ECONOMIC GAIN, JUSTICE, GIFT, FORGIVENESS, AND INTEGRAL HUMAN DEVELOPMENT

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by

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Markets work on the basis of economic gain. To explain, an economic agent functioning in a market system requires economic gain in order to complete an exchange. What is gotten through exchange must be more highly valued than what is given up. Simply put, no gain, no exchange.

But economic gain alone does not control exchange. Trust is required and trust demands that the terms of the exchange must be fair to all the parties engaged in that exchange. The problem with fairness or justice in exchange is that "justice, if separated from merciful love, becomes cold and cutting." [John Paul 1998, p. 1]. As Benedict XVI put it more recently

> **The *earthly city* is promoted not merely by relationships of rights and duties, but to an even greater and more fundamental extent by relationships of gratuitousness, mercy and communion. [Benedict XVI 2009, § 6; emphasis in original].**

In the following we intend to address economic gain and duty in economic affairs as stipulated by the three principles of economic justice: commutative, distributive, and contributive. Then we explore the role of gift or what we prefer to call gratuitous gain and forgiveness that smooth the rough edges of justice and have real consequences for the economic agents involved. Finally, we examine the role of integral human development in economic affairs, how it is connected to personalist capital, and argue that the primary objective of economic affairs is maximizing integral human development not personal advantage in the form of utility or profit.

ECONOMIC GAIN

Markets work on the basis of the economic gain available to the parties engaged in exchange. To explain, every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up. As with mainstream economics, we differentiate between exchange value and use value. Exchange value is what is given up for the good or service acquired through exchange. Use value is what is gotten, that is the usefulness of the good or service to the person who acquires it.

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

hand, is a subjective human experience. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up). Without that gain, the exchange cannot be carried out.

The opportunity cost of purchasing a pari shoes is the gain available from whatever else might have been purchased with that money but was forsaken once the shoes were bought. If the shoes meet a need, as with safety shoes required on the job -- the opportunity cost is zero because nothing else will do. If, however, the shoes satisfy a want, are desired but not required, there is an opportunity cost in purchasing them.

Mainstream economics admits of no circumstance in which the opportunity cost is zero because all consumer behavior is construed in terms of want satisfaction: satisfying this want means not satisfying that want. Need has no place in the mainstream microeconomics. We who embrace personalist economics make allowance for the case of zero-opportunity cost because it recognizes the difference between need and want, addresses need in both microeconomics and macroeconomics, and thereby represents all economics as value-laden.

However, without a limit to the extent of that gain and its origins, some persons in the exchange process are able to take more than their due while others are left with less. Mainstream economics brushes aside the problem of exploitation and victimization with the invisible hand argument. Every economic agent in the pursuit of his/her own self-interest serves the good of all through the invisible hand of the market. Introducing justice into economic affairs is unnecessary and threatens the value-free nature of mainstream economic science. Personalist economics rejects the invisible hand on grounds that its appeal to magic and rhetoric is no substitute for the call of justice to reason and substance. Personalist economics accepts a value-laden economics as the price for aligning the study of economics more closely with economic reality.

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

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided what is gotten (the price paid by the customer) is more useful than what is given up (the cost to produce the bread), thereby adding to the baker's profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker's customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that

is gotten is more useful than the money given up. The gain achieved by the consumer -- consumer surplus -- can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer's gain is greater than initially expected.

When a buyer and a seller have exchanged the same item at the same price time after time, both parties know in advance the gains associated with that exchange and the gains forsaken and therefore act with considerable certainty. However, when a new item is exchanged or at least one of the parties enters the exchange for the first time, the gains properly considered are expected gains and there is some uncertainty in that exchange.

Considerable certainty applies as well to the exchange between an employer and a long-time employee. On the other hand, when an established employer hires a new worker, or a new business is recruiting its startup work force, uncertainty attends the decision-making.

To sum up, there is an important difference in emphasis in the way personalist economics and mainstream economics define opportunity cost. Mainstream economics defines it in terms of whatever else the decision-maker cannot do or have once his/her decision has been made. Personalist economics defines it as the gain available from whatever else might have been acquired with the money at hand but in the end was forsaken. Personalist economics departs from mainstream economics in two ways. First, personalist economics links opportunity cost to the straightforward language and logic of economic decision-making: what is gotten in exchange is more highly valued than what is given up. Second, personalist economics introduces need into the behavior of economic agents and the possibility of zero opportunity cost. Mainstream economics does not.

Profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is (1) the gain that comes from the producer's buying inputs in the resource market for use in the production process, and (2) the gain that derives from selling the finished goods in the product market. Thus the producer's profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.

However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three gains are absolutely necessary to that process. In their absence, exchange tends to break down.

We can simplify the connections between exchange and economic gain and between the market system and freedom, as follows. No exchange without economic gain, no market system without freedom.

ECONOMIC JUSTICE AND ILL-GOTTEN GAIN

Limits on the amount of gain in the form of profits, consumer surplus, and economic rent are necessary to prevent one party from taking advantage of the other and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of commutative, distributive, and contributive justice.

The *principle of commutative justice* states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to hand over the good or service in question. For the buyer, the burden is to hand over the money necessary to purchase that good or service. For the worker, the burden is performing the work assigned. For the employer, the burden is paying the worker the wage that they agreed to.

At first glance, exchanging things of equal value implies that there is no gain involved. On closer examination we see that this is not the case. Exchanging things of equal value means that what is exchanged is of equal *exchange* value, not equal *use* value. Taken together use value and exchange value result in economic gain whenever use value > exchange value.

When a market is reasonably competitive, exchange value normally does not fluctuate markedly from day to day and is the same or nearly the same for all buyers on the same day. Competition in other words reduces the control that any single buyer or seller has over price, keeps the market price close to the cost of production, and allows a reasonable profit margin but not undue profit. Thus there may be little need for personal restraint. Gain under these circumstances can be represented as follows:

gain is *justified* when use value > exchange value *restrained* by competition.

A problem arises, however, when the market does not impose this restraint, and agents are free to act, more or less, without restraint. Action of this type can occur when the producer fixes the price through a cartel or when the buyer is simply ill-informed about the market price and overvalues the product or service offered for sale. In such cases, the gain of the seller is ill-gotten because it is based on taking advantage of the buyer. Unrestrained action

may involve a buyer who has an opportunity to enhance his/her gain when the seller is unaware of the true value of the product or service offered for sale. The principle of commutative justice in all such cases informs both parties that the only justifiable gain is one that does not deprive the other party of the gain that is rightfully his/hers. Thus:

gain is *justified* when use value > exchange value *restrained* by faithful adherence to the principle of commutative justice in a situation where competition alone does not provide the necessary restraint.

***Distributive justice* defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens among the members of the group under his/her supervision in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees.**

Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children.

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

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

***Contributive justice* lays down the obligation of the member to the group to which that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues -- a duty -- is the usual requirement for the**

persons joining and remaining active in a membership organization. Failure to pay membership dues typically reduces a person to inactive membership status enjoying fewer or even little benefits of membership as compared to those in good standing.

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

JUSTICE AND GRATUITOUS GAIN

In this section we examine gratuitous behavior as originating in and reflecting the Christian virtue of charity and the secular virtue of caring.

Heinrich Pesch refers to charity as the guardian of justice and both virtues together as the bulwark of human welfare. [Mulcahy 1951, p. 68]. Pius XI in *Quadragesimo Anno* insists that justice alone is insufficient, that charity is required for a union of hearts and minds. [Pius XI 1931, § 137]. Later in *Divini Redemptoris* he states that charity is to be practiced after justice has been taken into account because the "wage-earner is not to receive in the form of alms what he is owed in justice." [Pius XI 1937, § 49].

In *Divini Redemptoris*, Pius XI refers to Christian charity as

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

Leo XIII, in *Rerum Novarum*, teaches that self-interest is not condemned under Christian charity.

> **… no one, is commanded to distribute to others that which is required for his own needs and those of his household; nor even to give away what is reasonably required to keep up becomingly his condition in life ... But, when what necessity demands has been supplied, and one's standing fairly taken care of, it becomes a duty to give to the indigent out of what remains over.[Leo XIII 1891, §22].**

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

Even though Christ Himself is the ultimate model of self-sacrifice, Christian charity does not demand that Christians uproot all self-interest and replace it with self-sacrifice. Rather, Christians are obliged to temper self-interest with generosity, to give to the poor from their abundance.

> **To sum up, then, what has been said: Whoever has received from the divine bounty a large share of temporal blessings, whether they be external and material, or gifts of the mind, has received them for the purpose of using them for *perfecting his own nature*, and, at the same time, that he may employ them, as the steward of God's providence, for the benefit of others. [Leo XIII 1891, §22; emphasis added].**

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

As noted in our introductory remarks John Paul II cautioned that "justice, if separated from merciful love, becomes cold and cutting." [John Paul 1998, p. 1]. Though he used different language, several years later Benedict XVI in effect affirmed John Paul's warning to the effect that for the disciples of Christ more than the virtue of justice is necessary for the proper conduct of economic affairs. [Benedict XVI 2009, § 6].

By caring we mean what Dempsey signifies by "putting oneself out for others." [Dempsey1958, p. 368]. Caring to this writer is the secular counterpart to Christian charity. Caring may be prompted by a sentiment such as the Golden Rule – "do as you would be done by" -- or Kant's categorical imperative – "act only on that maxim through which you can at the same time will that it should become a universal law."

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

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

In what follows, this writer emphasizes Christian charity, even though it requires a greater leap of faith than does caring, because Leo XIII warns in *Rerum Novarum* that "... no human expedients will ever make up for the devotedness and self-sacrifice of Christian charity ..." [Leo XIII 1891, §30] and Pius XI in *Quadragesimo Anno* insists that Christian charity "alone has power to subdue firmly but gently the hearts and wills of men to the laws of equity and justice." [Pius XI 1931, § 142]. Stated differently, putting oneself out for others simply is not sufficient. For sure, caring may achieve micro-economic results that are similar to Christian charity in the short run. However, if the one truly is no substitute for the other, caring is not likely to maintain that micro-economic performance in the long run unless, of course, it evolves into charity.

Before turning to the role of charity in the economic order it is instructive to examine the importance of caring to the preservation of community outside the economic order. Psychologist Willard Gaylin in his book *Caring* shows that caring parents are critical to the proper development of the child during the first year of life and the baby's development is linked directly to the survival of the entire human community. Economist Barbara Ward in *The Home of Man* [p. 256] points out that caring citizens are the most significant element in an environmentally stable community. Physician Richard Lammerton in *Care of the Dying* underscores the importance of caring in the treatment of the terminally ill and shows how the hospice concept of care for the dying protects and enhances the family. Microbiologist Rene Dubos in *Beast or Angel?* [pp. 45-56] argues that Neanderthal man practiced caring in order to insure group survival.

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

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

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

higher margin of profit[2] or it can be given freely in full or in part, to the customer. If the excess value-added is given freely to the customer and is accepted graciously and lovingly by that customer who explicitly acknowledges the bargain received,[3] the excess value-added in effect is freely given back to its source. In this manner, the Christian customer creates or enhances the real though intangible business asset known as goodwill. In contrast, the ungracious and unloving customer who accepts the gift but refuses or neglects to affirm the giver in effect loses an opportunity to contribute to this asset. The tragedy is that, with this holding back, nothing is kept, nothing is gained.

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

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

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

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

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

Christian charity and caring produce the gratuitous gain that stands in sharp contrast to the ill-gotten gain.

In *Caritas in Veritate* Benedict XVI claims that gratuitous behavior precedes the practice of justice.

> **While in the past it was possible to argue that justice had to come first and gratuitousness could follow afterwards, as a complement, today it is clear that without gratuitousness there can be no justice in the first place. [Benedict XVI 2009, § 38].**

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

JUSTICE AND GRATUITOUS GAIN IN LENDING AND BORROWING

The faithful practice of two principles of economic justice – commutative justice and distributive justice -- can contribute powerfully to (re-)establishing trust between agents involved in financial transactions. Regarding a routine loan transaction, both parties under commutative justice are agreed without coercion as to the amount to be borrowed, the schedule for repaying the principal, and the rate of interest that equalizes the burden for the creditor who must wait for repayment subject to the risk of default. Excessively high rates of interest are condemned as usurious, and the creditor is labeled a "loan shark." Thus, there must be some upper limit to the rate of interest imposed on the borrower that equates his/her burden to the burden of the creditor.

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

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

details of credit transactions that preferably is done by voluntary compliance or if necessary by some kind of private or public institutional oversight.

We note that the International Monetary Fund already has affirmed two codes relating to transparency: The Code of Good Practices on Transparency in Monetary and Financial Policies and the Code of Good Practices on Fiscal Transparency. [United Nations 2001, pp. 81-82]. Regulatory agencies, preferably of the voluntary or self-regulatory type, are preferred for this oversight role because they necessarily function closer to the day-to-day operations of the financial institutions whose operations they are examining. Locating the oversight agency as close to the actual lending institution and therefore close to the specific conditions in which that institution extends credit helps the oversight agency avoid supporting projects that have little or no prospects for economic success and long-term survival, and other projects that otherwise might be turned to personal gain.

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

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

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

Caring and Christian charity thus become valued economic resources that are absolutely unique in two ways. First, they acquire value only in the giving and never in the hoarding.

Second, they are never depleted in utilization. In economic affairs, they produce gratuitous gain.

FORGIVENESS: THE VIRTUE OF MERCY IN ACTION

Forgiveness is another remedy for what is lacking in the virtue of justice. It puts the virtue of mercy into action, which as we noted previously, Benedict XVV identified as significant in promoting the earthly city. [Benedict XVI 2009, § 6]. In economic affairs, forgiveness is the golden mean between enabling irresponsible financial behavior and crushing the human spirit under an unbearable load of debt.

Forgiveness by definition must be given freely by the one who holds the debt claim. The physician who does not charge an impoverished patient for care that is rendered, the landlord who allows a single mother who has lost her job and cannot pay the rent to remain in her apartment with her children, the neighbor who does not accept reimbursement for school uniforms purchased for children next door living with their grandmother who survives on a small monthly pension check exemplify the true meaning of forgiveness. In every instance, forgiveness involves a need that otherwise would not be met.

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

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

INTEGRAL HUMAN DEVELOPMENT

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

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

human development.

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

The immediate problem for personalist economics is how to square integral human development and human perfection with personal advantage – the central objective of the economic agent according to mainstream economics. The Jesuit social economist Bernard Dempsey provided the answer: human material development, which is achieved by maximizing human economic efficiency, is a *condition* for integral human development. [Dempsey 1942, p. 12; emphasis added]. Years later he added that the "basic purpose of the society cannot be other than the basic purpose of the real persons who compose it, that is, their perfection."[Dempsey 1958, p. 273]. Personalist economist Peter Danner uses language that is less direct than Dempsey's or Benedict's but unmistakably embraces integral human development as the ultimate end of economic activity.

> **Belief in a Supreme Being and a personal final destiny, implying a moral mandate to do what is good and right for people, espouses justice, moderation, and charity as values in seeking and sharing wealth. A philosophic view of humanity, by espousing personhood as an individual's ultimate dignity and worth, *judges economic actions according to how they enhance or degrade people as persons*. [Danner 2002, p. 35; emphasis added].**

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

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

> **In addition to these (individual needs) there are certain social needs which arise from his living in community with others, such as a sense of security and of status, a sense of belonging in his group, a sense of competence and of attention resulting from such competence, and a sense of importance and of participation with others in the job he is performing. But as the fulfilment of those social needs must be found**

> **for the most part in that area in which man spends the greater part of his social life, i.e. economic activity, it follows that *the final and ultimate goal of economic life is the development and perfection of human personality in so far as that lies within the sphere of economic activity*. In other words the individual is not only, as co-producer of goods and services, the efficient cause of economic activity, he is, as consumer and social being, the final cause as well. [Divine 1960, chapter 24, pp. 7-8; emphasis added].**

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

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

I. $\mathrm{IHD} = f\,(\mathrm{HC}, \mathrm{SC}, \mathrm{PerC}, \mathrm{MWB})$

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

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

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

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

At any specific point in time personalist capital is given by the stock of virtues (vir_i^P) acquired by a person from birth (t=0) through that specific time (t=) minus his/her stock of vices (vic_i^P). Thus the following function:

$$\text{II.} \qquad \text{PerC} = \sum_{t=0}^{i} vir_i^P - vic_i^P .$$

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

> **Moderation is not especially fashionable. …[B]y braking the tendency to seek pleasures for oneself and, instead changing one's preferences toward goods of higher values and away from baser sensual values, moderation is simply the rationale of a person's fostering the right use of material goods. Moderation, by thus linking guiding and braking functions, achieves Aristotle's principle that all true virtues steer between excess and deficiency.**
>
> **… [J]ust as moderation urges the right use of material things for self, justice directs their use for what is right for others. [Danner 2002, pp. 122-125].**

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

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

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

Mainstream economic theory has not come to grips with the limits on work that derive sensibly from moderation because mainstream economics defines leisure as "time spent not

working." Personalist economics, in sharp contrast, sees leisure as critically important to integral human development and human perfection *wherein maximizing IHD leads to human perfection*.

SUMMING UP

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

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

The problem with justice in exchange is that, as John Paul II asserts, "justice, if separated from merciful love, becomes cold and cutting." [John Paul 1998, p. 1]. What is required to smooth the rough edges of an exchange that is fully in accord with the principles of justice is what we prefer to call gratuitous gain where, due to Christian charity or its secular counterpart, caring, more is gotten in exchange than was agreed to. Gratuitous gain is unique in that it originates in the act of giving, and appears under the real economic forms of goodwill, workplace solidarity, and the authentic marketplace bargain. Gratuitous gain is lost whenever caring or Christian charity is withheld. It is, in other words, strictly impossible under the conditions of unrelenting acquisitiveness that mainstream economics posits for the economic agent.

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

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

Personalist economics is committed to finding a way to reconcile human perfection and integral human development, which encompasses the entire range of human materiality, spirituality, and personality, with personal advantage – the central objective of the economic agent according to mainstream economics. Bernard Dempsey, with support from Divine and Danner, provided the answer: human material development, achieved by maximizing human economic efficiency, is a *condition* for integral human development.

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

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

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

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