

Adam Smith, Joseph Schumpeter, and Amartya Sen: Modern Precursors of Personalist Economics¹

by

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For personalist economics to be accepted and thrive it must first demonstrate that it is indeed economics. Solidarism and Catholic social economics failed on this account, and the teachings of John Paul II are routinely dismissed as “not economics.” We who espouse personalist economics must deal with these failures and begin anew. With different foundations. Ones that our orthodox colleagues cannot dismiss out of hand.

We do not intend here or anywhere else to discredit the contributions of Heinrich Pesch² and his solidarist followers. Quite to the contrary, their work instructs us as to what is defective in orthodox economics and how to remedy those defects. Even so, experience in America over the last 100 years tells us that notwithstanding their considerable merits solidarist economics and solidarism simply have not taken hold in economics. It is our hope that personalist economics and personalism do not share the same fate.

¹ Based importantly on a paper presented Catholic University in Milan on March 28, 2014.

² For more on the writings of this German Jesuit economist, see Pesch.

It is not enough to connect personalist economics to the ancient and medieval periods, to Aristotle and Aquinas.¹ Today's students of economics could care less about what they had to say about property, wealth, use value and exchange value, the practical virtues or justice, fortitude, moderation, and prudence, virtue and vice, generosity and benevolence. For sure this is an indictment of the typical economics program currently offered at universities across the United States but it is something that we cannot dismiss. Otherwise our words and arguments for personalist economics will fall on deaf ears.

There is, however, some confirmation for the direction taken in our work in the words of Nobel Laureate Joseph Stiglitz [p. 488] who asserted that “the economists’ traditional model of the individual is too narrow.” Sadly, Stiglitz does not point out that the underlying philosophy of individualism is too shallow nor does he offer a carefully articulated substitute for the individual or individualism.

I recommend, therefore, that personalist economics look for support from Adam Smith, Joseph Schumpeter, and Amartya Sen whose work cannot be dismissed as misguided, unimportant, or irrelevant. These three, along with the economic agent, represent the critical “who” of personalist economics. In other words, personalist economics is primarily focused on human beings and human behavior and not inanimate objects. For instance, sellers and buyers, not supply and demand; agreement, not equilibrium.

My purpose in the following is to identify and justify integral human development as the end to which human beings are directed by faith and reason and that economic activity is one means by which that end is achieved.

ADAM SMITH

Among orthodox economists it is commonplace to set aside Smith's *Moral Sentiments* and embrace his *Wealth of Nations* principally because they are comfortable with its emphasis on individualism. Heterodox economists, though not rejecting *Wealth of Nations*, are more favorably impressed with *Moral Sentiments* for its emphasis on the place of the virtues of generosity, benevolence, and sympathy in economic affairs. For personalist economics it is important to embrace both books, the one for underscoring the individuality of the economic agent, the other for highlighting that virtue matters in economic affairs.

¹ A colleague and I currently have a working paper in process on the contributions of Aristotle and Aquinas to personalist economics.

Following *Wealth of Nations*, the economic agent is an individual being, with a human awareness that is grounded in selfhood, who enjoys the freedom to engage in economic affairs that are organized around the principle of competition, who sees economic transactions in terms of the principle of equivalence with its emphasis on exchanging things of equal value, for whom virtue is expressed in terms of diligence, prudence, and self-reliance, and whose purpose is his/her own individual good.

Following *Moral Sentiments*, the economic agent is a social being, with an awareness that is grounded in others, who values community and for whom economic affairs are organized around the principle of cooperation, who sees justice in terms of the principle of contributive justice that underscores the duty to support and maintain community, for whom virtue is expressed in terms of sympathy, generosity, and benevolence, and whose purpose is the good of all.

There are compelling reasons to include both *Wealth of Nations* and *Moral Sentiments* in a reconstruction of economics around the *acting person* as the basic unit of economic analysis as a replacement for the flawed and out-of-date *homo economicus* and personalism rather than individualism as its philosophical foundations, thereby making economics more relevant to economic affairs in the 21st century. *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.

THE COMPLEMENTARITY OF ADAM SMITH’S TWO MASTERPIECES

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

Wealth of Nations examines the “I” in economic affairs while *Moral Sentiments* addresses the “thou.” Had he lived in the electronic age, which provides the means to communicate and interact with others much more quickly than by the written word, Smith probably would have seen more clearly the complementarity in his own work, and would have shared that more profound vision with his followers. He is a distant precursor of personalist economics from the modern period.

JOSEPH SCHUMPETER

Schumpeter is a more immediate precursor of personalist economics in the sense that (a) he openly rejected utilitarianism, economic liberalism, authoritarian statism, and democratic socialism, (b) explicitly discarded economic man especially because there is no room in that concept of economic agency for the entrepreneur who brings about change that demands an active economic agent not a passive one, and (c) embraced the promise of *Quadragesimo Anno* that is grounded in the “*action* of free men and ... the faith that inspires them.” [Schumpeter 1945, p. 405; emphasis added].

For those reasons, and given his encouragement of the development of a working model of an economic system that follows *Quadragesimo Anno* (see Waters 1961, pp. 136-137), Schumpeter saw the economic agent as the “efficient cause of endogenous economic change”¹ who today we prefer to call the *acting person*. The *acting person* matures as a human being through *acts* of goodness in economic affairs and slips backward through *acts* of wickedness.

Notice how Schumpeter in 1934 explains the longevity of economic man in conventional theory and argues that the entrepreneur does not fit that mold.

... entrepreneurs are a special type, and their behavior a special problem, the motive power of a great number of significant phenomena. Hence, our position may be characterized by three corresponding pairs of opposites. First, by the opposition of two real processes: the circular flow or the tendency towards equilibrium on the one hand, a change in the channels of economic routine or a spontaneous change in the economic data arising from within the system on the other. Secondly, by the opposition of two theoretical *apparatuses*: statics and dynamics. Thirdly, by the opposition of two types of conduct, which, following reality, we can picture as two

¹ Waters’ own words [1952, p. 143].

types of individuals: mere managers and entrepreneurs ... [Schumpeter (1934) 1949, pp. 82-83; emphasis in original].

Schumpeter has supplied a working if not a full description of the entrepreneur in which “active, spontaneous, and eager to initiate change” replace “passive, deliberate, and comfortable with the way things are.” Also he has offered ample reason to reject *homo economicus* entirely but not a full description of its replacement.

We agree with Schumpeter that “entrepreneurs are certainly not economic men in the theoretical sense.” [Schumpeter 1940, p. 408]. However, we do not accept his argument that there are “two types of individuals: merchants and entrepreneurs.” [Schumpeter (1934) 1949, p. 83]. There is only one type of economic agent who represents all kinds of economic activities including buying-selling-bartering, hiring-employing-producing, saving-investing-building, borrowing-lending-innovating. All of these activities are characteristic of the *acting person*, and the entrepreneur is the quintessential *acting person*.

AMARTYA SEN

Nobel Laureate Amartya Sen, the most immediate precursor of personalist economics, argues that freedom, not the utility maximization principle of mainstream economics, is the ultimate objective of the economy.

To Sen, freedom becomes an end of the economy, replacing the maximization of utility. To analyze social and economic effectiveness, it is better to use commitment to individual freedom than the utilitarian calculus of pleasure and pain as is done in mainstream economics. [Waters 1993, p. 274].

For Sen, freedom has two dimensions: positive and negative. Freedom understood in a positive sense refers to a person’s *capability* at any given moment to carry out some specific action. Positive freedom refers to the *potential for acting*, and suggests the possibility for personal development. Thus, greater positive freedom may enhance personal development. Diminished positive freedom may reduce it. Freedom in a negative sense refers to a person’s freedom to act without interference from something or someone else. It is the freedom to act that has been restricted but not the potential for acting. For Sen, the two dimensions are alike in that both can free up action that has potential for personal development.

We agree with Sen that maximizing utility is not the end of the economy. Waters and Danner concur.

[I]t is hard to get convincing evidence that men and women make decisions as described in conventional theory. [Waters 1988, p. 118].

Economic efficiency without *ultimate* purpose and meaning is nothing more than technique; moral principles with no relevance to productive efficiency are unrealistic. [Danner 1967, p. 233; emphasis added].

However, we disagree with him regarding positive freedom as a replacement for utility maximization for three fundamental reasons.

First, Sen's capability approach is a broadening of *homo economicus*, the atomistic, fragmented economic agent grounded in the individualism of the 17-18th century Enlightenment in which the value of that individual is determined instrumentally, and therefore varies from individual to individual. Specifically, although Sen expands the concept *homo economicus* to include sympathy (following Adam Smith), commitment, and identity, he does not reject that concept.

In personalist economics, instrumental value is replaced by the sacred, inviolate dignity of every human person, and therefore does not vary from one person to the next. There is, in other words, an unchanging, fundamental, God-given equality of all human beings that is missing in Sen's capability approach that he attempts to correct by expanding positive freedom, but falls short.

Second, nowhere in Sen's capability approach do we find any reference linking capability to the avoidance of vice, which is at the core of personalist capital that is included functionally as one of the determinants of integral human development.

Third, Sen's positive freedom refers to the *potential for acting*, and suggests the possibility for personal development. For us integral human development, on the other hand, refers to the *acting person* who by acting virtuously in economic affairs actually enhances personal development and by acting viciously diminishes personal development.

ULTIMATE GOAL OF ECONOMIC AFFAIRS

Sen comes closest to our understanding of the ultimate objective of human activity, but aside from Divine, Dempsey, and Danner, no one in economics to our knowledge has suggested that integral human development is the most important purpose of any economic system. We suggest that *maximizing* integral human development -- human perfection -- can be incorporated into economic theory through a function that presents human capital, social capital, personalist capital, and material well-being as the independent factors driving integral human development.

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

where IHD is integral human development and personalist capital (PerC) are paired with their logical counterparts in economics: human capital (HC), social capital (SC), and material well-being (MWB).

We have chosen this formulation to challenge our mainstream colleagues (a) to re-think human capital, social capital, and material well-being in terms of their effects not only on wages, productivity, unemployment, and the like but also on the integral development of human beings as persons, and (b) to see how at least theoretically integral human development is determined, allowing us thereby to advance the argument that maximizing integral human development is the ultimate objective of economic affairs.

Human development is *the* ultimate objective of human existence. Tragically, it has no place in contemporary mainstream economics. Much of this displacement traces to the universal acceptance by conventional economists of the utility maximization principle as the ultimate end of economic activity that originates with a narrow conceptualization of the economic agent as a utility-maximizing machine and *does not get seriously re-examined*. It is time in economics to admit that we should be applying the maximization principle not to utility but to integral human development wherein true human perfection resides.¹

Personalist economics follows 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

¹ Commenting on Christ's own words as reported in Matthew 5: 43-48, Barclay [p. 178] concludes "... the man who cares most for men is the most perfect man."

that set by acting viciously. 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 one's capabilities set.

A FINAL COMMENT

As economists with a strong interest in reconstructing economics around the *acting person* and the philosophy of personalism, replacing *homo economicus* and the philosophy of individualism, it is essential to resist the temptation to build personalist economics by tearing down orthodox economics. There is much in orthodox economics that is sound and wise and merits our respect and preservation. It is our responsibility to identify the parts to keep and the ones to discard. For my own efforts to construct a principles of personalist economics textbook, go to

<http://www.mayoresearch.org/files/P%20OF%20PERSONALIST%20ECONOMICS%20may%209%202014.pdf>

More to the point, we must resist the temptation to build a personal reputation in the economics profession by attacking those who hold other views even those who engage in personal attacks. We must not let ourselves think that we are engaged in a zero-sum enterprise. This is arrogant, hypocritical, and unbecoming personalist economics that in the end is constructed on the sacred dignity of *all* human beings.

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