

# **PERSONALIST ECONOMICS: ORIGINS AND CONTENT**

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**It has become clear of late that there are defects in the Neoclassical Economics way of thinking about economic affairs. For instance, in his 2001 Nobel lecture, Joseph Stiglitz observed that there is considerable evidence indicating that “the economists’ traditional model of the individual is too narrow.” [Stiglitz, p. 488]. Sadly, Stiglitz had nothing to offer that fleshes out the who, what, and whose of the new economic agent to replace *homo economicus*. Seven years later and in the wake of the financial meltdown of 2008, former Federal Reserve chairman Alan Greenspan admitted that he was shocked to learn that the free market ideology he had embraced for 40 years was flawed. [Clark and Treanor, p. 1].**

**Personalist Economics has identified a central defect of Neoclassical Economics as originating with its representation of the economic agent in terms of *homo economicus* and its grounding in the philosophy of individualism. Both flaws are addressed directly by Personalist Economics that has a different understanding of human nature as set forth by the philosophy of personalism.**

**Our remarks in the following are presented in three sections. In the first section, we address why individualism is an unsatisfactory philosophical foundation for modern economic theory. In the second section we explore how in terms of 18 tenets Personalist Economics and a Personalist economy differ from Mainstream Economics and the individualistic market economy. In the third and final section we trace the origins of Personalist Economics to Aristotle and Aquinas and more recently to Heinrich Pesch, Joseph Schumpeter and the founders of the Catholic Economic Association which in time became the Association for Social Economics.**

## **I. INDIVIDUALISM: AN UNSATISFACTORY PHILOSOPHICAL FOUNDATION FOR MODERN ECONOMIC THEORY**

**Economic agency is at the very core of our understanding of economic affairs because as Marshall suggested economic reality is ultimately what ordinary people do in the everyday conduct of their economic lives. [Marshall, 1948, p. 1]. There is, in other words, no single concept more significant to the economic way of thinking than economic agency.**

**Beginning with Smith’s *Wealth of Nations*, the economic agent has been characterized as an individual being who is materialistic and driven by self-interest with a tendency toward utilitarianism. [(1776) 1937, p. 14]. However, earlier in his *Theory of Moral Sentiments* Smith presented a different economic agent, a social being who is benevolent, generous, sympathetic, and driven by duty and moral considerations. [(1759) 1964, pp. 257, 279]. Smith never fully reconciled the materialism of *Wealth of Nations* and the idealism of *Theory of Moral Sentiments*.**

Once Bentham's principle of maximum net personal advantage as operationalized by a hedonistic pleasure-pain calculus is added to the individuality, materialism, and self-interest of the economic agent of *Wealth of Nations*, economic man becomes a full-blown utilitarian. Idealism, sociality, and virtue succumb to materiality, individuality, and self-interest. By the mid-1800s economic man was firmly established in the economic way of thinking, and has remained largely unchallenged for more than 150 years. Economic man represents the single most important premise of mainstream economic theory today, while maximizing net personal advantage is the central objective function of the economic agent.

The main pillars of Classical Economics -- Smith, Ricardo, Malthus, and John Stuart Mill -- were inspired by several Enlightenment philosophers including notably Hume and the hedonists Hobbes and Locke<sup>1</sup> and constructed an economics strictly on human rationality and individualism in which the economic agent is represented as cut off from a deity who does not care about human beings or worse yet does not exist. Smith's *Theory of Moral Sentiments* in which generosity, benevolence, and sympathy also influence economic decision-making was all but buried by Classical economists in the 19<sup>th</sup> century who found much more to cling to in his *Wealth of Nations*. The same selective reading of Smith applies even today except for a very few whose economics is outside the mainstream.

Starting more than 200 years ago, individualism, materialism, empiricism, and secularism took firm hold not just in economics but across all of Western culture, and not just for the moment. The result has been a huge and ongoing split from Aristotle and Aquinas, from God and from revelation. On this Tarnas [p. 323] wrote:

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

We propose the following two-stage hypothesis. First, Classical Economics rejected *Moral Sentiments*, with its emphasis on other-centeredness expressed chiefly in terms of generosity, benevolence, and sympathy, and adopted instead *Wealth of Nations* that focuses on self-centeredness expressed in terms of net personal advantage while rejecting Aristotle and Aquinas. In that sense, Smith had one foot in the new world of the Rationalist-Cartesians and the other in the old world of the Scholastic-Aristotelians. Second, Classical Economics rejected Aristotle and Aquinas because its exclusive emphasis on human materiality does not reconcile with the matter/form, body/spirit construct so crucial to Scholastic-Aristotelians. Danner, a

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<sup>1</sup> Others including Descartes, Kant, and Diderot could easily be mentioned here. We have chosen Hobbes, Locke, and Hume from the Enlightenment period in part because (a) as with Smith, Ricardo, Malthus, and Mill, all three were British, (b) all three taken together are identified as materialists, as opposed to idealists, by Haney [p.197], and (c) Hume according to Heilbroner [p. 42] was Smith's "intimate."

leading proponent of Personalist Economics, found an accommodation to this old-world construct with his description of the economic agent as an “embodied spirit.” [Danner, 2002, p. viii].

Walter Ong’s powerful insights help explain the emergence of individualism in the Enlightenment of the 17<sup>th</sup>-18<sup>th</sup> centuries. Three key events/developments are crucial: the printing press, the Protestant Reformation, and Ramist pedagogy. All three represent a radical departure from Aristotle and Aquinas. All three occurred in Western Europe, the first in the 15<sup>th</sup> century, and the other two in the 16<sup>th</sup> century. Taken together, they are especially relevant to the emergence and development of economics since *Wealth of Nations* (see Figure 1).

As to the printing press and the Protestant Reformation, Ong wrote the following.

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

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

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

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

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

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

Mathematics and mathematical physics came into their own, according to Ong, in the period immediately following the Scholastics and only in Western Europe. [Ong, 1962, p. 72]. Under the influence of Ramist rhetoric, dialogue and conversation became “mere nuisances.” [Ong, 2004, p. 289]. Built on this, Aristotle was brutally attacked by Ramus.

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

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

These three events/developments made human beings more inward directed, more centered on self, and at the same time less outward-directed, less concerned about others, and more open to the philosophy of individualism. Ramism, added Ong, reduced what we learn through the other senses – smell, pressure, sound, taste -- as compared to what we learn using visual forms such as a table, graph, wave length. This visuality in turn is at the very heart of modern science. [Ong, 2004, pp. 108, 269].

Drawing on Aristotle and Aquinas, Personalist Economics rejects the individualism of today’s mainstream economics with its insistence on the individual as the basic unit of economic analysis and its claim of certitude in the findings of economic analysis.

Due principally to modern communication technologies, there is a huge difference in human consciousness today as compared to years ago. This difference has made possible new modes of thinking. As Ong remarked in the mid-1970s “we live in a different world inside our own

heads than did our great grandparents.” [Ong, 1977, p. 24]. Shortly thereafter he observed that “*only high-technology cultures have given rise to personalist philosophies.*” [Ong, 1981, p. 200; emphasis added]. In other words, the philosophy of personalism did not emerge until well after the economics of Smith, Ricardo, Malthus, and John Stuart Mill was firmly grounded in the philosophy of individualism.

Contemporary Mainstream Economics, however, still holds fast to the thinking prevalent when writing was the most advanced mode of human communication, resting on the silent premise that human communication today is no different than it was in Smith’s day and therefore human beings relate to each other and to themselves no differently than 225 years ago – as isolated individuals. In essence, it matters not that with the development of the telegraph roughly 150 years ago, followed by the telephone, radio, television, fax, internet, and email, human communication has emerged from the script stage into the electronic stage and has dramatically changed human awareness of others and of self.

Alfred Marshall touched on this development at least twice in his *Principles of Economics*:

...[T]he growing power of the telegraph, the press, and other means of communication are ever widening the scope of collective action for the public good. [Marshall, 1948, p. 25].

The causes of [the rise in earnings of the exceptional genius] are chiefly two; firstly, the general growth of wealth; and secondly, the development of new facilities for communication, by which men, who have once attained a commanding position, are enabled to apply their constructive or speculative genius to undertakings vaster, and extending over a wider area, than ever before. [Marshall, 1948, p. 685].

Writing at roughly the same time, Heinrich Pesch launched the following criticism of individualism.

Individualism represents a mechanism. It has no intrinsic binding force, no inner organic unity, no coordination or direction toward a common goal. Thus competition there does not amount to contention in the performance of functions toward the fulfillment of a common purpose, but it is rather a relentless conflict among individuals. Authority remains as something extrinsic to this process rather than an intrinsic principle of society. Its task is simply to prevent the worst kind of mayhem, like the policeman in Berlin on New Year’s Eve. [Pesch, 2002-2003, volume II, book 1, p.249].

The clash between Classical/Neoclassical Economics and Personalist Economics centers on method and valuation. Classical/Neoclassical Economics is narrow, mathematical, deterministic science. Personalist Economics is broad, soft, moral science. Classical/Neoclassical economists think about economic affairs mainly in terms of the decision-making process and the utility- and profit-maximizing behavior of the individual. Personalist

economists think about economic affairs principally in terms of human material well-being. [Waters, 1988, p. 137].

In Classical/Neoclassical Economics, human beings are seen as outside the domain of the sacred and are valued instrumentally. In Personalist Economics, everyone has a sacred dignity that reflects, as John Paul II affirmed, that they are created in the image and likeness of God and therefore are very nearly divine. [John Paul, 1998, §§ 7, 12].

## II. PERSONALIST ECONOMICS AND A PERSONALIST ECONOMY

The following eighteen central tenets constitute the core of Personalist Economics and a Personalist economy. We see these tenets as enduring, though others very likely will emerge as we learn more about how personalism shapes our understanding of economic affairs. Of the eighteen, the first is by far the most important and likely will remain so.

► *The human person is the basic unit of economic decision-making and economic analysis.* Mainstream Economics rests solidly on the premise of the *individual* as the basic unit of economic decision-making who is governed by the laws of nature and acts in a rational, self-interested manner. The common good is achieved by economic agents pursuing their self-interest by means of self-regulating impersonal forces of the market, or simply *the invisible hand*.

Personalist Economics sees the basic unit of economic affairs as the *person* who is both an individual being and a social being and at once both matter and spirit. At times, humans act according to the premises of Mainstream Economics. At other times they act in ways that are emotional, other-centered, and utility-satisficing, not maximizing. While the common good is a key factor in both Mainstream and Personalist Economics, in Personalist Economics it is achieved by means of *the visible hand* of human beings acting collectively and, following the principle of subsidiarity<sup>1</sup>, through private organizations before turning to government for help.

Whereas the *individual* of Mainstream Economics is an entirely rational, predictable utility-maximizing machine whose decisions are dictated by a pleasure/pain calculus, the *person* of Personalist Economics is a living, breathing, existential actuality who actively engages in economic affairs and is best represented by Schumpeter's entrepreneur.

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<sup>1</sup> Hobbes ["Leviathan", pp. 286-297] argued that in the natural state, where there are no laws, human beings behave like wolves at each others' door. For peace to prevail they must transfer their rights to a single person or assembly. Becker [1959, p. 4] on the other hand and in defense of subsidiarity stated that this principle implies importantly that decision-making should be shared as widely as possible.

► *Human beings are sacred with rights originating in their very nature.* According to Mainstream Economics, human worth is determined contractually, as for example in the wage contract. Voluntary exchange reinforced contractually is at the very core of contemporary Neoclassical Economics that perceives *laissez-faire* as the ideal economic order. Personalist Economics insists instead that humans are sacred and therefore have a status in economic affairs wherein their inalienable rights are more fundamental than contracts. They are ends in themselves and never to be seen merely as means or inputs to be valued instrumentally. Following John Paul II [1995, § 84], human persons are made in the image and likeness of God and therefore are very nearly divine.

► *Human beings are both want-satisfying and need-fulfilling.* In their effort to make economics value-free, Mainstream economists argue that all consumer behavior is want-satisfying. They do this knowing that if they admit that consumer behavior is also need-fulfilling economics becomes value-laden because need is a normative concept that is defined differently by the different persons who use it. For that reason in Mainstream principles texts poverty, which by definition is a normative concept, is typically addressed separately from consumption as if the two were unrelated. Personalist Economics recognizes that consumers are both need-fulfilling and want-satisfying, and that want satisfaction, like need fulfillment, also rests on values: I want something because I value it. This recognition follows from holding that good economic analysis rests firmly on the foundation of what is real and true and not on what is manageable and contrived.

► *Meeting the needs of the human body is an intermediate objective of an economic system.* Mainstream economists construct economics around things and thus the efficient utilization of economic resources is the primary criterion by which economic performance is to be judged. In Personalist Economics human beings matter more than things and for that reason meeting the needs of the human body is only an intermediate criterion by which an economy is to be assessed. In this regard, Personalist Economics affirms the preferential option for the poor: those who are neediest are to be served first because even the lowliest among us are very nearly divine.

As viewed through Personalist Economics, the ultimate objective of an economic system is human perfection, which in economic affairs is achieved by maximizing integral human development. Maximizing personalist capital -- the favorable reputation one acquires through the practice of the virtues of justice, courage, moderation and prudence and the avoidance of the vices of injustice, cowardice, excess, and foolishness -- contributes in turn to the maximization of integral human development. Personalist Economics perceives consumption, work, and leisure more broadly than does Mainstream Economics. Goods and services are consumed not just to meet the needs and wants of the human body but also and inevitably to meet certain needs and wants of the human spirit. Work is for the dual purpose of (1) earning

the income necessary to acquire needed and desired consumer goods and services, and (2) becoming more fully human by meeting the need to belong and the need to utilize and develop creative skills and talents. Leisure is not just what one does when not working but what one is becoming. As with work, leisure is seen in both a communal and an individualistic context.

In Personalist Economics, *having* matters less than *being*. The things one owns are less important than the kind of person one is becoming. In the end, all three principal economic activities -- consumption, work, and leisure -- provide opportunities to acquire the virtues that contribute to personalist capital and personhood or the vices that diminish personalist capital and personhood.

► *The acting person/person in action replaces homo economicus.* By effectively ignoring that humans are embedded in families, communities, neighborhoods, companies, civic organizations, and the like, Mainstream Economics has constructed a concept of the economic agent -- *homo economicus* -- that is a distortion of what a human being really is. Personalist Economics argues forcefully that humans are a union of individuality and sociality, sometimes in harmony, sometimes at odds, requiring a reconciliation of deeply personal conflicts such as between work and family, or spending and saving. The *person in action* incorporates the sociality of human nature even at the expense of some determinateness in economic analysis because good science begins with the right constructs. Constructing economic agency around the *acting person* makes for a microeconomics based on human individuality and a macroeconomics based on human sociality and indicates the direction to be taken to finally create a unified body of economic theory.

► *Economics is a value-laden discipline that struggles to sort out the uncertainties in economic affairs.* To Mainstream economists, human reason unlocks the mysteries of the economic order that are expressed with certainty in determinate models, giving their economics the aura of an authentic positive science like physics. In Personalist Economics, the principle of certainty is not accepted *carte blanche*. Some indeterminateness is inevitable because human beings are not entirely knowable and their behavior is not completely predictable. Further, human beings alone are moral agents because humans alone have the intelligence and free will to make ethical choices. Economics therefore is a normative discipline, one that is value-laden as opposed to value-free. The challenge to the working economist in this regard is to know the difference between the facts discovered through systematic inquiry and the values that one attaches to those facts.

► *Decision-making centers on markets and institutions.* In strict Mainstream thinking, the ideal economy is self-regulating wherein any intervention on the part of the government is regarded as a departure from the efficiency of the market system. Personalist Economics accepts the market system subject to the constraint that at times it is necessary to intervene in a market through public regulatory bodies such as the Securities and Exchange Commission and the

**Federal Trade Commission or private organizations such as trade associations and unions in order to assure that the powerful do not devour the weak and the good of the community is not routinely sacrificed to the good of its individual members.**

► ***Justice and charity are necessary to check abuses that derive from excessive gain-seeking behavior.*** In a market economy, transactions are driven by gain-seeking behavior. Without the prospect of some gain, an economic agent simply is not motivated to complete a transaction. However, at times agents are exploited, deceived, or mistaken and consequently deprived of the gain that is their due. The virtues of justice and charity are twin bulwarks that help protect humans from the abuses that originate in the excessive gain-seeking behavior of others. The three principles of economic justice -- commutative, distributive, and contributive -- specify the duties that apply to buyers and sellers in relating to one another, to superiors in relating to their subordinates, and to a person in relating to any group to which s/he belongs. These duties, if faithfully executed, protect human wellbeing by curbing the destructive human attraction to ill-gotten gains.

Charity goes beyond the passive Kantian imperative to not view humans as mere instrumentalities, and requires each person to actively affirm every other human being as a deserving person. Charity, along with justice, can eliminate the ill-will, disorder, and ripping off that otherwise are common to a marketplace and workplace, replacing them with goodwill, solidarity, and authentic bargains. Charity comes alive and takes on value only when it is given away, and uniquely is never depleted by use. With the exception of distributive justice, charity and justice are not emphasized in the Mainstream Economics way of thinking.

► ***Social justice requires the individual to do all that is necessary for the common good.*** Practicing social justice means practicing all three types of justice relevant to economic affairs: commutative, distributive, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carry out their everyday economic activities in common. It is a serious mistake, therefore, to reduce social justice to contributive justice alone.

► ***Three principles organize economic affairs: competition, cooperation, and intervention.*** The first two activate economic affairs on the basis of two human dispositions. Competition is based on the human disposition to undertake certain activities alone for the reward to be gotten from completing those activities successfully. Cooperation derives from the human disposition to undertake certain tasks collectively because they cannot be done effectively or at all by persons working alone. The decision to use competition is to organize economic affairs around the Many (individuals). The decision to use cooperation organizes economic affairs on the basis of the One (group). Thus, competition manifests human individuality while cooperation expresses human sociality. Intervention operates in the limiting mode and often involves government action to curb certain destructive human activities energized by

competition or cooperation. To protect human wellbeing, such intervention is to be grounded in the virtues of justice and charity.

► *Five social values underlie the three organizing principles.* Each one of the three organizing principles rests on different social values. In the absence of these values in society as a whole, the principles cannot be used effectively to organize economic affairs or used at all. Competition depends on the social value of individual freedom. If persons are not truly free to act they cannot compete. Cooperation rests on three other social values: teamwork, community, and solidarity. Without these values being widely shared across society, collective action cannot be undertaken. Intervention rests on the social value of equality in the sense that it is necessary for collective action to stop the powerful from subordinating and exploiting the weak. A *laissez-faire* economic order backed by Neoclassical Economics is based on the social value of freedom *from* government restraint, better known as liberty. In Personalist Economics, freedom also means freedom to act as a responsible human person.

► *Dynamic disequilibrium rather than static equilibrium is the order of the day.* Mainstream Economics represents both microeconomic and macroeconomic affairs in terms of a static equilibrium of supply and demand wherein the self-regulating forces of markets bring the system into balance by the systematic clearing away of any and all surpluses and shortages. This view of economic affairs has been characterized as mechanical. Personalist Economics, on the other hand, represents economic affairs as organic wherein the economy is driven dynamically toward disequilibrium by innovational change -- creative destruction -- that depends critically on the support of credit-creating financial institutions. The difference is between the centripetal-like impersonal forces of the market bringing the system to rest and the centrifugal-like human energy of the entrepreneur initiating change and triggering unrest in the system.

Instructed by William Waters [1988, pp. 113-143], Personalist Economics views economic development as based on creative destruction plus Schumpeter's other insights regarding development: creative vision, funding, access to resources, dynamic competition, and resistance to entrepreneurial change. Waters added two other factors: the natural working together of labor, management, and government, and the cooperation of workers, managers, and owners in the workplace. At the very heart of economic affairs and therefore economic development is the entrepreneur who is the agent of change and the quintessential *person in action*.

► *Some limits are present in economic affairs and others must be imposed because humans are materialized spirits.* Human materiality assures certain physical limits regarding consumption and work. The human body can consume only so much in one sitting so to speak, and can work continuously for only a certain number of hours without rest. Further, without other limits that reside quietly in the human spirit on what and how much we consume, how long and how hard we work, and how much we allow for or indulge in re-vitalizing leisure activities, our

development as human persons is arrested or misdirected. The three principles of justice, along with the practical virtue of moderation, provide useful and effective internally residing limits on consumption, work, and leisure, and their faithful practice contributes powerfully to the realization of the full potential of every human being.

► *No less than his Wealth of Nations, Adam Smith's Moral Sentiments should inform our re-thinking of economic affairs.* Indeed, there are compelling reasons to include both masterpieces in a reconstruction of economics around Person as the basic unit of economic analysis and Personalism as its philosophical foundation, thereby making economics more relevant to contemporary economic affairs. *Moral Sentiments* and *Wealth of Nations* should be read and interpreted together to more fully appreciate Smith's enormous contribution to our ability to describe and understand contemporary economic affairs more accurately. *Moral Sentiments* examines human sociality. *Wealth of Nations* explores human individuality.

► *The evolutionary model is superior to the cyclic model.* As with other disciplines such as history that "repeats itself," Mainstream Economics is constructed on a cyclic model that applies circular descriptions and explanations, such as the circular flow diagram and the business cycle, to economic events. In the cyclic model events are construed as structurally identical, inevitable, and predictable, and legitimize the widespread use of econometrics in Mainstream economic analysis. Using cyclic reasoning, and given the data required to operationalize their econometric models, Mainstream economists are comfortable in asserting that changes in economic affairs can be predicted. What they do not fully appreciate is that one other requirement must be firmly in place: *homo economicus* is an utterly rational, never-changing, and predictable human individual. Without this rationality and constancy about human individuals as economic agents, and the automaticity that is characteristic of market economies, the cyclic model disintegrates for lack of predictability.

One can employ the cyclic model only by carefully including certain fundamentals, for example by imputing values for unobserved variables and excluding others by such means as *ceteris paribus*. Further there is no real model or analogue for cyclicism -- that is the identical and inevitable repetition of an event at two (much less at an infinite number of) points in time. Following Walter Ong [1967b, pp. 61, 73, 78], we are persuaded that there is no way to posit a never-changing *homo economicus* without essentially casting aside evolution -- the central unifying discovery of all humankind -- and without effectively cloning all economic agents from a single cell taken from a hyper-rational abstract human being. The essential determinant of economic affairs -- the economic agent -- is evolutionary in nature not cyclic. It follows that our economics should be re-constructed on the foundation of evolutionary rather than cyclic thinking.

► *The acting person/person in action seeks to maximize personalist capital through the practical virtues of justice, courage, moderation, and prudence.* Mainstream Economics regards *homo*

*economicus* as subject to change in that the economic agent is capable of acquiring or losing human capital, such as education or the physical ability to perform a job. Further, Mainstream Economics acknowledges that at times *homo economicus* acts altruistically, in accordance with the needs and desires of others, and reconciles this behavior with the self-centeredness of *homo economicus* by labeling it “enlightened self-interest.” Even so, *homo economicus* is essentially *never-changing* because that simplifying proposition assures a predictability of behavior in economic affairs and a certainty regarding empirical findings that fit comfortably in the view of economics as a hard science.

The *acting person/person in action*, on the other hand, emphasizes personhood and personalism in place of the individuality and individualism of *homo economicus*. The *acting person* directs attention to the economic agent as one who is *actively* engaged in economic affairs rather than an individual who like a machine *passively* maximizes personal net advantage, and to *how* the economic agent conducts economic affairs either by embracing virtue and avoiding vice or by computing costs and benefits. The *person in action* connects economic agency to work, consumption, and leisure that change the economic agent who in acting virtuously or viciously accumulates or depletes personalist capital, and thereby is more effective and highly valued as an agent or less effective and less valued. The *person in action* is *ever-changing*.

In total disregard for the wisdom of the ages regarding moderation and human development Mainstream Economics asserts that above all else *homo economicus* maximizes net personal advantage in terms of utility and profit and that the economy functions best when it achieves Pareto optimality. Maximizing utility and profit is based on the proposition that good invariably consists in *having* more. Without fear of compromising human development on the altar of that flawed proposition, Personalist Economics claims that most fundamentally an economy functions best when the *acting person/person in action* maximizes personalist capital thereby enhancing his/her own integral human development and rendering him/herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the proposition that the good always inheres in *being* more in a positive (virtuous) way.

► *Personalist Economics follows Amartya Sen’s argument that the task for economics is to enlarge everyone’s capabilities and asserts uniquely that the economic agent, the acting person strengthens his/her capabilities set by acting virtuously in economic affairs and weakens that set by acting viciously. Acting virtuously contributes to personalist capital just as acting viciously diminishes it. Further, strengthening everyone’s capabilities set enhances integral human development just as weakening that set impairs it. Personalist Economics not only adds an important human behavioral element -- personalist capital -- to Sen’s capabilities set but also links that improved set to integral human development and asserts that the ultimate purpose of the economy is maximizing integral human development that is achievable by maximizing one’s capabilities set.*

► *A Personalist Economy is based on the market mechanism, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the legitimacy of profit, and personalist capital.* In addition, though they may be produced and owned by a few, the goods produced in a Personalist Economy are intended for use by all humankind. A Personalist Economy represents a viable option to both Capitalism and Socialism because it is organized around private groups positioned between the individual person and the more powerful state, groups that emerge due to the inability of the individual person to adequately address all specific economic problems. These private intermediary groups are a distinguishing characteristic of a Personalist Economy.

By using non-collusive cooperation to work out solutions to problems, intermediaries that operate in a Personalist Economy offer promise for slowing the growth of big government, thereby helping preserve the free exercise of economic initiative. The most important characteristic of these intermediaries is a separate administrative organization that subordinates competition to cooperation in a dynamic decision-making process that is positive-sum in that the members seek to achieve gains for all of the parties involved whether they are directly represented in the organization or not. Arising from the social nature of human beings who are encountering the same day-to-day economic difficulties, these intermediaries are as diverse as the individual natures of their human members and the specific economic problems they hope to resolve.

### III. THE ORIGINS OF PERSONALIST ECONOMICS

*Aristotle and Aquinas.*

Personalist Economics originates from the marriage of Greek science from antiquity and Scholastic philosophy from the Middle Ages that owes much to the German Jesuit Heinrich Pesch (1854-1926) who constructed an economics based directly on Aristotelian-Thomistic thought.<sup>1</sup>

Foundational to Personalist Economics are several propositions that can be traced to Aristotle and seen to be embraced more or less by Aquinas, including private and common property, wealth, exchange value and use value, the four practical virtues, virtue and vice, and generosity and benevolence.

**Property.** To Aristotle property was anything whose value is measured in terms of money. [*The Nicomachean Ethics*, Book Δ, 1, p. 57]. Regarding ownership and use of property, Aristotle differentiated between common property and private property and, while setting down the conditions justifying how property is to be used in common, affirmed the primacy of private ownership because it reduces squabbling over what belongs to whom. [*Politica*, Book II.5,

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<sup>1</sup> See Pesch [1998, p. 1].

pp.1262b, 1263a]. No one, according to Aristotle, could live well or for that matter even survive in a household without its own property to help provision basic needs. [*Politica*, Book I.2, p. 1253b].

Aquinas added one other reason in support of private ownership: private property encourages effort. Common property, on the other hand, promotes malingering. However, he did not accept Aristotle's affirmative regarding the primacy of private ownership. Rather Aquinas argued the negative to the effect that private ownership is "not contrary to the natural law," which holds that things are to be held in common provided they are under private management as with large tracts of agricultural land in western Ireland that historically has been held in common under the private, collective management of the farmers living nearby. Further, private property may be used for personal gain, which we will see later is necessary for exchange to take place in a market economy. [*Summa Theologica* Vol. 2, Q 66, "Of Theft and Robbery," Art. 1, "Whether It Is Natural for Man to Possess External Things," p. 1476; Vol. 2, Q 66, "Of Theft and Robbery," Art. 2, "Whether It Is Lawful for a Man to Possess a Thing As His Own," pp. 1476-1477].

**Wealth.** For Aristotle household management was either entirely or mainly wealth-acquiring. Acquiring wealth through household management is both "necessary and honorable." [*Politica*, Book I.2, p.1253a; Book I.10, p.1258a].

*Entirely* wealth-acquiring appears to fit well into the Mainstream way of thinking with its emphasis on maximizing net personal advantage. *Mainly* wealth-acquiring is better aligned with Personalist Economics that proposes human perfection as the final objective of economic affairs.

A second way to acquire wealth is through retail trade. Aristotle characterized this as wealth producing but "unnatural" because it is zero-sum in nature and without limit. [*Politica*, Book I.9, p.1257a; Book I.10, p. 1258a]. Clearly, neither Mainstream nor Personalist Economics considers retail trade a zero-sum activity *per se* though both, especially Personalist Economics, concede the danger that what is positive-sum can be manipulated into something that is zero-sum. The Mainstream accepts the notion that there is no limit to acquiring wealth. Personalist Economics argues in support of a limit on the grounds that wealth without limit undermines the virtue of moderation that is necessary for integral human development.

**Use value and exchange value.** Aristotle recognized the difference between use value and exchange value. As with all possessions, shoes have use value for the person who wears them. They have exchange value for the person who barter them for something else. [*Politica*, Book I.9, p.1257a]. However, Aristotle seemed to miss the crucial role of the producer of the shoes and the replacement demand for shoes (see *Politica*, Book I.9, p. 1257a). The producer in fact makes the shoes not primarily for use value but for exchange value. When the shoemaker

engages in retail trade, s/he agrees to an exchange only when what s/he gets by trading is greater than what s/he gives up. Trade from this perspective is natural, wealth-acquiring, necessary and honorable. Put differently, no gain - no exchange.

Aristotle's argument that retailers survive only when they are able to attract more buyers overlooks the difference between needs that are met once and never again so that to stay in business more buyers must be reached, such as the need for a stove in which to bake bread, and other needs that are met on a continuing basis so that the retailer can stay in business by serving the same buyers over and over again, such as the oil and flour that are necessary for making bread. Personalist Economics does not make this mistake. But Mainstream Economics departs from Aristotelian thought in that all exchange involves things that are desired in terms of their utility. There is no distinction between needs and wants in the Mainstream way of thinking about consumer behavior, no requirement to engage in the value-laden task of defining the things that truly are needed. Thus the Mainstream's claim that economics is value-free. This claim, however, disintegrates in the hands of every author of an introductory economics text who addresses the necessarily value-laden issue of poverty, and every analyst who for example examines the adequacy of unemployment insurance and workman's compensation benefits, the present value of a loss of life or limb, or engages in a cost-benefit exercise involving a decision regarding the allocation of anything that is desperately needed such as a heart, lung, or liver transplant.

Aquinas was more interested in the just price that must conform to the two conditions asserted by the principle of commutative justice: to exchange things of equal value and impose equal burdens on one another. For Aquinas the just price was based on estimates and was not a mathematically precise thing wherein small deviations are indicative of some failure to achieve the necessary equality. [*Summa Theologica*, Vol. 2, Q. 77, "Of Cheating, Which Is Committed in Buying and Selling," Art. 1, "Whether It Is Lawful to Sell a Thing for More Than It Is Worth," pp. 1513-1514]. In this regard, Personalist Economics is in full agreement.

However, by seeming not to accept Aristotle on the difference between use value and exchange value Aquinas appears to have stumbled over the issue of when an exchange is acceptable and when it is to be condemned. Thus, and calling on Aristotle's distinction between natural and unnatural exchange, Aquinas argued that when exchange meets a need it is natural and commendable but when it "satisfies the greed for gain" it is not natural and not commendable. [*Summa Theologica*, Vol. 2, Q. 77, "Of Cheating, which is Committed in Buying and Selling," Art. 4, "Whether In Trading It Is Lawful to sell a Thing at a Higher Price Than What Was Paid for It?" pp. 1516-1517]. Personalist Economics avoids this confusion regarding gain-seeking behavior by following Aristotle on use value versus exchange value, limiting ill-gotten gains through the competitive forces of the marketplace, the practice of charity, and the three principles of economic justice.

**Practical virtues.** There are four virtues that are typically treated as a set and are known as cardinal, moral, or practical virtues: justice, courage, moderation, and prudence. Justice is rendering to others “neither more nor less” than what is owed. Courage is firmness in “situations fraught with conspicuous difficulty” and constancy in the pursuit of the good. Moderation restricts the attractiveness of pleasures and provides balance “between excess and deficit” in the use of created goods. Prudence “concerns the whole of human life and its last end,” prompting one to select the best means to achieve a good end. [Thomas Gilby, selector and translator, *St. Thomas Aquinas: Philosophical Texts*. London: Oxford University Press, 1951, 880, p. 310, *Summa Theologica* 1a-2ae, lxiv, 2; 981, p. 336, *Summa Theologica*, 2a-2ae, cxxii; 877, p. 309, *Summa Theologica* 1a-2ae, lxiv, I; 868, p. 307, *Summa Theologica* 1a-2ae, lvii, 4, *ad* 3].

All four are addressed at length in Aristotle’s *Nicomachean Ethics* wherein moderation is called temperance and prudence is referred to as practical wisdom. Deliberation is the identifying characteristic of the person possessing practical wisdom. It is action, according to Aristotle, not contemplation that makes a person virtuous: “...we become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts.” [*Nicomachean Ethics*, Book VI, § 5; translation by Ross; Book II, § 1]. This linkage between virtue and action is most relevant to our efforts to represent the economic agent as the *acting person* and to refer to the favorable reputation acquired through adherence to the four practical virtues and avoidance of the corresponding vices as personalist capital, which in turn contributes to integral human development and human perfection.

Following Aristotle, justice is the golden mean between rendering too much to others and rendering too little. Thus the special interest in the just price among the Scholastics and the just or living wage among Personalists. Courage is the golden mean between cowardice and recklessness. Moderation is the mean between gluttony and extreme self-denial. Prudence helps us *discern* excess and deficiency in other areas, enabling us to locate the mean though not activating us toward that mean. [Rickaby, pp. 5-8; Kraut, pp. 5-7].

We refer to the four virtues as *practical* because they relate not to thought or truth but to practical human action. Moderation and courage are always inward-directed, toward self; justice is outward-directed, adjusting a person’s interaction with others. [Schall, pp. 410, 414-5; Thomas Gilby, selector and translator, *St. Thomas Aquinas: Philosophical Texts*. London: Oxford University Press, 1951, 874, p. 308, “Disputations, *de Virtutibus Cardinalibus*”, I]. Prudence is not rational self-interest unless it is tempered by justice and friendship or love. [Finnis, p. 20]. It involves both the end sought and the means to attain that end, calls for reason rather than impulse, and takes counsel from others in the selection process. [Elmendorf, p. 4]. Prudence therefore is both inward- and outward-directed.

Justice is “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.” [Schall, pp. 409, 412, 419]. The remedy is found in the virtues of gratitude, benevolence, and charity.

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, for example, 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. 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. Justice limits ill-gotten gain wherein one party gets too little because the other 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.

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

Virtue and vice. Virtue and vice are critical dimensions of Aristotle’s understanding of human nature. In *The Nicomachean Ethics* [Book Θ, 6, p. 146], for example, he compared and contrasted how good men and bad men consider friendship: the former in terms of others, the latter in terms of self.

Regarding virtue Aristotle asserted that “... it is more characteristic of virtue to do good than to have good done to one, and more characteristic to do what is noble than not to do what is base.” [*The Nicomachean Ethics*, Book IV, § 1; translation by Ross]. It follows that vice involves treating others badly. As we have seen in the preceding, personalist capital, which is central to integral human development and human perfection, is enhanced by virtuous behavior and diminished by vicious behavior.

Doing what is noble as opposed to not doing what is base calls to mind Kant’s second imperative to never treat others just as a means to an end but always as an end. John Paul II explained the difference between the second imperative and the Christian commandment of love.

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

In this regard, Aristotle's directive is closer to the Christian commandment of love than is Kant's second imperative. For economics, *affirming the person as a person* means recognizing that s/he is, as John Paul has stated, very nearly divine.

Thus, Aristotle provided more support for the tenet of Personalist Economics that every human being most fundamentally has a sacred dignity as opposed to the tenet of Mainstream Economics that every human being has strictly instrumental value (see Waters, 1988, pp. 114-120).

The virtue of charity was all important to the Christian theologian/philosopher Aquinas. Charity directs human beings toward their ultimate end. Every good work is performed only through charity. Friendship is grounded in love of one's friends. Aquinas also urged us to love not only others but ourselves as well. [*Summa Theologica*, Vol. 1, Q. 65, "Of the Connect of Virtues," Art. 2, "Whether Moral Virtue Can Be Without Charity?" p. 863; Vol. 1, Q. 65, "Of the Connect of Virtues," Art. 3, "Whether Charity Can Be without Moral Virtue?" p. 863; Vol. 2, Q 25, "Of the Object of Charity," Art. 4, "Whether a Man Ought to Love Himself out of Charity?" p. 1288]. By emphasizing friendship and charity Aquinas was in effect advancing an argument disputing the strict individuality of *homo economicus* and self-gratification as the principal motivating factor in economic affairs.

**Generosity and benevolence.** Aristotle underscored the role of generosity in economic affairs which depends not on what or how much is given but on the "habit of the giver ... [who] will both donate and spend the right amounts and for the sake of what is right, alike in small and great matters ..." Generosity is the Golden Mean between the extremes of wastefulness (giving too much) and stinginess (giving too little). All three are linked to the giving and taking of property. Indeed, without property, kindness and service to others are not possible. [*The Nicomachean Ethics*, Book Δ, 1, pp. 57-59; "Politica," Book II. 5, p. 1263a].

Aristotle also affirmed the virtue of benevolence. What good are personal wealth and possessions "[w]ithout the opportunity of beneficence, which is most exercised towards friends and most praised when so exercised ..."? [*The Nicomachean Ethics*, Book Θ, p. 140]. For

Aristotle, benevolence is prompted not by the expectation of getting something in return but rather by the good of the person to whom that benevolence is directed. [Konstan, pp. 2, 7].

By underscoring friendship -- “just as a virtuous man is disposed towards himself, so is he disposed towards his friends, for his friend is another self” [*Nicomachaen Ethics*, Book I, 9, p. 177] -- Aristotle represented human nature in terms of both human sociality and individuality and for that reason anyone embracing the autonomous *homo economicus* as a proper representation of the economic agent would likely reject Aristotle on generosity and benevolence, and *Moral Sentiments* as well.

Aristotle demonstrated through logic that there exists a supreme being whom he called the Unmoved Mover, that happiness is the goal of human existence and virtue is the necessary precondition for achieving that goal, that body and soul are linked to one another as matter to form, that there is a developmental dynamic to all living things, that humans alone share in God’s nature by virtue of intelligence, are capable of communing with God, and achieve their full potential through the development of their shared nature and their divine intellect. [Tarnas, pp.61, 63, 67].

In terms of the medieval city economy, the influence of Aristotle on Aquinas is comparable to the influence of Smith and Ricardo on the 19<sup>th</sup> century world economy. [Polanyi, pp. 78-79]. Further, Aristotle’s ideas were influential well beyond the Middle Ages. Until Hobbes, all political science and political philosophy was shaped and formed to some extent by Aristotle. [Schumpeter, p. 58].

*Heinrich Pesch.*

Heinrich Pesch (1854-1926) published his five-volume *Lehrbuch der Nationalökonomie* between 1905 and 1926. It has been described as a commentary on Leo XIII’s 1891 encyclical *Rerum Novarum* and forty years later a sourcebook for Pius XI’s encyclical *Quadragesimo Anno*. The *Lehrbuch* is heavily grounded in Aristotelian thought and the scholasticism of the Middle Ages that reflects principally the ideas of Aquinas. [Pesch, 1998, p. 1; Mulcahy, p. 6].

For most of the 20<sup>th</sup> century Pesch’s economics was known as Solidarist Economics due to its heavy emphasis on human solidarity as opposed to individual autonomy. Pesch’s work was continued and extended by his study group that included notably two other Jesuit economists, Gustav Gundlach and Oswald von Nell-Breuning, plus Franz Mueller and Goetz Briefs. Von Nell-Breuning *sub silentio* participated in the preparation of *Quadragesimo Anno*. Briefs and Mueller immigrated to the United States and both played a key role in the establishment of the Catholic Economics Association in 1941 which 30 years later evolved into the Association for Social Economics.

The ideas of Pesch and the Scholastic-Aristotelians are carried forward today in Personalist Economics. Of all these ideas, the most important relate to justice in economic affairs. Rupert Ederer [Pesch, 1998, p. 207], for example, described commutative justice as “quintessential” to Pesch’s solidarist economic system. Dempsey [1958, p. 222] considered Pesch’s thoughts on justice, notably contributive justice, as being “behind so much of the Church’s modern intellectual activity in this field.”

As stated previously, adherence to justice along with the other practical virtues and avoidance of the corresponding vices supply the linkage, which we call “personalist capital”, between the *acting person* in economic affairs and integral human development and human perfection, perfection being the ultimate objective of a Personalist economy. Pesch was not as fully committed to human perfection as the ultimate objective of a Personalist economy as were fellow Jesuits Dempsey and Divine who are regarded as the founding fathers of the Catholic Economic Association (see Dempsey, 1958, p. 273; Divine, chapter 24, pp. 7-8). Pesch asserted that the goal is provisioning human material need but at the same time *stated* that:

... economic welfare also has moral and juridical foundations and limits that on its side the earthly welfare constitutes *the material foundation* for all the higher strivings of man and consequently may not come into opposition of the highest goals of life and to those moral norms which rule the whole of men’s striving in their individual and social life (quoted in Mulcahy, p. 32; emphasis added).

*Smith, Weber, and Schumpeter.*

There are clear connecting links between Solidarist Economics and three central figures in the history of economic thought: Adam Smith, Max Weber, and Joseph Schumpeter. Without tossing aside *Wealth of Nations* entirely, Solidarist Economics has been much more open to *Moral Sentiments* than has Classical/Neoclassical Economics. *Wealth of Nations* presents an understanding of economic affairs based on the individuality of the economic agent whereas *Moral Sentiments* calls attention to the sociality of the economic agent.

With one foot in the old world of the Scholastic-Aristotelians and using language that provides support for Personalist Economics, Smith in *Moral Sentiments* asserted that “...feeling much for others and little for one’s self constitute the perfection of human nature” and is the “great law of Christianity.” Though not well understood, sympathy -- finding happiness in the good fortune of others and experiencing the sorrows of others -- “...is a matter of fact too obvious to require any instances to prove it” even among those least likely to warrant our admiration. [*The Theory of Moral Sentiments*, Part 1, Section 1, Ch. 5, p. 279 in L. A. Selby-Bigge, *British Moralists*, Vol. I, Indianapolis: Bobbs-Merrill Company, Inc. 1964, pp.255-336; Part 1, Section 1, Ch. 1, “Of Sympathy,” p. 257; Part 7, Section 3, Ch. 1, “Of those Systems which deduce the Principle of Approbation from Self-Love,” pp. 323-324].

With the other foot in the new world of the Rationalist-Cartesians and turning his support in

the direction of what became Mainstream Economics, Smith in *Wealth of Nations* [1937, p. 14] subordinated the virtue of benevolence to the self-interest of the economic agent, insisting that in economic affairs it is not regard for others that matters most but personal advantage.

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

Schumpeter’s work was constructed around Weber’s paradigm, at times leaning more toward the mathematical, at other times toward the historical. [Swedberg, p. 2]. The two men shared several interests including “economic cycles, forms of organization, the opposing pulls of innovation and tradition, the role of banking and investment, social classes, and imperialism,” and their scholarly work extended beyond the boundaries of their primary disciplines. [Powell, pp.923, 918].

Weber and Schumpeter, however, were divided on the role of bureaucracy. First, Schumpeter’s leaders act on the basis of political feasibility. Weber’s are guided by ultimate convictions. Second, for Schumpeter the principal antagonism is between the leader and his followers. For Weber it is between the leader and the bureaucrats. [Osterhammel, pp. 115-116]. The two were further divided on the question of the central focus of analysis. For Schumpeter it was innovation; for Weber it was patterned action. [Galambos, p. 927]. Weber’s model of change was one of comparative statics. Schumpeter’s was one of dynamic change. [Macdonald, p. 378].

In leaning toward the mathematical Schumpeter published *The Nature and Essence of Economic Theory* (1908) in which he displayed admiration for the work of Walras. [Perlman and McCann, p. 560]. In *History of Economic Analysis* which was published posthumously Schumpeter argued that even though Walras’ general equilibrium theory did not incorporate a dynamic that accounts for change in economic affairs, it was Walras who first discovered the fundamental problem of economics. [Swedberg, pp. 29, 188]. Perhaps not surprisingly, as Casson stated, the entrepreneur who is so central to Schumpeter’s general dynamic theory is unnecessary in Neoclassical Economics because other economic agents already account for every economic function. The closest the Neoclassicals come to Schumpeter’s entrepreneur is the Walrasian auctioneer. [Casson, pp. 12-13].

*Schumpeter, Catholic Economic Association, and Personalist Economics.*

There are two direct connections between Schumpeter and what later became known as Personalist Economics. First, it is reported that Schumpeter once asked Briefs: Why don't you design an alternative [economic] system? Further, in a public forum just nine days before his death, Schumpeter pointed to *Quadragesimo Anno* as a viable alternative to Socialism. [Waters, 1961, pp. 136-137]. Second, Schumpeter was Bernard Dempsey's doctoral adviser at Harvard University and wrote an exceptionally complimentary introduction to Dempsey's dissertation when it was published in the early 1940s under the title *Interest and Usury*. [Roets, pp. 548-549]. No doubt it was Dempsey who as Schumpeter's student called attention to the Scholastics and their work on utility, interest, and money. At roughly the same time fellow Jesuit economists Divine and Dempsey founded the Catholic Economic Association.

There is a third important connection between Schumpeter and Personalist Economics, though this connection is less direct. William Waters' scholarly writings and teaching were deeply rooted in Schumpeter's thinking and especially in the late 1980s Waters became identifiably Personalist, though he still referred to himself as being within the Solidarist tradition. His presidential address in 1987 is titled "Social Economics: A Solidarist Perspective."

No one more than Waters connects Personalist Economics to Schumpeter and Aristotle. Two statements taken from his dissertation help make this connection evident. The very first sentence in the introductory chapter reads as follows: "To appreciate the investigations that follow, the reader must be fully conscious of our debt to Aristotelian metaphysics." [Waters, 1952, p.1]. Later in the same introduction Waters made this assertion: "We wish to give recognition to the great man [Schumpeter] who restored the *human person* as the dynamic factor in the explanation of economic activity." [Waters, 1952, p. 19; emphasis added]. More than 40 years later, Hagedoorn confirmed Waters' insight, characterizing Schumpeter's entrepreneur as a "proactive" economic agent who is "not necessarily a strictly rational economically maximizing subject." [Hagedoorn, p. 890].

Since the early 1950s, the Catholic Economic Association and its official publication, the *Review of Social Economy*, have played a significant role in representing economic agency in terms of person vs. individual. Responding to Pope Pius XII's 1952 Christmas message regarding a depersonalization that has penetrated and pervaded all of human life, the Association structured its annual meeting in 1953 around the theme "The Depersonalization of the Economy." ["Notes," 1954, p. 83]. Four articles -- by CEA members Baerwald, Boulding, Dempsey [1954], and Hayes -- originated as papers presented at that meeting. Baerwald's paper was his presidential address. Five others -- by CEA members Walker, Froehlich, Danner [1982], Briefs, and O'Boyle -- were published later.<sup>1</sup>

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<sup>1</sup> See O'Boyle [2010] for an extended commentary on these nine articles.

*Danner and Waters.*

Peter Danner's developmental work on Personalist Economics began with his student/teacher relationship with Bernard Dempsey. In the preface of *The Economic Person*, Danner wrote the following about his teacher:

Bernard W. Dempsey, S.J., my mentor at St. Louis University, was the first to resolve conflicts between fundamental ethical and economic principles and to introduce me to the economic wisdom of Joseph A. Schumpeter, his own mentor at Harvard. [Danner, 2002, p. xiii].

Danner attributed his efforts to rethink economic principles and the history of economic thought in terms of Personalism to Mounier's *Personalism* and Kavanaugh's 1993 lecture and 1995 monograph *Recovery of Personhood: An Ethics After Post-Modernism*. [Danner, 2002, p. xiii].

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

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

... The older tradition [prior to Adam Smith] continued of seeing religious, philosophical, social, and humanistic factors influencing people's economic actions. It inevitably suggests examining the economic agent as a self-knowing but embodied spirit. This melding of the material and spiritual, the empirical and the metaphysical, *suggests the need to re-examine some basic economic principles*. [Danner, 2002, p. xiii; emphasis added].

*The Economic Person* is neither a principles nor an advanced text. It is an extended commentary on the economic agent functioning in a modern market economy that challenges everyone in economics, whether orthodox or heterodox, to begin at the beginning, to construct their economics primarily around flesh and blood economic agents and only secondarily around physical things, to examine more carefully how humans conduct themselves in economic affairs especially in matters where conflicts must be resolved, and to draw their conclusions with greater appreciation for the profound mysteries that are at the heart of the human condition and greater acceptance of the uncertainty that necessarily follows from not knowing human beings more fully.

William Waters had perhaps the best grasp of the vast published works of social economists, no doubt as part of his work as editor-in-chief of the *Review of Social Economy* for twenty

years beginning in 1965. Waters openly encouraged institutionalists, humanists, radicals, feminists, and environmentalists to join Catholics in contributing to the *Review*. He was named the first recipient of the Thomas Divine Award for lifetime contributions to social economics and the social economy.

As a graduate student at Georgetown University, Waters was influenced by Goetz Briefs and even more so by Josef Solterer. For the rest of his professional career the Schumpeterian emphasis remained central to Waters' vision of economics and economic affairs. In his presidential address to the Association in 1987 Waters said the following.

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

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

Waters quietly referred to himself as a "solidarist" but in private conversations recognized the special liability which attends such a label with its greater meaning and acceptance in Europe than America. Of late, a few social economists, including Danner, have replaced "solidarist" with "personalist."

As already suggested, Waters was best known for his work as editor-synthesizer of the work of a vast array of social economists with widely differing views on economics and economic affairs. At the same time, as researcher-author Waters' contribution came in the form of a small but important body of published works which are significant for their consistently high quality. The following is a sample. Social economics begins with and centers on a:

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

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<sup>1</sup> Quoted in "William R. Waters, Distinguished Member of the Association for Social Economics," *Review of Social Economy*, Summer 1990.

#### IV. FINAL COMMENTS

Figure 1 traces and simplifies the origins of Personalist Economics to Aristotle and Aquinas and incorporates Adam Smith without embracing the individualism of the Enlightenment that continues to dominate Neoclassical Economics today. Because simplification requires brevity, it has been necessary to exclude some writers whose work is supportive of Personalist Economics. Specifically, we have excluded Carlyle<sup>1</sup> and put aside the Scriptures.

Foundational to Personalist Economics are several propositions that can be traced to Aristotle, including private and common property, wealth, exchange value and use value, the four practical virtues, virtue and vice, and generosity and benevolence. Of special interest to Personalists are Aristotle's comments on the practical virtues of justice, courage, moderation, and prudence because, with his emphasis on doing rather than contemplating as the means for becoming a virtuous person, he provides the linkage between virtue and action that is most relevant to our efforts to represent the economic agent as the *acting person* who acquires personalist capital by adhering to the practical virtues and avoiding the corresponding vices, thereby enhancing integral human development and leading to human perfection.

The 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." Personalist Economics argues that the "invisible hand" fails whenever economic agents have not learned and acquired the practical human virtues and do not practice them faithfully.

The problem with the faithful practice of the three principles of justice is that it results in a condition wherein no one *owes* anything to anyone else, wherein the poor have no claim to the goods of the world on the basis of their unmet need and sacred dignity. They must, according to a strict interpretation of the demands of justice, bring something of value to the exchange -- goods to barter, labor, or money -- or find some other way to meet their need on their own. The remedy for this isolating and dehumanizing consequence is found in the virtues of gratitude, benevolence, forgiveness, and charity. All important to Aquinas was the Christian virtue of charity that directs human beings toward their ultimate end. Every good work undertaken for someone else is performed through charity. Friendship is grounded in love of one's friends. Aquinas urged us to love not only others but ourselves as well. By emphasizing friendship in addition to charity Aquinas in effect advanced an argument disputing the strict individuality of *homo economicus* and self-gratification as the principal motivating factor in economic affairs. Given this firm connection to Aristotle and Aquinas, it is not surprising that Personalist Economics finds much more support in Smith's *Moral Sentiments* than his *Wealth of Nations*, that it is more Scholastic-Aristotelian in nature than Rationalist-Cartesian.

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<sup>1</sup> See Carlyle (1831) 1885, pp. 7-46, (1834) 1937, 1972, pp. 143-144, and Welch, 2005, pp. 537-545.

*Rerum Novarum* helped inspire the development of Solidarist Economics in Germany under the guidance of Pesch, who rejected as seriously flawed the individualism at the center of economic thought at that time, and set out to construct his Solidarist economics on the foundations of justice and the much older philosophy of the Scholastic-Aristotelians. With additional instruction from *Moral Sentiments*, Weber, Schumpeter, and the Catholic Economic Association, Personalist Economics emerged on its own as the offspring of Solidarist Economics, principally at the hands of Waters and Danner.

John Paul II has articulated a magnificent vision of economic affairs driven by a different set of premises than the individualism that governs Western economies and contemporary economic thought. There is much work to be done in re-thinking economics with these different premises and in finding various ways to apply this thinking to current economic affairs and problems -- a worthy undertaking for any economics inquirer free to explore beyond the boundaries of Mainstream economic thought.

Figure 1 also provides a timeline connecting Ong's three stages of human communication -- oral/aural, script, and electronic -- to the evolution of economics since the Enlightenment. In the oral/aural stage, human communication was strictly face to face thereby drawing humans closer together and requiring economic agents to interact face to face, underscoring their human sociality. Teachers and their students were actively engaged in a way which emphasized thinking and speaking as critical to learning.

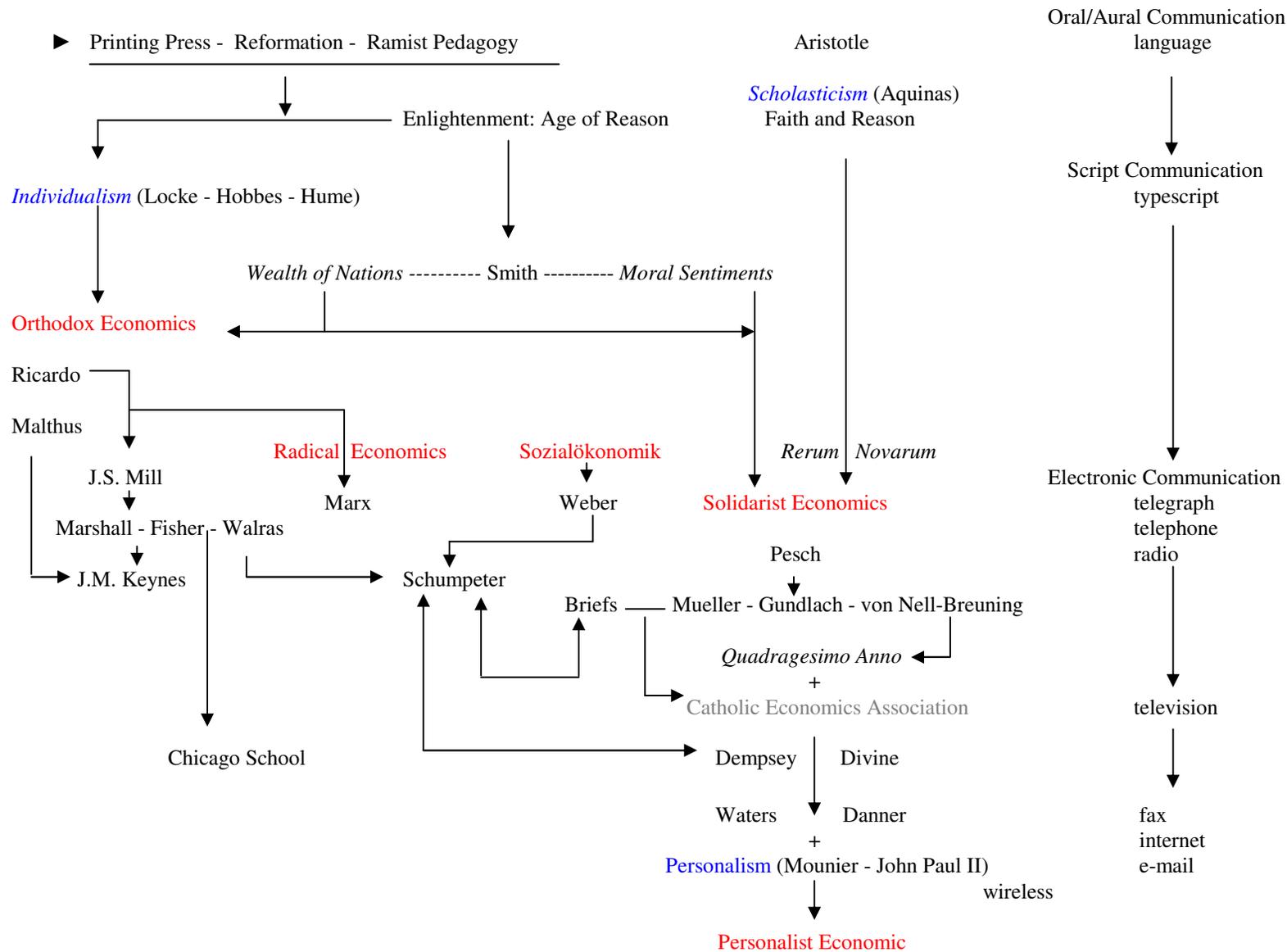
In the script stage, especially after the invention of the printing press, interaction between economic agents could occur at great distances over an extended period of time without their ever meeting face to face, accentuating their human individuality. Under the influence of 16<sup>th</sup>-century professor Peter Ramus, learning became a process in which teachers lectured and students were expected to listen, take notes, and follow in the textbook. *Homo economicus* was a good fit in the typographical culture of the 17th-18th centuries in which inward-directedness, listening and reading, and self-reliance were more esteemed than outward-directedness, thinking and speaking, and co-existence.

In the electronic stage which began with the telegraph economic agents interact over long distances in a short period of time, making them more other-reliant in day-to-day economic affairs without suppressing their human individuality. The economic agent in the electronic stage is an individual being and a social being, no longer just an individual but a person. According to Ong personalism emerged in the electronic stage which enhanced human awareness of self and of others.

As noted by Nobel Laureate Joseph Stiglitz [p. 488], Mainstream economists need to recognize that "the economists' traditional model of the individual is too narrow" and come to the

**realization that its foundations in individualism have crumbled under the weight of the transition in human communication from the script stage that was appropriate for the 17<sup>th</sup> and 18<sup>th</sup> centuries to the electronic stage. Thus, *homo economicus* eventually must give way to the *acting person*.**

FIGURE 1. ORIGINS OF PERSONALIST ECONOMICS: Aristotle, Aquinas, Smith, Weber, Schumpeter, John Paul II



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