loss of economic freedom.

We turn next to the question as to the role played by economic freedom in a market economy. The five economic processes of production, distribution, exchange, consumption, and investment are organized in a market economy by three principles: competition, cooperation, and intervention. The first two are activating principles supplying energy to economic affairs. The third organizing principle -- intervention -- operates in the limiting mode acting as a force to limit certain abuses that may attend vigorous competition and cooperation.

How important is freedom in a market economy? Economic freedom, according to John Paul, is the foundation of the modern business economy. Further he re-affirms the Church’s commitment to freedom as a necessary condition to assure the “transcendent dignity of the person.” Even so, he recognizes that freedom in economic affairs is not absolute. It is only one element of human freedom.

Those who study economic affairs need to recognize that besides capitalism and socialism there is a third way -- a personalist economy -- to organize economic affairs. Waters asserts that the logic of Catholic principles actually dictates a personalist system. And John Paul with others has supplied a modern philosophical foundation for a personalist economy -- personalism -- to replace the absolutist individualism of the capitalist system and the suffocating collectivism of socialist regimes.

A personalist economy represents a viable option to both capitalism and socialism because it is organized around private groups positioned between the individual person and the more powerful state, groups that emerge due to the inability of the individual person to adequately address specific economic problems. While economic freedom is the most important characteristic of a personalist economy, intermediary groups are its distinguishing characteristic.

The Eighteen Tenets of a Personalist Economy.
Topic 34 is the last topic in the e-text titled PRINCIPLES OF PERSONALIST ECONOMICS: A Critical Examination of Human Persons as Economic Agents. In it are presented the eighteen central tenets that constitute the core of a personalist economy. These central tenets, we insist, will endure though others very likely will emerge as we know more about how personalism shapes our understanding of economic affairs. Of these eighteen tenets the first, which focuses on the acting person as compared to the homo economicus of mainstream economics, is by far the most important
and likely will remain so. All economics, in other words, begins with the economic agent, the human being who engages in economic affairs in ways such as producing, consuming, saving, investing, and innovating. For the convenience of the reader, we have included the eighteen tenets in the AFTERWORD below.

**FINAL REMARKS**

There are several important lessons that we have learned over the years about teaching principles of economics from a personalist economics perspective. First, analogy is a powerful teaching tool that Marshall, for one, demonstrated dramatically with the scissors diagram. Improving as a teacher means finding analogies to help the beginning student grapple with difficult concepts such as diminishing marginal utility by first introducing him/her to a much simpler human situation with which they have some familiarity. Finding those analogies means that the teacher must stay in touch with the student whose life experiences are not the same as the teacher’s. It also means being open to the proposition that there is always a better way to teach even for teachers with many years’ experience.

Over the years, we have found it instructive to compare the economy to a twin-engine aircraft that is fueled by the credit created by private commercial banks, and is piloted by the entrepreneur who controls the aircraft in flight. Lift is provided by the engines of competition and cooperation. Private and public intervention to rein in excessive competition and collusive cooperation function like the control surfaces of the aircraft allowing the pilot to maintain control in flight. Culture relates to the economy the same way weather influences the aircraft. A culture of life and hope, that is affirmed most fundamentally when human beings are not totally self-absorbed and at least from time to time care about one another in economic affairs, enhances the performance of the economy just as the aircraft performs better in good weather. In contrast, a culture of death and despair, that in the extreme is reinforced by a pervasive attitude that death is the answer to social problems, slows down the performance of the economy just as the aircraft performs less effectively in bad weather.

Second, rhetoric and language shape and even tilt the student toward a particular conclusion that may not be warranted. Notice how the following terms are loaded with meaning: *perfect* competition versus *imperfect* competition; *strong* dollar versus *weak* dollar; *autonomy* versus *dependency*; *goods* versus *bads*. The student should be warned that at times the language and rhetoric used in economics and employed by commentators on economic affairs can be seriously misleading.

Third, and much related to the second lesson, is that too often abstractions or figures of speech are taken for the real thing. The *market* is not a wizard. It is simply a way of talking about the interaction between buyers and sellers. The *invisible hand* is a way of saying that the common good is served automatically when self-interest is served. Strictly speaking, *supply and demand* determine nothing. Rather it is producers and consumers who determine price by their interaction in the marketplace. In this regard, we have found it helpful to explain to the student that at times what we represent in the form of a diagram showing that, for instance, profit maximization occurs at the output level uniquely associated with the intersection of marginal cost and marginal revenue does not mean that persons in business actually draw marginal revenue and marginal cost curves. Rather, the curves depict our way
of representing a decision process that intuits the correct answer by the simple question ‘What will this do to my cost and my revenue?’.

Fourth, we need to be upfront about human material need, especially human physical need. Attempting to teach economics strictly in terms of wants satisfaction is a serious mistake. The safety net is based on the premise that we have an obligation to help the needy meet their unmet physical need. Poverty is a concept that is grounded in human physical need and cannot be defined in a way that disregards human physical need. Most of the world’s human population are poor, with physical needs that are severely unmet. Our economics must reflect those stark, everyday realities if it is to make any sense at all.

Fifth, Schumpeter is a rich source of support for personalist economics in that he underscores in particular the central roles played by two human agents in the economic affairs of a capitalist system: the entrepreneur and the banker. Also, he provides important insights in comparing the perfect-competition model and the imperfect-competition model. Further, to our mind, he lends support to the legitimacy of supply-side economics.

Sixth, limit is a useful pedagogical device because it has application in several areas such as the bank’s excess reserves limiting its ability to create credit, the producer’s capacity limiting his/her production process, the consumer’s human body limiting his/her consumption. Additionally, there is a limit, that many call carrying capacity, as to how much waste and contamination from human economic activity the human population and the rest of the natural world can absorb safely.

Seventh, humor can be used to reinforce the human perspective emphasized in personalist economics. For example, happy hour is proof that even the bartender understands the logic of the principle of demand. Laurel and Hardy’s humor can be visually represented by a production function diagrammed in the fourth quadrant. Pigging out is admitting that one has exceeded the limit on total consumption represented in the principle of diminishing marginal utility and deriving from one’s bodily nature. The importance of productivity improvement can be driven home by the experience of the Solidarity movement in Poland that brought down the communist regime in part by urging workers not to rebel in the streets but to “go to work and act dumb.” Humor can be effective in the teaching process because it based on some unexpected incongruity in human behavior.

Finally, the most important lesson we’ve learned is that our understanding of economics has improved by thinking of economic affairs more and more in terms of the duality of human nature. That is, person is a much more insightful concept than individual because person includes sociality and individuality whereas individual is strictly one-dimensional. Person has helped me understand better the difference between competition and cooperation, for example, and between microeconomics and macroeconomics. Person coupled with human material need has made me aware of the importance of work to human development in ways that are akin to restoring the sight of a person who is blind. It is for that reason that we call the economics that we do personalist economics and why the title of this chapter is the person behind the principles.
References


Peterson, Wallace C. “Macroeconomics: Where Are We?,” *Review of Social Economy*, Volume XLV, Number 1, April 1987, pp. 64-76.
AFTERWORD

Something very important was missing in **PERSONALIST ECONOMICS I**. Specifically, it was a compact statement summarizing the central tenets of personalist economics. This afterword provides such a statement.

The following eighteen central tenets constitute the core of a personalist economy. These central tenets, we insist, will endure though others very likely will emerge as we know more about how personalism shapes our understanding of economic affairs. Of these eighteen tenets, however, the first is by far the most important and likely will remain so.

1. **The human person is the basic unit of economic decision-making and economic analysis.**

Mainstream economics rests solidly on the premise of the individual as the basic unit of the economic decision-making who is governed by the law of nature and acts in a rational, self-interested manner. The common good is achieved by each economic agent pursuing his/her own self-interest by means of self-regulating impersonal forces of the market or simply the invisible hand.

Personalist economics sees as the basic unit of economic affairs the person who is both an individual being and a social being and at once both matter and spirit. At times, humans act according to the premises of mainstream economics. At other times they act in ways that are emotional, other-centered, and utility-satisficing. The common good is achieved by means of the visible hand of human beings acting collectively and, following the principle of subsidiarity, through private organizations before turning to government for help.

Whereas the individual of mainstream economics is a passive, automatic, and predictable utility-maximizing machine, the person of personalist economics is a living, breathing, existential actuality who actively engages in economic affairs and is best represented by Schumpeter’s entrepreneur.

The distinction between individual and person is directly traced to the advancement of human communication from the script stage of the classical economists to the electronic stage of contemporary economics that has profoundly changed human awareness of others and of self. Human beings are not the never-changing, predictable individuals of mainstream economics, no different today than they were in an age of drawn-out communication. They are the ever-changing, unpredictable persons of personalist economics who inevitably change as they interact with others in an age of instant communication.

2. **Human beings are sacred with rights originating in their very nature.** According to mainstream economics, human worth most fundamentally is determined contractually as for example in the wage contract. Voluntary exchange reinforced contractually is at the very core of a contemporary neo-classical economics which is returning to laissez-faire as the ideal economic order. Personalist economics insists instead that humans are sacred and therefore have a status in economic affairs wherein their inalienable rights are more fundamental than contracts. They are ends
in themselves and never to be seen merely as inputs to be valued instrumentally. Following John Paul II, human persons are made in the image and likeness of God and therefore are very nearly divine.

3. **Human beings are both want-satisfying and need-fulfilling.** In their effort to make economics value-free, mainstream economists argue that all consumer behavior is want-satisfying. They do this knowing that if they admit that consumer behavior is also need-fulfilling economics becomes value-laden because need is a normative concept that is defined differently by the persons who use it. For that reason in mainstream principles texts poverty, which by definition is a normative concept, is addressed separately from consumption as if the two were unrelated. Personalist economics recognizes that consumers are both need-fulfilling and want-satisfying because good economic analysis rests firmly on the foundation of what is real and true and not on what is convenient and contrived.

4. **Meeting the needs of the human body is an intermediate economic objective.** Mainstream economists construct economics around things and thus the efficient utilization of economic resources is the primary criterion by which the performance of an economic system is to be judged. In personalist economics human beings matter more than things and for that reason meeting the needs of the human body is only an intermediate criterion by which an economy is to be assessed. In this regard, personalist economics affirms the preferential option for the poor: those who are neediest are to be served first because even the lowliest among us are very nearly divine.

The ultimate objective of an economic system is human perfection, which in economic affairs is achieved by maximizing integral human development. Maximizing personalist capital, in turn, contributes to the maximization of integral human development.

Personalist economics perceives consumption, work, and leisure more broadly than does mainstream economics. Goods and services are consumed to meet not just the needs and wants of the human body but inevitably certain needs and wants of the human spirit. Work is for the dual the purpose of (1) earning the income necessary to acquire the needed and desired consumer goods and services, and (2) becoming more fully human by meeting the need to belong and the need to utilize and develop creative skills and talents. Leisure is not just what one does but what one is becoming, and as with work, leisure is seen in both a communal and an individualistic context.

In personalist economics, *having* matters less than *being*. The things one owns are less important than the person one is becoming. In the end, all three principal economic activities -- consumption, work, and leisure -- provide opportunities to acquire the virtues that contribute to personalist capital or the vices that diminish personalist capital, thereby helping the economic agent attain maximum integral human development.

5. **The acting person/person in action replaces homo economicus.** By effectively denying that humans are embedded in families, communities, neighborhoods, companies, civic organizations, and the like, mainstream economics has constructed a concept of the economic agent -- *homo
economicus -- that is a distortion of human nature. Personalist economics argues forcefully that humans are a union of individuality and sociality, sometimes in harmony, sometimes at odds, requiring a reconciliation of deeply personal conflicts such as between work and family, spending and saving. The person in action incorporates the sociality of human nature even at the expense of some determinateness in economic analysis because good science begins with the right constructs. Constructing economic agency around the acting person makes for a microeconomics based on human individuality and a macroeconomics based on human sociality and indicates the direction to be taken to finally create a unified body of economic theory.

6. **Economics is a value-laden discipline that struggles to sort out the uncertainty in economic affairs.** To mainstream economists, human reason unlocks the mysteries of the economic order that are expressed with certainty in determinate models, giving their economics the aura of an authentic positive science like physics. In personalist economics, the principle of certainty is not accepted carte blanche. Some indeterminateness is inevitable because human beings are not entirely knowable and their behavior is not completely predictable. Further, human beings alone are moral agents because humans alone have the intelligence and free will to make ethical choices. Economics therefore is a normative discipline, one that is value-laden as opposed to value-free. The challenge to the working economist in this regard is to know the difference between the facts discovered through systematic inquiry and the values that one attaches to those facts.

7. **Decision-making centers on markets and institutions.** In mainstream thinking, the economy is self-regulating wherein any intervention on the part of the government is regarded as a departure from the efficiency of the market system. Personalist economics accepts the market system subject to the constraint that at times it is necessary to intervene in the market through public regulatory bodies such as the Securities and Exchange Commission and the Federal Trade Commission or private organizations such as trade associations and unions in order to assure that the powerful do not devour the weak and the good of the community is not routinely sacrificed to the good of the members taken individually.

8. **Justice and Christian charity are necessary to check abuses that derive from excessive gain-seeking behavior.** In a market economy, transactions are driven by gain-seeking behavior. Without the prospect of some gain, an economic agent simply is not motivated to complete a transaction. However, at times agents are exploited, deceived, mistaken and consequently are deprived of the gain that is their due. The virtues of justice and Christian charity are twin bulwarks that help protect humans from the abuses that originate in the excessive gain-seeking behavior of others. The three principles of economic justice -- equivalence, distributive justice, and contributive justice -- specify the duties that apply to buyers and sellers in relating to one another, to superiors in relating to their subordinates, and to a person in relating to any group to which he/she belongs. These duties, if faithfully executed, protect human wellbeing by curbing the destructive human attraction to ill-gotten gains.

Christian charity goes beyond the passive Kantian imperative to not view humans as mere instrumentalities, requiring each follower of Christ to actively affirm every human being as a person.
Christian charity, along with justice, eliminates the ill-will, disorder, and ripping off that otherwise is common to a marketplace and workplace, replacing them with goodwill, solidarity, and authentic bargains. Christian charity alone among economic resources perishes and has no value when it is held. Rather, it comes alive and takes on value only when it is given away, and uniquely is never depleted by use. Neither of these virtues is included in the mainstream economics way of thinking.

9. **Social justice requires the individual to do all that is necessary for the common good.** Practicing social justice means practicing all three types of justice relevant to economic affairs: equivalence, distributive justice, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carrying out their everyday economic activities in common. It is unfortunate that some would reduce social justice to contributive justice alone.

10. **Three principles organize economic affairs: competition, cooperation, and intervention.** The first two activate economic affairs on the basis of two human dispositions. Competition is based on the human disposition to undertake certain activities alone for the reward to be gotten from completing those activities successfully. Cooperation derives from the human disposition to undertake certain tasks collectively because they cannot be done effectively by persons working alone or cannot be done at all by such effort. The decision to use competition organizes economic affairs around the Many (individuals). The decision to use cooperation organizes economic affairs on the basis of the One (group). Thus, competition manifests human individuality while cooperation expresses human sociality. Intervention operates in the limiting mode and often involves government action to curb certain destructive human activities energized by competition or cooperation. To protect human wellbeing, such intervention is to be grounded in the virtues of justice and Christian charity. Even when it self-evidently characterizes the relationship between producer and supplier, cooperation is largely ignored by mainstream economics as an organizing principle because it is taken *ipso facto* as collusive behavior.

11. **Three social values underlie the three organizing principles.** Each one of the three organizing principles rests on a different social value. In the absence of these values in society as a whole, the principles cannot be used effectively to organize economic affairs or used at all. Competition depends on the social value of individual freedom. If persons are not truly free to act they cannot compete. Cooperation rests on the social value of teamwork, community, solidarity. Without that value being widely shared across society, collective action cannot be undertaken. Intervention rests on the social value of equality in the sense that it is necessary for collective action to stop the powerful from subordinating and exploiting the weak. A *laissez-faire* economic order backed by neo-classical economics is based on the social value of freedom from government restraint better known as liberty. In personalist economics, freedom also means freedom *to* act as a responsible human person.

12. **Dynamic disequilibrium rather than static equilibrium is the order of the day.** Mainstream economics represents both microeconomic and macroeconomic affairs in terms of a static equilibrium of supply and demand wherein the self-regulating forces of markets bring the system into
balance by the systematic clearing away of any and all surpluses and shortages. This view of economic affairs has been characterized as mechanical. Personalist economics, on the other hand, represents economic affairs as organic wherein the economy is driven dynamically toward disequilibrium by innovational change -- creative destruction -- that depends critically on the support of credit-creating financial institutions. The difference is between the centripetal-like impersonal forces of the market bringing the system to rest and the centrifugal-like human energy of the entrepreneur initiating change and triggering unrest in the system.

Instructed by William Waters, personalist economics views economic development as based on creative destruction plus Schumpeter’s other insights regarding development: creative vision, funding, access to resources, dynamic competition, and resistance to entrepreneurial change. Waters adds two other factors: the natural working together of labor, management, and government, and the cooperation of workers, managers, and owners in the workplace. At the very heart of economic affairs and therefore economic development is the entrepreneur, that agent of change, the quintessential person in action.

13. **Some limits are present in economic affairs and others must be imposed because humans are materialized spirits.** Human materiality assures certain physical limits regarding consumption and work. The human body can consume only so much in one sitting so to speak, and can work continuously only for some fixed number of hours without rest. In like fashion, capital equipment cannot be run continuously without maintenance before it breaks down. Further, without other limits on what and how much we consume, on how long and how hard we work, and how much we allow for or indulge in re-vitalizing leisure activities, limits that reside quietly in the human spirit, our development as human persons is arrested or misdirected. The three principles of justice, along with the practical virtue of moderation, provide useful and effective limits on consumption, work, and leisure, and their faithful practice contributes powerfully to the realization of the full potential of every human being.

14. **No less than his Wealth of Nations, Adam Smith’s Moral Sentiments should inform our re-thinking of economic affairs.** Indeed, there are compelling reasons to include both masterpieces in a reconstruction of economics around person as the basic unit of economic analysis and personalism as its philosophical foundations, thereby making economics more relevant to contemporary economic affairs. *Moral Sentiments* and *Wealth of Nations* are complementary works that should be read and interpreted together to fully appreciate Smith’s enormous contribution to our ability to describe and understand contemporary economic affairs more accurately. Had he lived in the electronic age, Smith probably would have seen more clearly the complementarity in his own work, and would have shared that more profound vision with his followers.

15. **The evolutionary model is superior to the cyclic model.** As with other disciplines such as history that “repeats itself,” mainstream economics is constructed on a cyclic model that applies circular descriptions and explanations, such as the circular flow diagram and the business cycle, to economic events. In the cyclic model events are construed as identical and inevitable, and predictable, and legitimize the widespread use of econometrics in mainstream economic analysis.
Using cyclic reasoning, and given the data required to operationalize their econometric models, mainstream economists are comfortable in asserting that changes in economic affairs can be predicted. What they do not fully appreciate is that one other requirement must be firmly in place: *homo economicus* is an utterly rational, never-changing, and predictable human individual. Without this rationality and constancy about human individuals as economic agents, and the automaticity that is characteristic of market economies, the cyclic model disintegrates for lack of predictability.

One can employ the cyclic model only by carefully including certain fundamentals for example by imputing values for unobserved variables and excluding others by such means as *ceteris paribus*. Further there is no real model or analogue for cyclicity -- that is the identical and inevitable repetition of an event or two (much less at an infinite number of) points in time. Following Walter Ong, we are persuaded that there is no way to posit a never-changing *homo economicus* without essentially casting aside evolution -- the central corporate discovery of all mankind -- and without effectively cloning all economic agents from a single cell taken from a hyper-rational abstract human being. The essential determinant of economic affairs -- the economic agent -- is evolutionary in nature not cyclic. It follows that our economics should be re-constructed on the foundation of evolutionary rather than cyclic thinking.

16. **The acting person/person in action maximizes personalist capital -- the practical virtues of justice, courage, moderation, and prudence.** Mainstream economics regards *homo economicus* as subject to change in that the economic agent is capable of acquiring or losing the human capital which is embedded in the agent’s very nature. Further, mainstream economics acknowledges that at times *homo economicus* acts altruistically, in accordance with the needs and desires of others, and reconciles this behavior with the self-centeredness of *homo economicus* by labeling it “enlightened self-interest.” Even so, *homo economicus* essentially is never-changing because that simplifying proposition assures a predictability of behavior in economic affairs and a certainty regarding empirical findings that fit comfortably in the view of economics as a hard physical science.

The **acting person/person in action**, on the other hand, emphasizes personhood and personalism in place of the individuality and individualism of *homo economicus*. The **acting person** directs attention to the economic agent as one who is actively engaged in economic affairs rather than an individual who like a machine passively maximizes personal net advantage, to what the economic agent does rather than where the agent is situated, to how the economic agent conducts economic affairs either by embracing virtue and avoiding vice or by computing costs and benefits. The **person in action** connects economic agency to work, consumption, and leisure that change the economic agent who in acting virtuously or viciously accumulates or depletes personalist capital, and thereby is more effective and more highly valued as an agent or less effective and less highly valued. The **person in action** is ever-changing.

In total disregard for the wisdom of the ages regarding moderation and human development mainstream economics asserts that above all else *homo economicus* maximizes net personal advantage in terms of utility and profit and that the economy functions best when it achieves Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably consists
in *having* more. Without fear of compromising human development on the altar of that flawed proposition, personalist economics claims that most fundamentally economy functions best when the *acting person/person in action* maximizes personalist capital thereby enhancing him/her own integral human development and rendering him/herself 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.

17. **Personalist economics follows Nobel Laureate Amartya Sen’s argument that the task for economics is to enlarge everyone’s capabilities and asserts uniquely that the economic agent, the acting person, strengthens his/her capabilities set by acting virtuously in economic affairs and weakens that set by acting viciously.** Acting virtuously contributes to personalist capital just as acting viciously diminishes it. Further, strengthening everyone’s capabilities set enhances integral human development just as weakening that set impairs it. Personalist economics not only adds an important human behavioral element -- personalist capital -- to Sen’s capabilities set but also links that improved set to integral human development and asserts that the ultimate purpose of the economy is maximizing integral human development that is achievable by maximizing that capabilities set.

18. **A personalist economy is based on the market mechanism, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination of the world’s goods, the legitimacy of profit, and personalist capital.** A personalist economy represents a viable option to both capitalism and socialism because it is organized around private groups positioned between the individual person and the more powerful state, groups that emerge due to the inability of the individual person to adequately address specific economic problems. These private intermediary groups are the distinguishing characteristic of a personalist economy.

By using non-collusive cooperation to work out solutions to problems, intermediate groups that operate in a personalist economy offer promise for slowing the growth of big government thereby helping preserve the free exercise of economic initiative. The most important characteristic of these private groups is a separate administrative organization that subordinates the principle of competition to the principle of cooperation in a dynamic decision-making process that is positive-sum in that these groups seek to achieve gains for all of the parties involved whether they are directly represented in the organization or not. Arising from the social nature of human beings who are encountering the same day-to-day economic difficulties, these intermediate bodies are as diverse as the individual nature of those human members and the specific economic problems they hope to resolve.

The central tenets of personalist economics enumerated above, we insist, will endure though others very like will emerge as we know more about how personalism shapes our understanding of economic affairs.