

PROFIT MAXIMIZATION AND THE SUBJECTIVE DIMENSION OF WORK

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Abstract

To be consistent with John Paul II's assertion of the primacy of the subjective dimension of work -- of "being" versus "having,"-- it is necessary to reject profit maximization as the primary objective of the firm. In its place the author proposes instead that the firm's foremost objective is the maximization of personalist capital. Properly understood, profits are a necessary condition for the firm's survival but not its primary goal. The concept of personalist capital in effect incorporates the subjective dimension of work into microeconomic theory without dismissing the objective dimension entirely.

September 14, 2011 marked the thirtieth anniversary of John Paul II's encyclical *Laborem Exercens*. It was to have been released on May 13 but on that very day he was shot and nearly mortally wounded. His recuperation lasted several months and raised a question as to whether he changed the encyclical during his convalescence. Answering that question at a private lunch with friends in Castel Gandolfo in July 2000, John Paul replied "only a little."¹

In *Laborem Exercens* John Paul recognized that work has two dimensions, the objective and the subjective. The objective dimension refers to the goods and services produced by the person who by working "subdues the earth." The subjective dimension refers to the effect that work has on the worker who "performs various actions ... [that] independently of their objective content ... serve to realize his humanity, to fulfill the calling to be a person that is his by reason of his very humanity." John Paul insisted that the subjective dimension is more important than the objective dimension: "... the *primary basis of the value of work is man himself*, who is its subject."² This assertion is entirely consistent with his repeated affirmation regarding the primacy of "being" over "having."³

At the same time, John Paul called attention to the conflict between labor and capital in which "entrepreneurs, owners or holders of the means of production" who in "following the principle of maximum profit tried to establish the lowest possible wages" and the vastly larger number of workers who depend entirely on those wages for their livelihood.⁴

RECONCILING PROFIT AND PROFIT MAXIMIZATION WITH THE SUBJECTIVE DIMENSION OF WORK

The central theme of this article is to reconcile (a) the profit that is the fruit of success in a market economy and the principle of profit maximization that constitutes a central concept in the theory of the firm according to conventional economics with (b) the primacy of the subjective dimension of work. Which one is the more important: the effect that the production of goods and services has on the profits of the firm or the effect that work has on the persons who carry out that work?

The conventional wisdom in microeconomics is that firms maximize profits -- in an accounting sense, the difference between total revenue and total cost. To accomplish that objective the individual firm must take account of conditions in the market for its products (the demand side) and the cost of producing those products (the supply side). The analytics have been developed to establish certainty as to the specific output level that accomplishes this objective and the unique market price that assures that the profit-maximizing output is sold. As virtually every beginning student of economics is taught, the firm maximizes profits by searching for and operating where marginal revenue and marginal cost are equal. The analytics are reinforced by diagrams that are simple, straightforward, and convincing, and are found in virtually every principles textbook.⁵

To address the appropriateness of profit maximization as the objective of the firm, it is not absolutely necessary to examine the various theories of profit such as (a) remuneration for entrepreneurship, (b) residual left after allowance has been made for interest on capital

and wages of management, or (c) strategic position arising from institutional nature of the economy. Indeed, while there is some controversy as to how profits are justified, there is none in microeconomic theory as to how they are measured. Justifying profits and measuring them, in other words, are entirely separable issues. This article addresses the second, but not the first.

According to microeconomic theory, the typical profit-maximizing firm operating in a perfectly competitive market environment where the price is determined by supply and demand conditions in the market, achieves maximum profits at the output level uniquely identified with this condition: marginal cost = marginal revenue. In the short run, such a firm may earn profits but in the long run competition forces the firm to operate at maximum efficiency by cutting its price and reducing its profits to what is barely sufficient to assure that it will continue to operate. The same maximization principle applies to firms operating in different market conditions such as oligopoly and monopolistic competition.

We turn first to the question of profits, specifically the maximization principle and the confusion embedded in that principle, the need to reconstruct economic science, and evidence confirming the flaws in the profit maximization principle and in the principle of maximum personal net advantage. To reconcile the difference between profits and the subjective dimension of work, it will then be necessary to bring to bear the relatively new concept of personalist capital.

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 bad habits or vices by which a person deteriorates as a human person.

In the end, reconciliation involves subordinating profits to the subjective dimension and recognizing that instead of being the primary objective of the firm, profits are a necessary condition for its survival. Subordinating profits to the subjective dimension of work is not a condemnation of capitalism *per se* nor does it assert or even suggest that apart from ill-gotten gains profits somehow are unethical. This article does not require exploring models for sharing ownership or control of the firm such as the stakeholder model because those models strictly speaking do not address the *end* of subordinating profits to the subjective dimension of work but are the *means* by which that subordination may be achieved. Nor does this article cite the extensive literature on capitalism and profit seeking behavior in Catholic social teaching because it is narrowly limited to John Paul's assertions in *Laborem Exercens* regarding the central importance of the subjective dimension of work.

THE PROFIT MAXIMIZATION PRINCIPLE

The mainstream economics demonstration of the profit maximization principle is essentially mechanical. The economic agent is represented as fundamentally *passive* in nature, taking price as given and then locating the point of profit maximization. Any departure from the profit-maximizing solution is self-correcting because the loss of profits

associated with that departure prompts the firm to return to the level of output uniquely identified with maximum profits. Any other behavior is unthinkable.

Add to these analytics the assertion made most powerfully by Nobel laureate Milton Friedman and widely embraced today by mainstream economists that the only purpose for which the firm exists is to earn profits for its owners, and the analytical concept of profit maximization that should be understood as a premise becomes the one and only purpose of the firm.

... there is one and only one social responsibility of business [in a free economy] -- to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.⁶

No proof is necessary for Friedman's assertion because its validity is self-evident. In other words, the property rights of the owners deriving from the monies they invest and put at risk are foundational to the operations of the firm and those rights rule. The personal rights of the workers as confirmed by the employment contract count for nothing.⁷ There is no room in this theory of the firm for the entrepreneurial person who wants to do more than make a profit, who wants to make a difference.

This mainstream account of the operations of the typical firm is not without its critics, some of whom argue that firms can and do pursue other objectives such as maximizing sales, revenues, market share, or employment. In one instance a firm may lower its price below the cost of production -- deliberately taking losses -- in order to destroy the competition. In another it may operate at an output level greater than the one that yields maximum profits in order to placate an aggressive union that threatens to strike if management cuts the workforce. Most recently this account has been directly challenged by Anderson and Escher⁸ who assert that the purpose of the firm is to maximize shareholder value. They see the firm as an instrument not for extracting value but for creating it.⁹

Thus, the firm may have its own good reasons for eschewing profit-maximization. Further, there is no way for the average shareholder to know when the firm is not maximizing profits. What he or she does know with certainty is whether or not the firm is earning profits, as reflected in annual reports.

CONFUSION EMBEDDED IN THE PROFIT MAXIMIZATION PRINCIPLE

The confusion surround the profit maximization principle originates in construing a premise as an objective. The syllogism underlying this understanding fails.

- The firm exists for one purpose only: to produce profits for its owners.
- The owners are best served by maximum profits.
- The firm *necessarily* operates in a way that maximizes profits.

The third statement in that syllogism, however, does not follow from the first two. Taking the first two statements as givens, the third statement ought to read:

- The firm *should* operate in a way that maximizes profits.

Thus, properly constructed, this syllogism ends not with a positive statement of fact but a normative assertion of opinion.

Even the would-be profit maximizing firm may fall short due to numerous operational unknowns: the reliability of its suppliers to deliver on time, the dependability of its workers to report to work and meet production schedules, the loyalty of its consumers to continue to buy its products/services, the ability of its competitors to innovate and bring superior products/services to market, the willingness of its bankers to extend credit as needed, or the propensity of government to regulate it in the public interest.

Profit maximization for producers is the second half of the principle of the maximization of personal net advantage that, in relation to consumers, known in mainstream economics as utility maximization. This general principle, as Waters points out so insightfully, removes all active and spontaneous human action in economic affairs for the purpose of transforming economics into a more nearly exact science.¹⁰ This maximization principle, along with the utility calculus, Waters traces to utilitarianism that in turn derives from rationalism.¹¹

Guided by feelings of pleasure and pain, economic agents make decisions passively and automatically. Leon Walras and William Stanley Jevons supplied the necessary techniques of quantification to operationalize this principle and advance economics as a modern science.¹² Waters does not mince words condemning this development.

... to mistake what could only be an assumption [the maximization principle] to be used as a tool of analysis for an actual phenomenon is unpardonably bad scholarship (emphasis added).¹³

John Paul II is critical of the utility-maximization half of the principle of maximum personal net advantage for more profound reasons.

All of us experience firsthand the sad effects of this blind submission to pure consumerism: in the first place a crass materialism, and at the same time a radical dissatisfaction, because one quickly learns -- unless one is shielded from the flood of publicity and the ceaseless and tempting offers of products - - that *the more one possesses the more one wants*, while the deeper aspirations remain unsatisfied and perhaps even stifled (emphasis added).¹⁴

Even so, the maximization principle is alive and well in mainstream microeconomic theory for one compelling reason. It allows the economist to assert that the firm is able to determine with *precision* the *exact* combination of price and output that maximizes profits. To assure this end of determinateness, it is necessary to construct an economic agent --

homo economicus – who takes virtually no active and spontaneous role in economic affairs. Thus the Schumpeterian entrepreneur must go.

RECONSTRUCTING ECONOMIC SCIENCE TO ADDRESS THE CONFUSION SURROUNDING PROFIT MAXIMIZATION

To reconstruct economic science, according to Waters, it is necessary to uproot the mainstream's representation of the economic agent as a passive, automatic, and thoroughly predictable utility-maximizing machine.¹⁵ In its place he offers an economic agent who in everyday economic affairs is an active, often creative, complex and therefore not always predictable human being. This economic agent might appropriately be called an *acting person*. By creating an abstract economic agent grounded in a rational determinism in order to achieve predictability in human behavior and the hard-science status that follows. Mainstream economists, we assert, deny the economic agent the very individuality that they find so appealing in the individualism that serves as the philosophical foundation for their way of thinking about economic affairs.

Like the products and services of the typical firm operating in a perfectly competitive market environment, the *homo economicus* of mainstream thinking is always and everywhere the same, always and everywhere a rational, self-interested, predictable, profit-maximizing machine.¹⁶ In sharp contrast, the *acting person* of personalist thinking is always and everywhere one of a kind, always and everywhere a complex, unpredictable human being, a living, breathing, existential actuality.

A new guiding premise thus presents itself: profits are a *necessary condition* for the survival of the firm over the long run. This premise truly is self-evident and requires no drawn-out proof because the real-world evidence is overwhelming. Though it may survive for a while by drawing down cash reserves, selling some of its assets, and bringing in new senior managers, in the end the firm must earn a profit or see its share price and market capitalization plunge to zero as unhappy shareholders divest their holdings.

In a strict accounting sense there is only one way to make profits: by selling a product or service at a price greater than the cost of producing it. However, this is a truism, not an operating principle. It is reasonable to propose a different principle: that the firm is *most likely* to earn profits and survive by conducting its affairs in an upright manner. This principle is expressed in the following syllogism.

- The firm's survival depends on motivating managers, suppliers, and employees to do their best and on retaining the best among them.
- The best way to motivate and retain these persons along with the firm's customers is to treat all of them in an upright manner.
- Thus, treating everyone in an upright manner is the best strategy for the firm to operate profitably and survive.

The best strategy, however, does not provide an *ironclad guarantee* that the firm will operate profitably and survive. Firms fail even when they are operated in an upright

manner if they are not smart enough or nimble enough to stay ahead of their competition. Vision -- seeing opportunities and possibilities where others see nothing beyond the way things are at the moment -- along with a willingness to gamble with the new and different are key ingredients to success in business. Virtue alone, in other words, is insufficient to secure the future of the firm.

Evidence Confirming Flaws in the Mainstream's Profit Maximization Principle

Maximizing profits or personal net advantage is flawed for three reasons. First, maximizing profits is not necessary to the survival of the firm. Second, maximizing personal net advantage is not a satisfactory behavioral principle. Third, maximizing profits is not a satisfactory operating principle.

The evidence offered here reflects real-world experiences that contradict the conventional wisdom of mainstream economics and that represent a much larger set of similar experiences that could be cited.

While each of the owners of a firm clearly desires more profits to less and quite apart from the maximization principle with its theoretical baggage, *maximizing profits is not necessary to the survival of the firm* even in the long run because each one as an investor decides independently and in a very practical way whether the return on investment is sufficient to continue holding shares in the firm. Detached as he or she is from the day-to-day operations of the firm, the individual owner/investor has no way of knowing whether the firm is operating at profit maximization because the firm functions in an environment of uncertainty -- especially regarding the precise shape of its demand curve -- and therefore the firm does not have the precise information on marginal revenue necessary to operationalize the profit maximization principle.

Maximizing personal net advantage is not a satisfactory behavioral principle. There are many recent cases of persons engaged at the highest levels of business affairs who have destroyed themselves in the pursuit of maximum personal net advantage. They include Andrew Fastow (Enron), Bernie Madoff (Bernard L. Madoff Investment Securities), Michael Milkin (Drexel, Burnham, Lambert), Dennis Kozlowski (Tyco), Bernie Ebbers (Worldcom), Jeffrey Nacchio (Qwest), James McDermott, Jr. (KBW), Sam Waksal (ImClone), Sam Israel (Bayou Group), and Lou Pearlman (Trans Continental Airlines), not to mention many others already convicted or under indictment.¹⁷

In each case, a person or group of persons failed to conduct business in an upright manner, meaning that, minimally, they did not render to their counterparties that which was owed. Instead of settling for the expected and perfectly justifiable economic gains that come from routine business transactions, they deliberately took for their own or recklessly destroyed the expected gains of their counterparties. They failed the most basic test of justice in economic affairs. They took what belonged to others.

Once their unjust and illegal practices were exposed, the zero-sum activities that they had misrepresented to their counterparties as positive-sum in nature degenerated into negative-

sum activities and tore their business organizations apart. In some instances, those negative-sum activities actually destroyed their firms.

Fastow, Madoff, Kozlowski, and the others do not fit the mold of *homo economicus*-- a passive, automatic, and thoroughly predictable utility-maximizing machine. Each one is different. Each one is an *acting person* -- an active, often creative, complex and not always predictable human being -- whose behavior in business affairs is driven not by the prospect of economic gain but by the opportunities for ill-gotten gain. They crossed the line from upright behavior to criminal conduct.

They can be represented as pursuing the principle of maximum personal net advantage only if one sees no limits to that principle, only if one is unwilling to acknowledge the difference between business behavior that at minimum is based on the virtue of justice and conduct that is grounded in the vice of greed. However, for many who are engaged in business affairs, there is a greater good than maximizing personal net advantage. Perhaps a sense of justice or a fear of public exposure keep them from crossing the line or they are motivated by a realization that at times it is necessary to limit personal net advantage in order to serve the greater good.

Maximizing profits is not a satisfactory operating principle. Notwithstanding the evidence of egregious wrongdoing on the part of the aforementioned persons, many companies in vastly different market conditions can and do operate in an upright manner. Over an eleven-year period this author visited more than fifty firms in Louisiana to evaluate their efforts to improve quality and productivity and to gauge their success in bringing new ideas to the workplace and marketplace. These firms covered a wide spectrum of successful activity in health care, shipbuilding, crude oil, light manufacturing, construction, lumber, and heavy manufacturing.

These firms employed several successful strategies to operate in an upright manner, to meet their obligations under the principle of justice. Those strategies include gain-sharing, employee stock ownership, quality circles, vendor partnership, and company codes of ethics.¹⁸ The first three -- gain-sharing, employee stock ownership, and quality circles -- encourage employees to do their best. Vendor partnership encourages suppliers to do their best through a formal commitment between the firm and a vendor that is grounded in mutual trust, cooperation, and coordination. The company code of ethics challenges the firm to do its best to meet its obligations to its owners, suppliers, managers, employees, and customers. In the end, all of these strategies have one thing in common: they attempt to improve the firm's profitability and survivability by setting higher standards for human behavior.

A company is not a machine: it is a human organization that sets its objectives according to its own values. The following examples demonstrate that companies often pursue objectives more highly valued than maximum profits, that the upright company is not a hopeless and unattainable ideal of personalist economics, and that companies can and do succeed and survive without rigidly following the profit maximization principle.

- TOMS Shoes (<http://toms.com/our-movement>), which is based on the premise that “with every pair you purchase, TOMS will give a pair of new shoes to a child in need.”
- Hershey Company (<http://popsop.com/39076>), which over the last years has donated more than \$1.75 million to the Young Survival Coalition that is dedicated to “the critical issues unique to young women and breast cancer.”
- Vanguard www.vanguard.com, which offers its FTSE Social Index Fund that invests in “companies that work to protect the environment, maintain fair hiring and promotion practices for women and minorities, and institute safe and healthy workplace habits.”¹⁹
- Life Is Good, the company that uses the “life is good” theme on its products (<http://www.lifeisgood.com/festivals/history-of-Life-is-good-festivals.aspx>), which since 2003 has organized festivals to raise funds for various causes including a summer retreat for child with life-threatening conditions.
- Hyundai’s Hope on Wheels program (<http://www.hyundaihopeonwheels.org/about-hope-on-wheels/howstory.aspx>), which every time a new vehicle is sold in America, donates \$5 to children’s hospitals to help children afflicted with cancer. To date, Hope on Wheels has raised more than \$23 million.
- Merck (<http://www.merck.com/merckhelps/>) and Astrazeneca (<http://www.astrazeneca-us.com/help-affording-your-medicines/?itemId=8921703>), which offer medicines at no cost to qualified patients.
- Newman’s Own (<http://www.newmansown.com/ourstory.aspx>), which produces a variety of food products and over the last 23 years has donated all of its more than \$280 million in profits to good causes such as food banks, basketball tournaments, initiatives for improving the quality of life for military personnel, and summer camps for children with deadly diseases.
- Goodshop (<http://www.goodsearch.com/goodshop.aspx>), an online service that allows shoppers to make purchases from popular stores such as Home Depot, Amazon.com, and Banana Republic, with up to 30 percent of their purchases going to any one of more than 93,000 nonprofit organizations.
- Walmart. This much-criticized mega-retailer has pledged \$2 billion to fight hunger.
See http://money.cnn.com/2010/05/12/news/companies/Walmart_donation/

Perhaps most significant of all is the Committee Encouraging Corporate Philanthropy (<http://www.corporatephilanthropy.org/about-cecp/history.html>), which was established in

1998 largely at the behest of Paul Newman to encourage a greater corporate response to needs in their communities. Today the Committee has 175 CEO members involving 150 major corporations that annually give \$10 billion to charitable causes.

Profit maximization does not take into account that companies often use some of their profits to serve a greater good. For that reason, Friedman's assertion that the firm's only purpose is to earn profits for its owners strictly speaking is an *opinion*. It is not an immutable operating principle.

Additionally, profit maximization is a flawed operating principle largely due to the unknowns that the typical company faces: suppliers who may not deliver on time, workers who do not report to work or meet production schedules, consumers who switch to other companies producing a cheaper or superior item, bankers who may withhold credit when it is needed, government that may intervene in its affairs to protect the public interest, severe weather that disrupts normal commuting, work, and shipping routines. Given these unknowns, the typical firm is capable of only an informed guess as to what and how much to produce and what price to charge. It can make adjustments in the expectation of improving profits but those adjustments always are made subject to the unknown. In the midst of all these uncertainties, one operating principle is clear and necessary: It must earn a profit to survive.

FLAWS IN THE PRINCIPLE OF MAXIMUM PERSONAL NET ADVANTAGE

Maximizing personal net advantage is flawed most fundamentally because conventional economics eschews any personal sense of justice on the part of economic agents on grounds that injecting justice in economic affairs transforms economics into a normative, value-laden discipline analytically beset with uncertainty. Instead, it employs the invisible hand of the market, which sets no such limits and is entirely consistent with its representation of *homo economicus* as a passive, automatic, and predictable utility-maximizing machine. Accordingly, economics is a positive, value-free discipline freed of analytical uncertainty.

The several examples, supplied above, of business executives who stole the economic gains that rightfully belonged to their counterparties demonstrate forcefully that the invisible hand does not prevent an active, often creative, complex and unpredictable economic agent -- the *acting person*--from behaving in a criminal manner. The several other examples provide evidence to the effect that some business executives are *acting persons* who behave in an upright manner. The *acting person* in other words is not an automaton. Some ruthlessly pursue maximum personal advantage. Others march to a different drummer.

A human being is a living, breathing, existential actuality who is more or less free to choose between uprightness and wickedness. He or she accumulates personalist capital and develops as a person by uprightness in everyday affairs. On the other hand, a human being practicing wickedness in everyday affairs suffers a loss of personalist capital and regresses as a person. Just as unemployment (both involuntary and voluntary) is the price paid for freedom in the labor market, ill-gotten gain is the price for freedom more generally in market transactions.

It is not surprising that a person who for years has lived in a truly upright manner may be seduced by the opportunity for ill-gotten gain, or that a person who gives every appearance of uprightness at heart may be driven by wickedness. Scruton points out that Enron, for example, was adept at publicly supporting “diversity, equal opportunities, care for the environment” that he characterizes with hindsight as Enron wrapping itself in a “veil of political correctness.”²⁰

Given that economic agents are living, breathing, existential actualities, complex and unpredictable, wickedness and goodness are both to be found in everyday economic affairs. Which one prevails depends very much on how economic power is applied, on how economic agents decide to act in any given situation, to exploit or render what is owed.

Because companies are human organizations that are as diverse as the human beings who constitute them, they are similarly neither entirely upright nor entirely wicked. Rather they function somewhere along a spectrum between those two extremes, moving from time to time in one direction or the other depending most fundamentally on how the company’s principals define its primary objectives and which means they are willing to employ in pursuing those ends.

PERSONALIST CAPITAL AND HUMAN CAPITAL

Personalist capital corresponds to human capital for two major reasons. First, both are intangible, embedded in human beings, and not transferable. Second, both involve an acquisition/accumulation process. Personalist capital entails the acquisition/accumulation of a personal reputation through virtuous or vicious behavior. Human capital pertains to the acquisition/accumulation of skills and abilities through education, training, and health investments.

There are, however, two fundamental differences between these two types of capital. First, human capital as viewed by conventional economics involves an investment decision. Personalist capital also can be seen as involving an investment decision with a return for the investor sometime in the future, but more importantly it is represented as involving a course of action with immediate effects for the actor and for others. We do not invest in virtues so much as we practice them. This is surely even more telling when it comes to vices.

Second, human capital typically is used in economic theory as an independent variable in economic functions and models addressing problems such as the distribution of labor income, wage differentials and profiles, labor supply, migration, economic growth, and trade patterns. This article uses personalist capital in an entirely different way: replacing the maximization of profits as the fundamental objective of the firm with the maximization of personalist capital.

More than 200 years ago, Malthus commented on the difference between human capital and personalist capital.

In every rank of life, in the lowest as frequently as 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 these 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.²¹

MAXIMIZING PERSONALIST CAPITAL: REPLACEMENT FOR MAXIMIZING PERSONAL NET ADVANTAGE

The purpose of this article has been to explore the role of uprightness and wickedness in business affairs, along with profit maximization as the governing principle in the typical business enterprise, so as 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 (profits) that are justifiably its own. Included in its net worth is the asset goodwill that originates by operating in an upright manner, in respecting and accepting the gains that rightfully belong to others that it engages in everyday affairs.

A firm, for sure, can choose to operate in a wicked manner and also earn profits. In the long run, however, by not respecting the gains that rightfully 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 will result. 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. Consider the immediate demise of the prestigious accounting firm Arthur Anderson when the public learned that it had been “cooking the books” for Enron.

To replace the maximization of profits as the fundamental objective of the firm, personalist economics offers the maximization of personalist capital. In sum, a person who acts in an upright manner in business affairs -- is diligent, trustworthy, fair-minded, honest, hardworking -- develops personalist capital, which, like human capital, adds 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 routinely conduct themselves in an upright manner, who are

better persons and more effective employees because for the most part they put virtue into action.

No doubt some, perhaps even many, in labor and management do not understand the role and importance of work in personal development and therefore miss or even stubbornly resist opportunities to acquire or accumulate personalist capital. *Laborem Exercens* is much more than an intellectual enterprise. It is an exhortation, a teaching moment, to see work as an essential ingredient in personal development.

As a person [man] 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.²²

There is no direct, absolute correspondence between personalist capital and compensation. Persons who genuinely love the work they do as ministers, social workers, firefighters, and the like are not necessarily well-paid, though they may have accumulated substantial personalist capital. In contrast, others who act viciously and have no personalist capital -- drug dealers, money launderers, and assassins for hire come to mind -- may be very well paid. Even so, society at times applauds the former though too often just takes their goodness for granted, while it emphatically condemns the latter precisely for their wickedness.

The upright company that maximizes personalist capital does not have to outperform the profit-maximizing firm. It simply needs to earn enough profits to satisfy its owners. However, there is nothing intrinsic in maximizing personalist capital that keeps the upright company from outperforming the profit-maximizing firm by producing a better product at a better price with better service after the sale. It is possible, in other words, to do good, to do well, and to outperform the competition all at the same time.

Beyond assuring a level playing field by aggressively punishing unfair business practices, government need not afford the upright company special protection to assure its survival in a tough competitive environment. The discipline of the market in general will determine which firms succeed and which ones fail. The firm that maximizes profits has no lock on street smarts. Neither does the firm that maximizes personalist capital.

There is support for the personalist-capital argument to be found in the very origins of economics in that Adam Smith's *Theory of Moral Sentiments*, though frequently overshadowed by his *Wealth of Nations*, speaks often of the importance of the virtues of generosity, benevolence, and sympathy. Further, there is recognition in mainstream economics of the significance of three other virtues in economic affairs: thrift, industriousness, and diligence. This article does not address the thorny question as to *how* the innocent baby becomes an upright or wicked person, a question that properly is left to others. Instead, it demonstrates that (a) it is not only possible and feasible but also rational and profitable for the firm to maximize personalist capital and (b) there is a corresponding need to re-construct the theory of the firm to incorporate uprightness and wickedness.

Personalist capital does not replace the role of self-interest in economic affairs. Economic agents, as Peter Danner puts it, do routinely pursue gain in *every* economic activity.²³ 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 from it.

For Danner the difference between self-interest and greed, which he prefers to call *selfishness*, lies in the “the nature of the object sought and the reason why sought.” Notice, he says, the difference in intent in the purchase of a revolver by a police officer and a teen gang leader.²⁴

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. Fastow, Madoff, Kozlowski, and the others actually considered their ill-gotten gains not as taking what rightfully belonged to others but as reaping the rewards for their own best efforts, as the good. Tragically many innocent persons paid for the wicked ways by which these *acting persons* sought to have more, the ways they misrepresented the good.

To be consistent with John Paul’s assertion of the primacy of the subjective dimension of work, of “being” versus “having,” it is necessary to reject profit maximization as the primary purpose of the firm. In its place we propose instead 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 the honest gains of ownership and entrepreneurship. Personalist capital in effect incorporates the subjective dimension of work into microeconomic theory without dismissing the importance of profits or self-interest.

Maximizing profits underscores the importance of *having* more and, as John Paul warns us, leads to wanting more and to a crass materialism in which “deeper aspirations remain unsatisfied and perhaps even stifled.”²⁵ Maximizing personalist capital, on the other hand, opens the door to *being* more.

Endnotes

1. The source for this quotation is the firsthand recollection of this author, who was present and who posed the question. No written record of the lunch's discussion exists.

2. John Paul II, *Laborem Exercens*, September 14, 1981, nos.4–6, at www.vatican.va/edocs/ENG0217/P7.HTM. Emphasis in original.

3. See, for instance, *Address of His Holiness John Paul II*, Third General Conference of the Latin American Episcopate, Puebla, Mexico, January 28, 1979, §III.4, at www.vatican.va/holy_father/john_paul_ii/speeches/1979/january/documents/hf_jp-ii_spe_19790128_messico-puebla-episc-latam_en.html;

Sollicitudo Rei Socialis, December 30, 1987, no. 28, at www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis_en.html;

Centesimus Annus, May 1, 1991, no. 36, at www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus_en.html.

4. *Laborem Exercens*, no. 11.

5. See, for example, Patrick and Gerry Welch, *Economics: Theory and Practice* (Hoboken, NJ: Wiley, 2009), Chapter 13.

6. Milton Friedman, *Capitalism and Freedom* (Chicago: The University of Chicago Press, 1962), 133.

7. For more on property rights and personal rights, see David Ellerman, “The Employment Contract and Liberal Thought,” *Review of Social Economy*, 44 (Number 1, April 1986): 13–39. Notice that employee stock ownership plans award profits to workers by providing access to property rights. Profit-sharing plans award profits to workers by affirming their personal rights.

8. Max Anderson and Peter Escher, *The MBA Oath: Setting a Higher Standard for Business Leaders* (New York: Penguin Books, 2010), 5, 38, 86–87, 92–98.

9. *Ibid.*, 236.

10. William Waters, “Entrepreneurship, Dualism, and Causality: An Appreciation of the Work of Joseph Schumpeter” (Ph.D. diss., Georgetown University, 1952), 87–88.

11. *Ibid.*, 82.

12. *Ibid.*, 88.

13. *Ibid.*, 89.

14. *Sollicitudo Rei Socialis*, no. 28.
15. Waters, “Entrepreneurship,” 90–91ff.
16. In the case of the consumer, it is a want-satisfying, utility-maximizing machine.
17. CNBC’s *American Greed*, which documents persons engaged in scams and schemes to defraud, began its sixth season of programming in 2012.
18. The producer cooperative and co-determination are two other strategies that can encourage upright behavior, but the author observed neither one during these visits.
19. Vanguard, “FTSE Social Index Fund, Annual Report,” August 31, 2009, p.5, at www.vanguard.com.
20. Roger Scruton, “Virtue and Profit: A Critique of Managerial Reasoning,” in *Profit, Prudence, and Virtue: Essays in Ethics, Business and Management*, edited by Samuel Gregg and James Stoner, Charlottesville: Imprint Academia, 2009, pp.24-41.
21. Thomas R. Malthus, *Population: The First Essay*, Ann Arbor: University of Michigan Press, 1959, 131.
22. *Laborem Exercens*, no. 6.
23. Peter Danner, *The Economic Person*, Lanham: Rowman and Littlefield, 2002, p.154.
24. *Ibid.*, 158-159.
25. *Sollicitudo Rei Socialis*, no. 28.