

WHICH METHODOLOGY WORKS BEST FOR ECONOMICS: INDIVIDUALISM, HOLISM, OR PERSONALISM?

by

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Abstract. Methodological individualism insists that human behavior is best understood when it is couched wholly in terms of facts about individuals. Methodological holism asserts that human behavior is shaped by sociological laws that are not reducible to individual facts.

In the extreme, the individualism that is foundational to methodological individualism descends into narcissism. The danger in the collectivism that is basic to methodological holism is conformism. Add to that the essential human *passivity* of (a) the non-narcissistic agent of methodological individualism who automatically pursues his/her own individual good and (b) the non-conformist agent of methodological holism who pursues the good of all.

Thus the need for a different methodology in examining economic affairs that is referred to herein as methodological personalism. Centrally important to methodological personalism is that the economic agent, the *person of action*, is *actively* engaged in economic affairs.

Keywords: methodological individualism, methodological holism, methodological personalism, passive *homo economicus*, dynamic *person of action*, personalist economics, economic personalism, Austrian economics

Persons of letters and science for years have puzzled over the relationship between individuals and the group, between the Many and the One, between acting as individuals and acting as a group. Methodological individualism insists that all human behavior is best understood and explained when at “rock-bottom” it is “couched wholly in terms of facts about individuals.”

The expression “methodological individualism” is attributed to Schumpeter (Hayek 1980, p. 1) but Schumpeter’s teacher Weber is responsible for its initial development in the social sciences (Stanford Encyclopedia 2010, p. 2). Hayek and Popper are two of its strongest advocates (List and Spiekermann c2012, pp. 5-6; Watkins 1957, pp. 105-106). So too is Watkins whose interest dates from the early 1950s (see Watkins 1952, pp. 186-189).

Durkheim (1982) introduced the concept of social facts that function as constraints on individual action (List and Spiekermann c2012, p. 7). In that sense Durkheim can be regarded as one of the originators of methodological holism.

According to methodological holism there is more to human behavior than facts about individuals because human behavior is shaped and formed by sociological laws that are not reducible to individual facts and by social institutions (Lukes 1968, pp. 119-129). Following Durkheim’s cultural determinism and Skinner’s behavioralism, the self-interested gain-seeking *homo economicus* of mainstream economics is represented as only *reacting* to changing economic circumstances (Danner 2002, p. 29; emphasis added).

In the following we examine both methodological individualism and methodological holism and introduce methodological personalism which we argue is better suited to representing and understanding economic affairs. The Austrian School employs praxeology that is grounded in methodological individualism in which “only individuals feel, value, think, and act” (Rothbard 2012, pp. 1, 11). We address it below in the section on methodological personalism where there are several areas of agreement and disagreement.¹

In our view and due largely to its reliance on personalism, economic personalism aligns much more closely to personalist economics than does Austrian economics. We address this alignment toward the end of this article.

¹ There are three areas of agreement between Austrian economics and personalist economics: conceptualizing leisure as a consumer good; the futility of applying mathematical methods to economic affairs; and borrowing the concept of equilibrium from physics where it works and applying it to economics where it does not (see Rothbard 2012, pp. 1-27 and Lachmann 1977, pp. 149-165). These three areas of agreement, however, are not addressed in the following.

THE DEFECTS IN METHODOLOGICAL INDIVIDUALISM AND METHODOLOGICAL HOLISM

According to Davis (2003, pp. 16-17), orthodox economics rests on methodological individualism whereas heterodox economics is grounded in methodological holism. Though he professes an attachment to heterodox economics (Wells 2012, p. 84), Davis (2011, p. 3) examines the problem of the identity of the economic agent in terms of several new mainstream economics approaches because it is the mainstream “that inherits the problematic legacy of how to address what I argue ... is a failed notion...” Several years earlier Davis (2003, p. 17; emphasis in original) stated that “One important conclusion of this book is that *neoclassical and mainstream economics, which make the individual central to their analysis, lack an adequate conception of the individual.*” Indeed, in the very first sentence of Chapter One Davis says “This is a book about our understanding of the individual in economics” (Davis 2003, p.1). Davis (2011, pp. 1-10) makes essentially the same assertions in his 2011 book.

Critical to Davis’ thinking about economic agency is the concept that individuals are socially-embedded in social and economic relationships and act through participation in groups. In arguing for the outward directedness of the economic agent he does not reject the assertion of conventional economics regarding the agent’s inward directedness. Rather, the economic agent is both (Davis 2003, p. 192; Davis 2011, p. 178). Additionally and importantly, for Davis the “socially-embedded individual” is an active being who is able to influence the social structure (Davis 2003, p. 128; Davis 2011, pp. 233-235; Wells 2012, p. 95). Davis connects social embeddedness to the capabilities approach and represents the economic agent not in terms of preferences but capabilities (Davis 2009, pp. 413-429; Davis 2011, pp. 21, 169-190ff). There is more about Davis in the next section.

In this matter, Becker’s insights on person as opposed to individual and activity versus passivity, which derive importantly from Maritain, are especially noteworthy.

When the Many have the perfection of *persons*, they can never make One as the many parts of a machine make one machine, nor even as the many parts of a tree make one tree. Because the ruled are *persons* they can be one only in a unity of purpose, that is, in a unity forged by the *activity* of their own intellects and wills. The unity of persons can thus *never be a purely passive thing*; it must be the result of activity on the part of the persons involved. In the literal sense of the phrase it must be a result of personal activity. A person may properly devote himself to achieving the ends of the larger social whole of which he is a part, but he must do so in accordance with his own nature – that is, he must understand those ends and will them. *In thus subordinating himself to society he does not surrender his selfhood; rather he fulfills his selfhood in intelligent and free service rendered to the common good* (Becker 1959, pp. 5-6; emphasis added).

Under the influence of Durkheim’s cultural determinism and Skinner’s behavioralism in which economic agents are viewed as devoid of effective consciousness and free will *homo economicus* emerges not as a dynamic construct but a passive one (Danner 2002, p. 29).

In the extreme, the individualism that is foundational to methodological individualism descends into narcissism. For more on narcissism, individualism, and economic affairs, see Arjoon (2010, pp. 59-82). The danger in the collectivism that is basic to methodological holism is conformism. Davis (2011, pp. 233-235) describes this danger as the individual through social interaction dissolving into “multiple selves” and disappearing into “social aggregates.” The inflated sense of self-importance of the one and the diminished self-importance of the other render both incapable of forming community, both unable to understand and practice contributive justice. Add to that the essential human *passivity* of (a) the non-narcissistic agent of methodological individualism who routinely and automatically pursues his/her own individual good and (b) the non-conformist agent of methodological holism who pursues the good of all. Thus the need for a different methodology in examining economic affairs that is referred to herein as methodological personalism. Centrally important to methodological personalism is Wojtyla’s concept “acting ‘together with others’” (Wojtyla 1969, p. 271)¹ --- the equivalent of acting as the One which when coupled with the principle of subsidiarity means acting as a private rather than public group. Our interest in the following section is directed toward the difference between the multiple-selves individual and the unity of the economic person.

MULTIPLE-SELVES INDIVIDUAL VS. UNIFIED ECONOMIC PERSON

We fully agree with Davis (2003, p. 57) that the agent in economic affairs is not properly represented as a collection of preferences “passively responding to changing prices given a structure of prices” and that the capabilities approach adds significantly to our understanding of economic agency (Davis 2009, pp. 413-429; Davis 2011, pp. 169-190). However, we see human capabilities in terms of human development whereas Davis (2011, p. 234) sees them in terms of human behavior. Further disagreement emerges when he suggests that human beings *are* collections of capabilities (Davis 2011, p. 170).

Davis’ (2011, pp. 233-235) claim that social embeddedness means embedding individuals in a social world, coupled with human capabilities including a personal identity capability that helps them maintain or re-establish their personal identities in complex and changing social interactions that can reduce them to mere social aggregates, allows him to offer the

¹ Later elected pope taking the name John Paul II. In Wojtyla 1981 Bloch and Czuczka in Chapter 2 present the core arguments of Wojtyla’s remarks on “acting jointly with others” that they translated into English from Polish. Their presentation is not a word for word translation of Wojtyla 1969 that they refer to as *The Self and the Act. The Acting Person* that translator Potocki assigned to Wojtyla 1969 is preferred.

concept of the individual thus modified as an appropriate replacement for *homo economicus* because it offers a better explanation of human behavior in economic affairs. However, the personal identity capability that is central to Davis' argument is not a proof. It is a hypothetical. He even expresses his own misgivings about the socially-embedded individual and admits that his personal identify capability argument is not a proof (Davis 2011, p. 235).

Throughout both books Davis uses "individual" and "person" as synonyms. This is understandable in the sense that they are used that way especially in the spoken word. Even so, at times his use of the two is confusing. "Lacking [self-narratives that unify socially-embedded individuals as single individuals], it fails to constitute the individual as a person and create an identity for that person that is recognizable to others" (Davis 2011, p.185). He also uses "multiple selves" to describe the human condition in which an individual has many roles and many utility functions. "... there is no obvious reason why one should not suppose that individuals have more than one utility function, indeed conceivably an indefinite number of different utility functions, and thus an indefinite number of different selves" (Davis 2003, p. 66).

At times, Davis (2003, pp. 66-80) even refers to the "many-person" individual. To rescue the economic agent from dissolving into many selves and losing his individuality Davis offers his personality-identity capability hypothesis (Davis 2011, pp. 233-235).

Davis overlooks entirely the distinction that Waters draws regarding the classical "individual" and solidarist "person" in an article published in the *Review of Social Economy* while Davis was serving as editor. According to Waters, the classical *individual* is thoroughly competitive, behaving in a calculated, self-interested manner and maximizing utility. The solidarist *person*, on the other hand, is both competitive and cooperative, making decisions rationally at times and non-rationally at other times. The most important difference is that whereas for the classical individual economic and political behavior are characterized by contractual behavior for the solidarist person the most fundamental rights are not contractually determined because everyone has a sacred dignity that must be respected (Waters 1988, pp. 114-120).

Both of Davis' books contain extensive bibliographic references. Even so, he does not refer to any of the other relevant works published in the *Review* prior to his tenure as editor. Four that were themed around the depersonalization of the economy were published in a single 1954 issue by Baerwald, Boulding, Dempsey, and Hayes. Four others relating to the general topic of person and personalism were published by Walker in 1955, Froehlich in 1966, Danner in 1982, and Briefs in 1983. O'Boyle's 1994 article was published during Davis' term as editor. Welch's article in 2005 was published one year after Davis' departure as editor.

Perhaps most puzzling is Davis' omitting any reference to Danner's *Economic Person: Acting and Analyzing* (2002) in which Danner identifies the economic agent not as a

collection of preferences or capabilities but an “embodied spirit.” His concept of the embodied spirit, expressed three years earlier, tells us much as to Danner’s understanding of the economic person. “... 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” (Danner and O’Boyle 1999, p.50).

For Danner, the ultimate purpose of economic activity is not maximum personal net advantage. Rather, it is whether it adds to or takes from the integral development of those who engage in that activity (Danner 2002, p. 35). For Danner (2002, p. 129) “... every person is in a real sense an economic person.” Davis’ omission is puzzling in the sense that he knew Danner personally and was hired by Marquette University as Danner’s replacement when he retired.

Perhaps omitting Danner has to do with his affirmation of the fundamental unity of human beings that directly challenges Davis’s argument that “... in economics we have strong grounds for not treating human individuals as unities” (Davis 2003, p. 79) and that due to their social embeddedness and without a personal-identity capability humans risk dissolving into social aggregates (Davis 2011, pp. 233-235). “As an embodied self-consciousness, personhood is best portrayed in a career of self-development, the effort and action of becoming personal by blending contraries: spirit/body, male/female, individual/social, self-aware yet reaching out, *unified but constantly changing*, free but morally restrained” (Danner 2002, p.53; emphasis added).

Finally, and most importantly, we reject the argument that in the absence of Davis’ hypothesized personal-identity capability humans may dissolve into social aggregates. In this matter the Maritain/Becker (Becker 1959, pp. 3-9) argument is more convincing that the unity of the person depends not on capability but on activity. Selfhood is not surrendered when a person understands and freely commits to the ends of society that are to be served. It is preserved.

Attention turns next to methodological personalism. As with Davis, concern at first is with *homo economicus* where all understanding of economic affairs must begin. Then, the flaws in *homo economicus* and the reasons why the *person of action* (Danner’s economic person) is a better representation of economic agency are addressed.

THE NEED FOR METHODOLOGICAL PERSONALISM

The problem with methodological individualism is its grounding in individualism, the view of humans as individual beings with no social dimension to their nature. Methodological individualism represents the economic agent as a passive, rational, and entirely predictable profit- and utility-maximizing machine. This representation allows the mainstream economist the great comfort of certainty in economic analysis because economic agents *always* act in ways that maximize personal net advantage in the form of profits and utility.

The Austrian School asserts that this perspective in which the individual is perceived as “a sealed ‘atom’, cut off from, and uninfluenced by, other persons” is a gross misinterpretation of methodological individualism (Rothbard 2012, p. 11). In effect the Austrian School is arguing that methodological individualism has been hijacked by mainstream economists and misapplied in mainstream economic theory. The Austrians insist that their representation of methodological individualism is the correct one. Methodological personalism aligns much more with the Austrians than the mainstream on economic agency wherein the economic agent learns from and is influenced by others but rejects the Austrian and mainstream reliance on individualism.

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 but this does not change his/her utility-maximizing behavior. 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. Briefly stated, 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*,

reacts passively in economic affairs in the sense that at any given moment he/she chooses from a set of defined options in a way that assures maximum personal net advantage,

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
kind or envious	grateful or resentful	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

What is needed is *methodological personalism* wherein human nature encompasses both individuality and sociality. Due to their individuality, human beings make decisions and at times act alone, as previously suggested as the Many individuals. At other times, due to their sociality, humans make decisions and act together with others notably, for example, family members, as the One group. Further, the economic agent is more accurately represented as dynamic, rational and passionate, and at times profit- and utility-maximizing but not always and relentlessly pursuing maximum personal net advantage. This representation forces the personalist economist to accept less than full certainty regarding his/her understanding of economic affairs because the economic agent is not entirely predictable.

The economic agent is represented as the *person of action* for two reasons. First, the literature has become cluttered with terms similar to *homo economicus* such as *homo reciprocans*, *homo politicus*, *homo sociologicus* and others that mainstream economics has not taken seriously. Using the *person of action* avoids the problem of being thrown together with those terms and then being thrown out with them. Second, the *person of 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.

As with personalist economics, the Austrian School attaches great importance to human action in understanding the role of the economic agent (von Mises 1998; Lachmann 1977, pp. 149-165; Rothbard 2012, pp. 1-27). However, for reasons addressed below, the Austrian's "acting individual" (Lachmann 1977, p. 154) and "acting man" (von Mises 1998, p. 45) are not identical to the *person of action*.

THE HARD-CORE OF METHODOLOGICAL PERSONALISM

Our comments in the following advance two propositions in support of a personalist reconstruction of the economic agent. First, economic agency as represented in mainstream economics is outdated because it has oversimplified its representation of the economic agent as *homo economicus* in order to simplify economic analysis and produce empirical findings about which it can claim certitude. We advance the *person of action* 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 theory which in turn demands more judgment in economic analysis. 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. Instead human beings are represented as routinely maximizing personalist capital in which certain good habits or virtues such as justice and courage are learned, practiced, and acquired and by which human beings become more fully human persons. Further, as human beings develop more fully as human persons, they become more effective and more highly valued as economic agents. This second proposition rests on the premise that the economic agent is inseparable from the human person.

The Austrians admit that the *acting individual, acting man*, acts in ways that are either “virtuous or vicious” (von Mises 1998, p. 45) but they do not tell us that virtuous or vicious action in economic affairs changes the economic agent. Moreover, they do not admit of a type of capital that is acquired through virtuous action or lost through vicious action.

These two propositions are presented below in four main parts all relating to the economic agent as the *person of action*. The first part addresses the meaning of humanness and personhood. The second examines the three levels of action and what it means to *be* rather than to *become* a human person. In the third part the practice of virtues and vices that changes a human being into a *person of action* is examined. Personalist capital is taken up in the fourth part.

1. Humanness and Personhood.

More than 50 years ago, John Maurice Clark rejected the strict individuality of *homo economicus* as avowed by mainstream economics, affirming instead human duality. “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).

Human beings including those who act in everyday economic affairs are, as well, body and spirit, the one no less than the other. They are creatures whose 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 2004, p. 124).

If any human being is regarded as an object with only instrumental value, his/her personhood in a certain sense is denied. To illustrate, prostitutes are not persons because they have been reduced to sexual objects for strictly commercial purposes. Suicide bombers are not persons because they have rendered themselves into instruments of death and destruction. Even so, both cling to their basic personhood because as long as they are living they can be set free by human action, they can reject those destructive roles.

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. The proper norm of personhood and humanness is an objective norm.

Our argument that all economic agents are persons rests on two premises. First, humanness and personhood are inseparably one because they originate in a contingent being at the very first moment when that being is brought into existence. 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. 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.

Second, *becoming* a person is not the same as *being* a person. To illustrate, Rogers asserted repeatedly in *On Becoming a Person* 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 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" (Giavanola 2005, 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 1961, 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 2005, p. 215).

Grisez and Shaw (1974, pp. 12-22) on the other hand understand personhood not as a matter of *becoming* a person but one of *being* a person and 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. This kind of exposition is necessary to reject methodological individualism.

2. Human Action and Being a Human Person.

Action takes place at three levels, each associated with a specific type of freedom. 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. 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 are necessary: (1) the end must be desired and (2) the means employed must be sufficient to achieve the desired end. Second-level action is the Austrian understanding of human action. "The content of human action, i.e., the ends aimed at and the means chosen and applied for the attainment of these ends, is determined by the personal qualities of every acting man" (von Mises 1998, p. 46; see also Rothbard 2012, pp. 1-27, and Lachmann 1977, pp. 149-165).

Thus, a farmer plants corn in order to feed to his cows and when it is harvested the corn becomes available for the farmer's intended purpose. Sometimes 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 man is free to marry whomever he pleases but not to beat his wife or abuse his children. Because intentionality is required, only humans are capable of action at the second level. These kinds of limits, in other words, undermine some of the arguments advocating methodological individualism.

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 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.

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 1974, p. 14; emphasis in 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 1974, p. 14; emphasis in original).

How then does a human being grow and develop more fully as the person he/she already is? The 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 1974, pp. 21-22).

Notice how social economist Divine connects action at the third level to economic affairs.

... 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 ... 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, p. 7).

The child develops as a person according to the potentialities present from the very beginning that empower him/her to act and by acting the child unfolds as a unique person. To illustrate, some are endowed with special mental faculties, and years later become teachers, inventors, researchers. Others with physical talents become athletes, structural iron workers, ballet dancers. Still others have a 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 because 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.

Lachmann constructs Austrian economics on the basis of dynamic economic analysis in which the market economy is represented as “the world of action and not merely of reaction” (Lachmann 1977, p. 160). Von Mises takes a much harsher stance, describing the “common man” as a “sheep in the herd [sic],” an intellectually inert individual *reacting* automatically to everyday economic conditions and at times *acting* spontaneously but only as those conditions change (von Mises 1998, pp. 46-47). Contrast this view to Danner’s personalist view. “... 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; emphasis added). The *acting man* of Austrian economics is a primarily passive, sometimes dynamic, strictly material human being. The *person of action* of personalist economics is an always dynamic embodied spirit.

3. Virtues, Vices, and the Person of Action.

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 of action*. This unfolding of one’s own personhood is a continuous process that takes place throughout one’s lifetime. The child may become an evil person or a good person according to how he/she acts over a lifetime. The child becomes an evil person by embracing vices (acting unjustly, maliciously). He/she becomes a good person by acquiring virtues (acting courageously, justly) (Aristotle, 350 B.C.E. a; Aristotle 350 B.C.E. b).

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 a *person of action* is a two-stage process in which they develop the proper habits and then acquire practical reason (Kraut 2014, pp. 4-5).

Kraut underscores the importance of parents and others in the development of children, thereby pointing to the central flaw in methodological individualism. “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 2014, p. 3). The rate at which this transformation from *innocent person* to *person of action* varies from person to person because each one is unique with a unique disposition to acquire this virtue or that vice (Rickaby 1918, p. 2).

The role of virtue in economic theory traces to Smith’s *Moral Sentiments* where attention is called repeatedly 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 our focus in the main is on the four practical virtues of justice, courage, moderation, and prudence and the vices that those

virtues seek to avoid, and their role as *limits* to human action thereby exposing the critical flaw in methodological individualism that sets no limits on the individual.

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 or 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 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 1918, pp. 5-8; Kraut 2014, pp. 5-7).

These four virtues are known as *practical* virtues because they relate not to thought or truth but to practical human action. For economics, this means the dynamic *person of action* engaged in everyday economic affairs. Moderation and courage are always inward-directed, toward self; justice is outward-directed, toward others (Schall 2004, p. 410). Prudence is not rational self-interest unless it is tempered by justice and friendship or love (Finnis 2011, 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 1892, p. 4). Prudence therefore is both inward- and outward-directed.

Justice, according to Schall, is “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 describes this condition as an “isolated hell”. The remedy is found in the virtues of gratitude, benevolence, and charity (Schall 2004, pp. 409, 412, 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 and 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.

In economic affairs, justice, courage, moderation, and prudence operate in the limiting mode, restricting human action and thereby exposing the critical flaw in methodological individualism that sets no limits on the individual. 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 to do 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 either from others or on one's own and therefore can be taught to others.

The four practical virtues are essential to an efficient, orderly, and peaceful economy. Mainstream economics asserts that these matters are addressed through the “invisible hand of the market,” a device to defend methodological individualism. Personalist economics argues that the “invisible hand” fails whenever economic agents have not learned and acquired the practical human virtues or do not practice them faithfully. Clark (1957, pp. 180-181) 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.”

4. Personalist Capital.

Personalist capital refers to the 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. 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 diminishes 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 dynamic *person of 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 of action* is the economic agent who accumulates personalist capital by acting virtuously and who destroys it by acting viciously.¹ The *innocent person* who has not yet begun to engage in action at the third level has no stock of personalist capital.

Personalist capital and person are constructed around the central concept of limit. Plainly, no employer wants a worker who cannot limit his drinking or one who steals. No one wants to work for an employer who sweats his labor or with others who shirk their responsibilities. No consumer respects a merchant who deliberately misrepresents the quality of the goods for sale or does not fully disclose interest charges on credit purchases. No merchant wants a customer who promises to pay what is owed but doesn't follow through.

¹ Elmendorf (1892, 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.”

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. 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 (imperfectly because economic agents are not perfect human persons) through routine exchanges in the product market and the resource market. 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 improper business practices, the complete collapse of Arthur Anderson following the public disclosure that it had been “cooking the books” for Enron.

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

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 1959, p. 131).

Personalist capital is not transferable in the same sense that physical capital, which is a thing that is distinct and separate from its owner and therefore can be bought and sold, is transferable. 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 converges with social capital in the sense that virtues and vices are learned from and reinforced by others. To illustrate, “Cajun engineering” refers to a pride of workmanship in certain Louisiana shipyards where Cajuns with limited educational backgrounds assert with pride that “if you can draw it, we can build it.” Cajun engineering is a form of social capital that is embedded in the culture and is passed from generation to generation, from person to person, becoming personalist capital when it is personally embraced and actively practiced. Workers like these become recognized for their unique craftsmanship, a very practical workplace habit. If, however, all of the children of the Cajuns working in these shipyards were to seek their fortunes in other lines of work, the

shipyard might survive with workers drawn from different cultural backgrounds, but Cajun engineering and this source of personalist capital would not.

These two aspects of personalist capital -- embedded in persons (acting according to their individuality as the Many individuals) and residing in communities of persons (acting according to their sociality as the One group) in the form of a special kind of social capital - - approximate in a very real sense the relationship between physical capital and the public infrastructure in that physical capital is owned by individual 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.

ECONOMIC PERSONALISM AND PERSONALIST ECONOMICS

Economic personalism “is a science of the morality of markets – an attempt to analyze the moral ramifications of economic activity in light of a theological vision of the human person” (Gronbacher 1998, p. 1). Personalist economics., on the other hand, “...presents the person as the basic unit of economic analysis grounded in the philosophy of personalism as replacements for the individual and individualism of neoclassical economics” (O’Boyle and others 2010, p. 13). Economic personalism is centered at the Acton Institute where the *Journal of Markets and Morality* is published. Personalist economics is centered principally at Mayo Research Institute’s website: www.mayoresearch.org.

Economic personalism reconstructs economics on the foundation of Austrian economics. Personalist economics reconstructs economics on the foundation of solidarist economics.

The two are alike but not identical. Both see economic activity in terms of the person rather than the individual. Economic personalism focuses attention on the workings of the marketplace from a moral perspective. Personalist economics delves into our understanding as to how economic affairs are organized when the dynamic *person of action* replaces the passive *homo economicus*. The two in effect operate on parallel tracks driven by the engine of personhood.

Especially indicative of this parallel-track divergence are the key operatives Gronbacher (1998, p. 28) identifies with economic personalism: Michael Novak, Rocco Buttiglione, and the Acton Institute. At the same time he mentions only two Americans with connections to Catholic social teaching -- John Ryan and Rupert Ederer (Gronbacher 1998, pp. 17-20) – overlooking other major contributors to Catholic social economics in the United States including Goetz Briefs, Leo Brown, Louis Buckley, Peter Danner, Bernard Dempsey, Thomas Divine, Dan Finn, Arnold McKee, Joseph Solterer, William Waters, Stephen Worland, and others, all with close ties to the Catholic Economics Association during the 1940-1990 period. As mentioned above, Danner and Waters were especially instrumental in

the development of personalist economics. Schmiesing's survey (2001, pp. 176-193) of efforts both historical and contemporary to bring about a better understanding of the connections between economics and theology helps remedy Gronbacher's mishandling of the literature.

The most significant areas of agreement between economic personalism and personalist economics are anthropological: centrality of the person; subjectivity and autonomy; human dignity; person within community; participation and solidarity. No one has contributed more to economic personalism than John Paul II (Gronbacher 1998, p. 27). Personalist economics concurs.

Zuniga (2001, pp. 170-171) asserts that economic personalism has three properties: bearer, economic content, and person-mindedness. Unfortunately, her meaning here and elsewhere in her essay is lost in a language that does not connect well with the language of economics. "Bearer", for example, has no place in the language of economics. In the case of "economic content", which refers to scarcity that gives rise to choice that involves cost, is a fundamental premise of all economics. With "person-mindedness", which Zuniga describes as "intuitive consciousness of the agent," the examples she uses seem so self-evident: "if the nature of the job requires detail work, the workspace must be adequately lit" (Zuniga 2001, p. 170). In contrast, a personalist economy is organized around 20 tenets (see Mayo Research Institute, Working Papers).

Economic personalism it seems has a fundamental problem that it has yet to address. It embraces two significantly different philosophies – the methodological individualism of the Austrian school and the personalism of John Paul II (see Gronbacher 1998, pp. 1-34; Schmiesing 2001, pp. 176-193; Zuniga 2001, pp. 151-175). Personalist economics rejects the Austrian school for the same reason it rejects the mainstream. Individualism is a creature of the Enlightenment and the script stage of human communication during which economic agents often were largely isolated from one another on a daily basis. Personalism is a creature of the electronic stage of human communication during which economic agents, often at considerable physical distance from one another, no longer are isolated "atomistic individuals" because communication is nearly instantaneous. The economic agent today – the dynamic *person of action* -- is not only more interconnected with others but also more dependent. Consider, for example, just-in-time manufacturing, PayPal, and Skype.

CONCLUDING REMARKS

A human being is more than the one-dimensional self-interested, self-absorbed, and *passive individual* of mainstream economics. He/she is the two-dimensional, *dynamic person of action* of personalist economics with an identity as a separate and unique human being 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. Most fundamentally they are embodied spirits, a material body *inside* a

human spirit: not one part body, one part spirit, but a fusion of the two. Even so, a human being is able to become a *person of action* in economic affairs only if he/she has a body. In like manner, humans are individual beings and social beings: not one part individual, one part social, but a fusion of the two.

Rather than accepting Davis' argument that human beings are embedded in social and economic relationships a counter argument is made to the effect that sociality is embedded in human beings through the human development process that begins in the home at the hands of the family. Davis (2011, p. 234; emphasis added) rejects the sociality of human beings on grounds that it does not "say why essentially *asocial* individuals should be thought to have social motivations."

Asocial human beings by definition do not have social motivations because they reject or lack the *capacity* for social interaction. In that sense their development as human beings has been arrested. This developmental deficit may take many forms: shyness or social phobia, alcohol dependence, avoidant personality disorder, and depression (Koenigsberg, no date, p. 2). Two extreme examples of profoundly asocial tendencies are autism and Asperger's syndrome (Autism-Help 2008, pp. 1-5). However, intervention strategies are available including social skills training, coping skills training, family therapy, and case management (Koenigsberg n.d., pp. 2-3). Because asociality is a treatable human condition, it follows that sociality is to be regarded as a normal human characteristic.

For our purposes the lesson is that asocial tendencies can be treated and persons with such tendencies can learn to have social motivations. Sociality in other words is not necessarily a permanent developmental deficit. It is a Sen-like capability that can be learned and acquired.

Antisocial behaviour is another problem entirely. According to Hare, who is regarded as "foremost expert on psychopathy today" (Cohen n.d., p. 2),¹ even at an early age, psychopaths lie, cheat, steal, set fires, are truant and substance abusers, engage in vandalism and precocious sexual conduct (Hare 1994, p. 5). This affliction is known as antisocial personality disorder.

Psychopaths "can be "amusing and entertaining ... very effective in presenting themselves well and are often very likable and charming." In other words they can *appear* to be properly socialized. Psychopaths are disordered human beings and, according to Hare (1994, pp. 1-3), predatory. They can be identified by certain traits and behaviours but after years of clinical study and research Hare (1994, p. 2) still describes them as enigmas. It is

¹ Published originally by Cohen as "Do Certain Psychological Traits Predispose People to Criminal Behavior?" in *Handy Psychology Answers*, March 14, 2011.

much easier to help reduce a person's vulnerability to the predatory behaviour of the psychopath than it is to intervene effectively in the psychopath's life.

Without fully understanding why psychopaths engage in vicious behavior, personalist economics represents them as having *negative* personalist capital. Others such as teenagers who are good students and respect the property of others but engage in sexting or experiment with drugs clearly are not psychopaths. Sometimes they behave in a vicious manner; at times in a virtuous manner. As they mature, they may become more fully socialized with many of the proper social motivations, and as they become more fully social beings and more fully human persons, they are represented along with other normal but ethically challenged persons as having *positive* personalist capital.

Human beings are living, breathing, existential actualities who are very nearly divine. Society rightfully can be said to exist, but its existence is not the same as human existence. Clearly, society is not a living, breathing, existential actuality. Neither is it very nearly divine.

Human beings establish societies to help enhance their development. The ideal society is the one that contributes most to the achievement of human perfection. Sadly, at times societies actually stand in the way of the human development of its members as with the dysfunctional family and the tyrannical state. Societies exist for the sake of the well-being of its members. Their members do not exist for the purpose of serving society.

Society makes *three* major choices in allocating functions to its members. It chooses between the individual and the group, between the private and the public group, and between more and less democracy within groups. In each instance the principle of subsidiarity is a proper guide to the correct choice because the members of human society are persons, with the perfections and imperfections of persons (Becker 1959, pp. 3-9; emphasis added). Methodological individualism conforms to individual decision-making but not to group decision-making, to the Many but not to the One. Methodological holism aligns with the One, with group decision-making, with a preference for public group decision-making. Methodological personalism, on the other hand, conforms to both decision-making processes, with the Many and the One, with a preference for private group decision-making.

The *person of 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 dynamic *person of action*, an *individual being* and a *social being* whose nature is illuminated by the philosophy of *personalism* and who often must resolve conflicts that arise between his/her individuality and sociality.

knows both “I / me / mine” and “we / us / ours.”

The *person of action* can be either

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

In decision-making the *person of action* sometimes is ...

conflicted or confused hesitant or uncertain

¹ In addition to John Paul, §84, 8th Psalm, verses 5-6, see also John Paul II (1995). He repeats the theme that human beings are very nearly divine in his *Memory and Identity* (2005).

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 dynamic *person of action*, 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. Davis is correct: capabilities matter. However, we disagree with him that a human being is simply a collection of capabilities.

Mainstream economics asserts that in the end the passive *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 dynamic *person of action*, 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.

Personalist economics and economic personalism are agreed on five important areas: centrality of the person; subjectivity and autonomy; human dignity; person within community; participation and solidarity. In addition both embrace the personalism of John Paul II. They disagree on where to begin their reconstruction of economics. Economic personalism begins with the *acting individual* of Austrian economics. Personalist economics begins with the *person of action* and then undertakes the difficult task of deciding whether to keep or discard the principles and theories of mainstream economics.

Further exploration of methodological personalism addresses two fundamental questions. First, how best to improve the *person of action* as a proper representation of the economic agent through additional research in the philosophy of personalism? Second, what difference does it make to the economist's understanding of economic affairs when the *person of action* replaces *homo economicus*?¹

¹ Go to the website of Mayo Research Institute for my principles text that makes this replacement.

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