PERSONALIST ECONOMICS, JUSTICE, and the LAW: LABOR, PRODUCT, and CREDIT MARKETS

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Throughout this article we referred to the economic agent as *homo socio-economicus*.
At present, however, we much prefer *person of action* because *homo economicus* is a passive decision-making agent whereas *person of action* is inherently active.
Accordingly, we have replaced *homo socio-economicus* with *person of action*.

We have made other changes including additions, deletions, footnotes instead of endnotes, and updated citations.

In his 2001 Nobel lecture, Joseph Stiglitz attacked the orthodox economics paradigm for "seemingly precise models" that exclude information concerns and the possibility of involuntary unemployment, separate equity and efficiency, assume continuous market clearing and equilibrium, reduce economics to engineering, assert that markets are Pareto-efficient and hold fast to the *invisible- hand* argument, fail to differentiate types of markets, break up action, information, and behavior, insist that privatization always is welfare enhancing, and treat supply and demand as constituting the whole of economic analysis [Stiglitz 2002, pp.460-501]

George Akerlof's Nobel lecture puts forward a shorter indictment. Orthodox economics assumes that all economic behavior is maximizing, insists on strict rationality as opposed to near rationality, embraces the natural rate of unemployment hypothesis, asserts that saving too much or too little is impossible, excludes "reciprocity, fairness, identity, money illusion, loss aversion, herding, and procrastination," and does not recognize failure of credit markets and underdevelopment [Akerlof 2002, pp.411-433].

The problem, as Stiglitz makes explicit, is that "the economists' traditional model of the individual is too narrow" [Stiglitz 2002, p.488]. However, neither he nor Akerlof offer a substitute for the individual and individualism which lay at the center of orthodox thinking.

In the following, we replace the individual and individualism, which are rooted in the Enlightenment and the script stage of human communication, with the concept of the person and personalism which emerged during the electronic stage of human communication. This difference matters importantly in our understanding of economic affairs because the electronic stage has given rise to a new awareness of self and of others and therefore a new meaning to the concept of the economic agent. We call this new approach *personalist economics*.[1] In this chapter we explore this new meaning in terms of three pairs of economic agents: consumer and merchant, worker and producer, and entrepreneur and financial agent.

The need for a new economics is best demonstrated in the deficiencies of the four premises of orthodox economics: the individual, the law of nature, certainty, and instrumental value.[2] Personalist economics offers an alternative to each of these.

PREMISES OF PERSONALIST ECONOMICS

Individual vs. Person. By the individual orthodox economics means a human being in whom individuality, inward directedness, autonomy, awareness of self, and self-interest are emphasized. The individual is intelligent, rational, utility-calculating and maximizing, and free to choose in all economic decision-making. *Homo economicus* is competitive, making use of his/her disposition to undertake certain tasks alone for the individual reward. Though ever-changing as accounted for conceptually by human capital, *homo economicus* nonetheless is

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[1] See Walter J. Ong for more on the three stages of human communications.

[2] William R. Waters [1988, pp. 115-117] identifies the four premises of orthodox and personalist economics.

predictable which is most convenient for economic analysis. Economic behavior is detached from any cultural influence because for *homo economicus* all existence is solitary existence. Finally, *homo economicus* is a living, breathing, existential actuality, though at times is represented as a machine.[3]

Individualism provides the philosophical foundation for *homo economicus*. Today *homo economicus* is the dominant way of thinking about economic agents in contemporary economics because orthodox economists are comfortable with individualism, and regard it as more than just a description of the way things are. For them individualism is the ideal philosophy proven superior for more than two centuries, and validated by the demise of *homo sovieticus* and the collectivist philosophy that supported a radically different characterization of economic agents. But individualism is not appropriate for the new economy in which economic affairs increasingly are centralized in supra-national economic unions such as the World Trade Organization and the European Union. *Homo economicus* fits well in a world and at a time when decentralization was taking place in political affairs, notably during the transition from royalty to free citizenry, from privilege to merit. Since the actual roles of economic agents have changed in the new economy, along with their personal characteristics, it follows that a new economics begins with a re-thinking of *homo economicus*.

Personalist economics argues that there is much regarding economic agency today that is not accounted for by *homo economicus*. Personalist economics does not, however, discard *homo economicus* entirely. Rather it adds characteristics not included in *homo economicus*.

A person is a human in whom both individuality and sociality are recognized and emphasized: inward-directed *and* outward-reaching, autonomous *and* dependent, and aware of self and self-interested *and* at the same time aware of others and concerned for their well-being. A person is a complex being whose decision-making in economic affairs often is a struggle between intelligence and intuition, reason and emotion, utility-maximizing and utility-satisficing, and individual freedom and social responsibility. In all economic affairs the *person of action* is not only competitive but cooperative, making use of the human disposition to undertake certain tasks collectively for the gain which cannot be achieved at all or so well when those tasks are undertaken by an individual working alone.

The economy may be compared to a twin-engine aircraft which is built through the efforts of human economic agents such as working, saving, innovating, and trading, and is powered by the engines of competition and cooperation. As with the aircraft, the economy performs better when both engines are synchronized in flight though it can operate on just one engine.

The predictability of *homo economicus* means that his/her behavior is quantifiable and therefore can be incorporated in the mathematical models of orthodox economics. The *person of action* is unique, one of a kind, valuing individuality and sociality differently, changing as an agent with changing economic conditions, a holistic, unified human being, not one part individual, one part

[3] See Alan S. Blinder [2000, p.18].

social, an embodied spirit, a material body *inside* a human spirit, not one part body, one part spirit.

Scorning the dead-end job, the human spirit longs for a job that affords opportunities to put one's creative talents and energies to work. Further, humans need to be accepted by others on the job, need to experience a sense of belonging. As to consumption, humans need the goods and services required for physical well-being. Humans, however, are more than mere material beings, concerned only with their physical well-being. The human spirit seeks goodness, truth, and beauty in music, art, drama, nature, literature, dance, and sports. In searching for these ideals, it typically is necessary to acquire certain goods and services. Humans may look for goodness through theatre presentations that address the clash between good and evil, and truth may be pursued through educational institutions. Yearning for things of beauty, humans purchase artworks and buy tickets to the ballet and opera.

Human beings are different in countless ways. What may satisfy the spirit of one may be of no interest to another. Some are drawn to heavy metal, others to rap. One family member may find the beach the perfect vacation spot, another may prefer the mountains. Personalist economics thinks of the time set aside to purchase and use goods and services in this manner as leisure, an economic activity distinct from work and consumption. Leisure includes the rest that humans require on a daily basis due to their embodiment, and to the longer breaks over weekends, holidays, and vacations needed to cope with the stress of daily living. Orthodox economics, on the other hand, defines leisure in a negative sense: time spent not working.

The *person of action* is aware that community and a sense of belonging emerge not when humans avoid harm to one another but when they participate in one another's economic existence, that economic community notably in the form of companies that produce the goods and services vital to human well-being requires positive contributions from the economic agents who form those communities, that all existence is co-existence, and the human spirit plays a major role in work, consumption, and leisure. Fairness, benevolence, trust, and generosity are necessary for a human being to develop from *homo economicus* to the *person of action*.

Adam Smith's *Moral Sentiments* calls attention to these duties, and Alfred Marshall rejects competition as the fundamental characteristic of modern economic systems, affirming instead the importance of neighborhoods and collective action, of honesty, fidelity, unselfishness, and sympathy [Marshall 1948, pp 5-7]. Orthodox economics constructed *homo economicus* from Smith's *Wealth of Nations*. Personalist economics and *person of action* return to Smith's and Marshall's original ideas about economic agency, and personalism becomes the new philosophical ideal.

Personalist economics sees culture -- "a social force that encompasses individuals and welds them into communities [shaping] their prejudices, ideas, values, habits, attitudes, taste and priorities" [Dulles 1999, p.2] -- as playing an important role in economic affairs. To embrace culture orthodox economics must yield on the solitary existence of the atomistic individual and admit that economic agents co-exist as persons in communities. Culture relates to the specific ways in which the needs and wants of the human body and human spirit are addressed. To illustrate, across Europe the month of August is set aside for vacations. In the U.S. work is so highly valued that many Americans are workaholics.

Culture relates to the economy the same way weather influences a twin-engine aircraft. A culture of life and hope, which is affirmed when human beings care for one another, enhances the performance of the economy just as the aircraft performs better in good weather. Personalist economics advocates such a culture for that very reason. In contrast, a culture of death and despair, which in the extreme is reinforced by a pervasive attitude that death is the answer to social problems, degrades economic performance just as the aircraft performs less effectively in bad weather. For over one hundred years, we have witnessed the devastating economic consequences of genocide, ethnic cleansing, civil war, terrorism, drugs, slavery and the like. By analogy, orthodox economics admits of no role for the weather in aircraft operations. Orthodox economists are in denial, doggedly holding on to *homo economicus* in the face of overwhelming evidence that it fails to represent human nature accurately in the electronic age.

Law of Nature vs. Institutions. By the *law of nature* orthodox economics means that markets provide a forum for the interaction of economic agents and those markets by their very nature function efficiently and effectively. The law of nature presumes that every economic agent is capable of representing his/her own best interest without assistance. However, individual freedom to act in markets does not justify bringing harm to others, and there is no need for any intervention on the part of private groups or public bodies unless that prohibition is breached. Drawing on the law of nature, orthodox economics denies that community or culture truly matter in conditioning the behavior of economic agents and therefore neither one plays a role in shaping economic affairs.

Personalist economics argues instead that markets at times dysfunction, and institutions are needed to address that dysfunction. For example, some employers left to their own devices contaminate the air, soil, or water with their waste discharge. Therefore it is necessary to limit the waste they discharge and to fine them and shut them down whenever they exceed that limit. Another limit is the minimum wage that forces some employers to pay more than they otherwise might. By analogy intervention, whether by private group or public body, represents the control surfaces of the twin-engine aircraft such as the rudder and flaps that allow the pilot to control the economy during takeoff, flight, and landing. Loss of those control surfaces makes landing the aircraft extremely difficult.

Certainty vs. Uncertainty. Orthodox economics relies on mathematical models and data sets to describe and understand economic affairs with certainty. This investigative methodology is grounded in the Enlightenment and the scientific method. Personalist economics contends that certainty is not possible because economic agents are complex ever-changing human persons who remain in part a mystery even to themselves, and therefore difficult to fully represent in mathematical models. Thus, the conclusions drawn from economic research must be couched in terms which reflect some uncertainty. For the research specialist the problem is how to deal with uncertainty in an open and honest fashion, weighing the evidence to draw only those conclusions supported by that evidence. Achieving certainty today in the new economic order is an even greater challenge due to cultural differences and misunderstandings, and consequently different and incompletely understood human behavior. What in one culture is unacceptable and illegal (bribery) may be acceptable in another (facilitating payment, a cost of business). In this regard, analogy can be a powerful model, though lacking in precision. However, when it is carefully crafted analogy can be more deeply probing and instructive of economic affairs than a mathematical model.

Instrumental Value vs. Inherent Dignity. By instrumental value orthodox economics means that the worth of every economic agent is determined by the contract that sets forth the payment that agent has accepted for labor services or other resources supplied. Worth ultimately depends on how useful an agent is as an economic instrumentality. Personalist economics takes exception to that premise. Humans have an inherent dignity that is central to their nature as persons and that everyone is duty-bound to respect. There is no philosophically valid way to rank order humans principally by their economic productivity. Most fundamentally, each is precious, each has the same worth, no one is to be valued more highly than anyone else because no human being has the wisdom to create such an ordering. A *person of action* embraces the social value of human equality. *Homo economicus* does not.

Integration of Economic Theory. Another major deficiency in orthodox economics is that microeconomics and macroeconomics have not been integrated into a unified general theory. This predicament originates with the premise that the central unit of analysis is the atomistic individual. There is no such problem when economics proceeds from the premise that the central analytical unit is the person. To explain, microeconomics represents a description and understanding of economic affairs from the perspective of human individuality. Macroeconomics, on the other hand, sees the same economic affairs from the perspective of human sociality. An integration of these two branches is necessary because humans are fully integrated such that it is impossible to separate the individual being from the social being. Personalist economics makes the unification of economic theory possible by construing all economic affairs -- working, consuming, saving, investing, lending, borrowing, innovating, brokering, insuring, buying, selling, resting, hiring, dismissing, and the like -- not in terms of the impersonal mechanical forces of the market but in Marshall's personalist language of humankind "in the ordinary business of life" [Marshall 1948, p.1].

FREEDOM AND JUSTICE IN ECONOMIC DECISION-MAKING

By their very nature humans are or should be: (1) free *to* be all that they can be, (2) free *from* coercion wherein freedom is equated with liberty, and (3) free *for* the purpose of meeting their obligations. *Homo economicus* openly embraces the first and second meanings of freedom. The *person of action* embraces all three.

Acting as economic agents, and given their free will and intelligence, human persons are capable of making choices. In many instances those choices are ethically neutral. For example, the decision to install white tiles in the bathroom floor rather than, say, brown tiles has no ethical content. However, the decision as to how much to pay a worker to paint the house very likely has an ethical dimension. When a worker has completed a job fully and properly, it is unethical to deliberately withhold pay well beyond completion or pay that worker less than what was agreed.

Are decisions regarding ethical issues in economic affairs entirely arbitrary, depending completely on the opinions, attitudes, and values of the persons making those decisions? Or, are there objective standards that apply in economic affairs rendering ethical decision-making reasoned, defensible, and alike from one person to the next except in specific extenuating circumstances? The view from personalist economics is that there are certain objective ethical standards to be applied in economic affairs, ultimately originating in the human experience, and embodied in three principles of justice.

In economic affairs the three principles are: commutative justice, distributive justice, and contributive justice. There are three principles of economic justice because there are only three ways in which economic agents can interact: person to person, superior to subordinate, and member to group [Kane. 1963, p.105].

Commutative Justice. Commutative justice states that buyer and seller in the product market, resource holder (including worker) and producer in the resource market, and creditor and borrower in the financial market have two duties that are ethically binding on both parties: to exchange things of equal value and impose equal burdens on one another. In many transactions, personal experience informs us as to what equal value means. By equal burdens we mean that the seller's burden is to give up possession of the good or service in question; the buyer's burden is to hand over the money necessary to acquire that good or service. For the worker, the burden is performing the work required by the employer. For the employer, it is paying the worker the agreed wage. For the creditor the burden is surrendering use of the loaned funds, waiting for repayment, and taking on the risk of default. For the borrower it is making payments on time as agreed.

At times, the things exchanged are not of equal value, such as when a house is sold and the buyer takes possession but makes only partial payment in cash. To simplify this example, assume that the seller offers to lend the buyer the difference. Under those circumstances, the seller/lender faces the risk that the buyer/borrower may not be faithful with regard to paying down the balance. The seller/lender also must wait until payments are made and at closing forgoes the use of that money for other purposes. Consequently, the seller/lender is justified in charging interest to equalize the burdens. Though we would prefer to be certain with regard to the precise amount of interest which equalizes the burden, we cannot claim certainty except regarding the duty imposed by commutative justice: lender may not impose an undue burden on borrower. What is undue is case-specific and must be determined by the circumstances at the time the loan is negotiated.

In the product market, one common practice based on commutative justice is the money-back guarantee. This guarantee is the seller's recognition that at times an honest mistake has been made and the things exchanged are not of equal value. Merchants who depend on repeat business understand that the money-back guarantee is good for their business even though they might not understand consciously that they are being faithful to the demands of commutative justice. In the resource market, the common expression "full day's *work* for a full day's *pay*" is a reminder of the worker's obligation under commutative justice. Reversing the language to "full day's *pay* for a full day's *work*" underscores the employer's duty.

There are several ways in which commutative justice is violated in the product market. We mention only two: shoplifting and price gouging. In the resource market there are many ways in which this principle is violated. We enumerate these two: sweating workers and embezzling. All violate commutative justice regarding the duty to exchange things of equal value or to impose equal burdens.

Distributive Justice. The principle of distributive justice requires the superior to distribute the benefits and burdens of the group under his/her supervision among its members in some equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is reasonable to take those differences into account. For example, handicapped employees may require different parking and restroom accommodations than able-bodied employees. In assigning work and evaluating performance, distributive justice demands that the superior differentiate among subordinates when the differences among them are real and substantial. To illustrate, a supervisor may allow one employee to take time off to tend to a sick child, another to attend a funeral, but deny release time to shop for a sail boat or buy lottery tickets. Ultimately this kind of decision-making turns critically on a judgment as to the need of the company for the employee's labor services and the need of the employee to attend to other matters. It is, strictly speaking, a value-laden and person-centered decision.

Discrimination occurs when the superior differentiates among subordinates for reasons which are insubstantial. In this regard, false stereotyping may be the device used to rationalize the different treatment. For example, older workers sometimes are treated differently because they have "less upside potential" than younger workers, women from time to time because it is assumed that work is of secondary importance for them.

"Equal pay for equal work" is required under distributive justice: persons doing the same work, with the same on-the-job-performance of their assigned duties, are to be paid the same wages. "Equal opportunity" too is required under distributive justice, meaning that persons of equal experience and qualifications are to be afforded the same chance to be hired and promoted.

Under the 1964 Civil Rights Act, special protection has been accorded women, African Americans, Native Americans, Jews and persons of other faiths, and the foreign born. More recently, persons with disabilities have been included in the "protected class" along with persons 40 years of age or older. Discrimination and the government intervention required to address it are evidence that the law of nature at times is insufficient to resolve all conflicts in economic affairs.

Distributive justice has application in the product market because the merchant or shopkeeper is free to set the terms of trade but must decide how to deal with his/her customers without discriminating. A merchant who makes rain checks available is saying in effect that when an item is put on sale at a very favorable price, he/she will treat all customers alike even those who come to the store after supplies have been exhausted. "Limit 3 to a customer," tells all customers that no one is free to buy the entire supply.

Contributive Justice. The principle of contributive justice lays down the obligation of the member to the group. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues is the usual requirement for persons joining a membership organization. Failure to pay dues reduces a person to inactive membership status enjoying fewer membership benefits.

In the product market, there are certain expectations when persons come together whether for a concert or sporting event, or at a retail establishment. The last to arrive is expected to wait his/her turn. To do otherwise is disrespectful to those who have been waiting and sets an example for others to do the same in which case a general loss of civility -- pushing, shoving, trampling -- may follow that is destructive of a sense of community. In like manner, paying dues is a condition of active membership in a professional association, and filing a tax return is the citizen's obligation to the state.

As to violations of contributive justice, there are several powerful examples. In the resource market, industrial spying and sabotage violate contributive justice because the person who appears to be a loyal member of one business establishment actually is faithful to a rival organization and seeks to undermine the effectiveness of that establishment by stealing secrets and disrupting work. Insurance fraud violates contributive justice because, if a fraudulent claim is not detected, payment is made to the insured party driving up the costs of the insurer who then may pass those additional costs on to all policyholders in the form of higher premiums.

Justice, Orthodox Economics, and Personalist Economics. Orthodox economics asserts that ethical problems in economic affairs are sorted out by the law of nature and the *invisible hand*. Economic agents pursue their own self-interest and, under conditions of perfect competition wherein Pareto optimality or allocative efficiency is achieved, each one receives his/her due. Justice, in other words, is served fully by allocative efficiency. This argument allows orthodox economists to hold fast to the position that ethical matters are addressed fully through the self-interested behavior of economic agents, and thus to proclaim that their economic models are free of their own personal values and that economics more nearly is a hard science. In their world, because it is grounded in the objectivity of the scientific method and the certainty of mathematical models, positive economics is vastly superior and preferred to normative economics.

Personalist economics insists that pursuing self-interest alone is insufficient to establish the trust necessary for routine transactions. At rock bottom economic agents must be aware of their duties to others and must faithfully execute those duties. The *person of action* is trustworthy when he/she respects and protects the dignity of the other persons involved in a transaction, and does not reduce them to mere instrumentalities.

Personalist economics insists that ethics in economic affairs is necessary for building and maintaining trust -- the willingness to accept another agent's promise to abide by the terms of a just agreement -- between and among economic agents. Without trust, transactions tend to break down due to monitoring and enforcement costs [*Economic Trends 2002.* p.1].

The need for trust is heightened in the new economy and the information age because decision-making often takes place over a shorter time period giving less time to evaluate the trustworthiness of other economic agents. Trustworthiness is diminished whenever communications are less face-to-face, more at arm's length, indirect, and impersonal. It is enhanced whenever more or better information about other economic agents is readily accessible.

Justice functions in two modalities. In the activating modality, justice affirms what economic agents owe one another and in that sense functions like the oil in the engines of the twin-engine aircraft providing the necessary lubricant for "the ordinary business of life." In the limiting modality, justice condemns certain harmful business practices such as discrimination and exploitation and in that sense functions like the oil filter removing impurities in the oil so that the aircraft's engines perform more efficiently. Just as any oil filter needs replacing, justice needs renewing to deal with abuses arising from new technologies such as hacking confidential information and stealing identities.

RECONSTRUCTING ECONOMICS

The reconstruction of economics begins with the economic agent -- the *person of action* economic affairs. Economic theory should be less about things such as prices, goods, natural resources, physical capital and the like and more about human beings "in the ordinary business of life." Put differently, the *what* and the *why* of their actions as economic agents. Three agent pairs are especially important: entrepreneur and financial agent, consumer and merchant, worker and producer.

Entrepreneur and Financial Agent. The entrepreneur is the key economic agent because the entrepreneur precipitates change. By analogy the entrepreneur is the pilot of the aircraft. In philosophical terminology, the entrepreneur is the efficient cause. Bernard Dempsey asserts that "The economic function of the entrepreneur signalizes [the] irreducible paramount importance of the human person" [Dempsey 1958, p.361].

The entrepreneur is the two-dimensional *person of action*, as opposed to the one-dimensional *homo-economicus* of orthodox economics, because the entrepreneur is a real, living, breathing person acting in economic affairs and not some totally self-interested, self-absorbed, completely rational calculating machine. There is a profound difference between the human pilot with a mind and a heart, possessing both intelligence and emotions, and the auto-pilot which has neither mind nor heart and for which intelligence is entirely machine-like and programmed.

According to Joseph Schumpeter, **t**he entrepreneur triggers change in five ways [Schumpeter 1950, p.83, p.132]. In the marketplace, the entrepreneur introduces new goods and service, and penetrates new markets. In the workplace, the entrepreneur utilizes different materials in the production process, innovates new production processes, and develops new ways of running the business. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the production process.

Schumpeter identifies persistence as the key personal trait of the entrepreneur, setting him/her apart from others. The entrepreneur is dogged in the pursuit of his/her ideas. Entrepreneurs are visionary in that they see opportunities that others do not. Large established companies resist entrepreneurial change in a way that is reminiscent of Newton's third principle of motion: for every action there is an equal and opposite reaction. Thus entrepreneurs often are associated with small companies including firms they establish to implement their innovational ideas. They are driven at times by the survival needs of the company, though they are not always successful.

Culture can have a significant impact on entrepreneurial activity in the sense that entrepreneurs are more likely to accept failure and try again in a culture where business failure does not spell personal failure. Bankruptcy relief and "the golden parachute" are two ways in which American culture encourages the entrepreneur to try again.

The competitive/cooperative dimensions of human nature play a role in entrepreneurship. The competitive trait which rests on human individuality is vital to success in marketplace innovations because the marketplace is a competitive forum whereas the cooperative trait which is grounded in human sociality is vital to success in the workplace because the workplace is a cooperative environment. Both traits frequently are vital to the successful implementation of innovational schemes. Some authors have correlated these traits with directly with gender, that is male and female. Our strong preference is to relate competitiveness to masculinity and the cooperativeness to femininity which may be present in both men and women. Even so, this issue remains quite controversial.[4]

As stated previously, the entrepreneur is the pilot of the economy who decides where the economy is headed, following a flight plan, but capable of departing from that plan to avoid heavy weather. By making credit available to the entrepreneur through the loan process, the private commercial banker provides the fuel necessary to power the twin engines of cooperation and competition.

Successful entrepreneurs engage in a dynamic process that has two major effects. First, they create new business enterprises, new jobs, new resource requirements that translate into new opportunities for workers, resource holders, suppliers, investors, and communities. At the same time, they destroy old business enterprises, old jobs, established supplier networks, signifying financial hardship or ruin for others. For good reason, Schumpeter called this process "creative destruction" [Schumpeter, 1950, pp. 81-6].

As a matter of conscience, the successful entrepreneur should weigh the negative aspects of innovation against its positive aspects. In this regard, the principle of the double effect comes into play and sets two limits on what the entrepreneur should do. First, the destructive, negative effects must not be greater than the creative, positive effects. Second, the entrepreneur must not

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[4] SeeWalter Ong's work on human sexuality [1981 p.45, 64-67ff] for a supporting argument, and Kabacoff [1998, pp.1-20] for evidence to the contrary. For a report presenting both sides see Sharpe [2000, pp.75ff].

intend the destructive effects as a way of singling out certain persons or organizations for punishment. Personalist economics argues that the entrepreneur has no right to act in ways that ignore the principle of the double effect, and that philanthropy made possible by successful innovation may not compensate fully for abuses triggered by that innovation.

Though not the most important characteristic of capitalism, the private creation of credit is its *distinguishing* characteristic [Schumpeter 1928, p.326]. No other system operates with private commercial banks making loans without the money being saved beforehand. There are, of course, other sources of funds in which prior savings is a requirement such as pension and venture capital funds. The central bank's function is to assure that there are adequate supplies of fuel for the economy and in the extreme to prevent an economic crash. Subsidies, tax credits, and other forms of relief function like fuel additives enhancing the power of the aircraft's twin engines.

According to *homo economicus*, by maximizing risk-adjusted returns on invested funds, financial executives also meet their public obligations. Personalist economics argues that there is considerable divergence between the social rate of return and the private rate of return, that capital markets are not perfect. In making investment decisions, a *person of action* cannot presume that every decision to serve the private good of investors at the same time serves the common good. Instead, a *person of action* is duty-bound to evaluate investment decisions in ways that take account of the difference between investments in such projects as gated communities and cosmetic surgery for the rich, and affordable housing and access to health care for the poor.

This obligation derives from the inherent dignity of all human beings as persons and their need for the goods and services to sustain their lives and provision their well-being at some minimal level. The goods of this world are intended not for the exclusive use of those with the market power to command those goods, but for the general use of all humankind. It is the duty of financial executives to include the common good in their decision-making. They do so in a developed market economy by grounding their decisions in the love of virtue rather than the magic of the *invisible hand* [Worland 1996, pp.59-72].

Inter-temporal exchange introduces the risk of default requiring reciprocal trust between the persons involved. This trust may be based on real reciprocal acquaintance as happens in local finance, on reputation with the resulting possible distortion of incentives on each side, or on some surrogate of trust such as contractual clauses which reinforce the borrower's incentive to honor his/her debt. In international financial contracts in particular, clauses often are introduced to make the problem of reciprocal uncertainty less difficult, but these contractual expedients often have undesired consequences. For instance, linking interest rates to the trustworthiness of the borrower or resorting in general to short-term loans may result in blocking loans for those projects where there are large social returns to the common good but the expected private return is not high enough or is too far in the future.

The faithful practice of the principles of commutative justice and distributive justice can contribute powerfully to (re-)establishing trust between financial agents. Under commutative justice, both agents agree without coercion to the amount to be borrowed, the schedule for repaying the principal, and the interest rate that equalizes the burden for the creditor who must wait for repayment subject to the risk of default. Excessively high interest rates are condemned as usurious, and the creditor is labeled a "loan shark." Thus, there must be some upper limit to the interest rate which equates the borrower's burden to the creditor's. What that limit should be is determined 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 the borrower are human beings whose dignity must be respected and who never are to be exploited. Otherwise, relying strictly on risk assessment the powerful are able to deny the weak the credit they need, thereby perpetuating their weakness, or to take advantage of them by offering credit on terms that make repayment difficult or even impossible**.** Debt restructuring and debt forgiveness for nation-states as well as human persons are justified under commutative justice whenever the burden to the borrower becomes unduly onerous or impossible to bear.

The creditor has a duty under distributive justice to treat as equals all prospective borrowers in similar financial circumstances notably as determined by risk evaluation. Distributive justice demands that the lender not engage in price discrimination or "redlining" even when the opportunity presents itself. This requires transparency in credit transactions that preferably is done by voluntary compliance or if necessary by some kind of private or public institutional oversight. The International Monetary Fund already has affirmed two codes on transparency: *Code of Good Practices on Transparency in Monetary and Financial Policies* and *Code of Good Practices on Fiscal Transparency* [*Trade and Development Report* 2001*,* pp.81-82].

Voluntary agencies are preferred because they function closer to the day-to-day operations of the financial institutions requiring review. 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 prospects for economic success and long-term survival, and projects that otherwise might be turned to personal rent-seeking activities. Senior executives and officials of financial institutions must make justice an everyday priority. For genuine justice in financial affairs what is most important is the integrity and courage of the human persons involved.

Consumer and Merchant. Our human bodily nature requires us to deal with two limits as consumers. Limit I or maximum marginal utility refers to the one unit consumed that produces the largest increase in utility. Limit II or maximum total utility refers to the last unit consumed that offers some increase in utility but beyond which disutility sets in. Though not given this expression by orthodox economics, these two limits or maxima are at the heart of the principle of diminishing marginal utility. Putting the concept of the limit at the center of our understanding of consumer behavior in effect acknowledges the importance of moderation to assure that the goods and services sought after remain the means to satisfying human wants and meeting human needs and do not become ends in themselves [Danner 2002, pp.124-25].

"Pigging out" is a common reference to having exceeded Limit II and afterward having some regrets. Consumers at times exceed Limit II because of peer pressure or the product is available without charge. At times the consumer is willing to challenge his/her own Limit II, thinking that the limit is higher than it truly is. Truth to tell, we do not always know the reason because at times even the consumer does not know.

Every human faces these two limits as a consumer because everyone is embodied. Absent the body, the limits disappear. Personalist economics emphasizes that the limits are not the same for every consumer because each one has a body with its own metabolism and tolerances. And with age and experience, those limits change. The hyperactive body of the teenager requires more calories than the sedentary body of the same person much later in life.

The reason consumers buy more when the price is lower is that as they consume more they eventually reach Limit I beyond which each additional unit consumed offers a smaller increase in utility than the preceding unit. They are willing to purchase those smaller increments beyond Limit I only when the price is lower. When it comes to consumer behavior, the principle of diminishing marginal utility probably best represents what orthodox economics means by *homo economicus*.

Homo economicus is more than what is represented by diminishing marginal utility. Following orthodox economics, the consumer is unique, solitary, autonomous, self-centered, and self-made, traits that never change, never conflict, and always accent the consumer's individuality.

The consumer behaves predictably in ways that are described as utility-maximizing, privacy-protecting, and commodity-acquiring. In Western culture, acquiring and accumulating goods are perceived as signs of success. As *homo economicus* the consumer is free to choose whatever he/she is able to afford, makes those choices informed by reason for the purpose of satisfying some want, and takes into account not only experiences in the past but also hopes and plans for the future. Adults are expected to plan years ahead for their retirement, rationally planning income and expenses to achieve that goal.

Meeting need is rejected by orthodox economics as a central determinant of consumer behavior because need is a value-laden concept, depending importantly on the person who uses the concept. In orthodox economics, comparisons are made but they are intra-personal or inward-looking, wherein consumers evaluate their own wants over time without any regard for others. Our language itself points to consumer behavior that is individualistic: the trendsetter is a consumer with much individuality; the conformist is one with little individuality.

In personalist economics, the consumer is a social being as well as an individual being, He/she often is forced to work out a compromise between sociality and individuality: between unique *and* alike, solitary *and* communal, autonomous *and* dependent, self-centered *and* other-centered, self-made *and* culture-bound. A husband may have to give up a fishing trip because his wife needs assistance in her donut shop. An elderly parent may have to change residence to allay the fears of his/her adult children who are concerned for the parent's safety. The consumer at times must choose between self and others in ways that are not accounted for in orthodox economics: between utility-maximizing *and* utility-satisficing, privacy-protecting *and* company-seeking, commodity-acquiring *and* gift-giving. A person may settle for less so that a friend might have more. A youngster must learn, sometimes with difficulty, that a friend's birthday is for giving rather than getting.

As a *person of action* the consumer is free to choose whatever he/she is able to afford, but is morally accountable for the choices made, makes those choices informed by reason and emotion, both by mind and heart, for the purpose of satisfying a want or meeting a need. Even though it is a value-laden concept, need is embraced by personalist economics because it is a central determinant of consumer behavior. Fear drives some consumer choices, as at times with handguns and security systems. Shopaholics are addicted to shopping. Their choices are not rationally determined, nor are they freely made. The *person of action* not only is hindsighted but also foresighted as when parents have to reduce current consumption to save for their children's future education. Human individuality prompts the consumer to make comparisons that are intra-personal, but his/her human sociality encourages inter-personal comparisons.

Personalist economics argues that poverty is primarily a microeconomic issue, not a matter of scarcity that an unrestrained market addresses through the price mechanism which automatically eliminates shortages and surpluses but a problem of unmet needs which often calls for intervention. From the very start, it is necessary to differentiate (1) those poor persons who use resources responsibly and still do not have enough to meet their needs from (2) others who use resources irresponsibly.

Personalist economics turns to the principle of subsidiarity to sort out society's response to the needy in these two groups. Subsidiarity states that the assistance should be located as close as possible to the persons/families in need in order to limit two kinds of abuse. The first type relates to persons applying for assistance who are not needy at all or are irresponsible. The second type relates to disrespectful program staffers. In both instances by being closer to the applicants and program staffers the abuse more readily is identified and remedied. Two benefits flow from organizing assistance in this manner. First, applicants are more likely to participate in re-shaping the assistance program because they are closer to the administrative control of the program, thereby reinforcing the democratic principle. Second, a decentralized system allows for the development of many different programs, and with the passage of time the emergence of a set of best practices.

The social question raises a corollary question: What is the merchant to do in dealing with the poor? Orthodox economics, which follows a libertarian philosophy, argues that even the poor should be free to make their own consumption decisions, and no one should intervene because the poor know what is best for them. If a specific consumer is wronged, it is a small price to pay for liberty. In any case, *caveat emptor*.

Personalist economics asserts that merchants have duties originating in the three principles of justice. First, merchants have an obligation to refrain from marketing and selling activities that worsen their customers' unmet need. Second, retailers are admonished not to impose an unequal burden on their customers that derives from the customers' powerlessness in the face of a large, intimidating or indifferent firm. Third, retailers may not force additional assistance costs on taxpayers who are required by law to come to the aid of needy persons even when those person's unmet needs have been made worse by callous merchants. Fourth, and last, retailers are instructed to treat all of their customers as equals. A merchant with multiple locations may not charge inner-city customers a higher price than suburban customers unless there are higher costs in inner-city operations.

Orthodox economics values liberty above all else. The free choices of *homo economicus*, especially when *homo economicus* is an adult, should not be preempted by others. Orthodox economists assert that customers and merchants alike should be free to see and use one another as the means by which self-interest is served. Personalist economics, while respecting liberty, values the inherent dignity of human beings above all else, and argues that a *person of action* has a right to be protected from unscrupulous merchants. Further, personalist economics asserts that merchants have a duty to respect that right even when it adversely affects their profits. Personalist economics asserts that it is not in single-mindedly serving self that the merchant achieves success. Rather it is in respecting suppliers, employees, and customers as human persons, as ends in themselves, that they are transformed into the means to success.

In terms of the economy as a twin-engine aircraft, consumers are the passengers who board the aircraft in the expectation that it will carry them safely to their destination of a better standard of living both in terms of meeting their needs and satisfying their wants.

Worker and Producer. Work has two principal effects: on the goods and services produced and the persons who work. As a *person of action* the worker is two-dimensional, at once an individual being and a social being, capable of competing and cooperating. The worker is a real, living, breathing person acting in economic affairs and not merely a resource to be used in the production process. The worker, in other words, has dignity well part from the instrumental value that attaches to his/her economic contribution.

Humans work in order to earn the income to buy the goods and services that meet bodily needs and satisfy bodily wants. Income from work depends in principle on the significance of the worker's total contribution to the production process. Thus, earnings are linked to the first main effect of work, and therefore are an implicit affirmation of the principle of private property. For personalist economics, the problem is that while an unrestrained labor market automatically eliminates shortages and surpluses it does not necessarily meet workers' needs. Intervention at times is required to address those needs through measures such as a limit to the length of the workday, ban on child labor, and inspections to assure worker health and safety.

Humans also work to meet the *need for work as such* originating in the human spirit. This need for work is linked to the second main effect of work and is two-dimensional conforming to the duality of human nature. Because he/she is an individual being, the worker has a need for a job that provides opportunities for the application of his/her own special gifts and talents. This is done by incorporating into the worker's job specific tasks that require the use of those gifts and talents. The uniqueness of the worker is underscored here. Because he/she is a social being as well, the worker has a need for a job which makes that person a respected partner in the work process. The worker's need for acceptance and inclusion is underscored here.

Work is an opportunity for humans to develop more fully as persons by meeting (1) their need for self-expression through their own individual contributions and (2) their need to belong through the formation of integrated and inclusive workplace teams. Self-expression proceeds from and enhances the individual contribution of the worker which flows from authentic self-interest which is necessary for human survival. Belonging proceeds from and enhances teamwork that flows from caring for others which is rooted in a person's moral perceptivity, the ability to be aware of the needs of others.

Understanding producer behavior begins with the principle of supply. However, this principle as in the case of the principle of demand is strictly descriptive. It does not probe deeply into the behavior of the producer; it merely describes it in terms of price. Another principle -- the principle of diminishing returns -- is required to help explain producer behavior. This principle explains producer behavior in terms of two limits: Limit III or maximum returns and Limit IV or capacity. Whether the production process is capital-intensive or labor-intensive, these two limits originate in the plain truth that both workers and machines wear out with use, workers on a regular daily basis, machines less predictably.

Limit IV refers to the maximum output possible in a day by one worker with a given stock of capital. Before Limit IV is reached each additional hour of work adds to total output. Beyond that limit, however, the worker's total output declines due to overuse of capital or physical exhaustion. At that point he/she makes mistakes that in turn can lead to re-work or accidents. Limit IV often is displayed on the highway when exhausted truck drivers fall asleep, wreck their trucks, destroy some of the goods they are carrying, or worse yet injure or kill someone. Limit IV or capacity applies to everyone who works because every worker is embodied and the human body requires daily rest.

Limit III (maximum returns or maximum marginal product) refers to the single hour of work in which the worker adds more to total output than any other. Before Limit III is reached, each additional hour of work adds more to total output than the preceding hour. After Limit III is attained, each additional hour adds less to total output than the preceding hour. Just as capital equipment usually does not break down without warning, **e**xhaustion does not suddenly overtake us. Rather, we tire little by little, with hourly output declining as the work itself saps our strength until full exhaustion sets in and mistakes intrude.

The machines used in the production process are like human workers in that both are material in nature, the one animate the other inanimate. Due to their materiality, both wear out under use and both require maintenance. Human maintenance means time away from work, in the form of a break, lunch hour, over night rest, weekends, holidays off, and vacations. Machines cannot run indefinitely. They too require downtime that the careful producer does not want to happen when the machines are most needed. For that reason, producers often schedule maintenance ahead of time to assure that the equipment is ready when it is called into use. Preventive maintenance is the advance scheduling of maintenance, and though it can be costly it is undertaken for fear that in the absence of such procedures the cost would be even greater.

Personalist economics does not dismiss either the principle of diminishing returns or the production function. However, personalist economics represents the production function in terms of two limits for two related reasons: both machines and humans wear down with use and that wearing down effectively limits production. Simply put, whether it involves workers or machines, materiality is at the core of the production process and therefore matters critically when it comes to the cost of production and profitability.

With one possible exception, personalist economics represents the cost of production no differently than orthodox economics. Unit cost and marginal cost are driven by the production function, and as output increases average fixed costs tend to decline. However, the increase in average costs at capacity, which is attributed importantly to the very sharp increase in average fixed costs due to the onset of negative returns, is interpreted by personalist economics in human rather than financial terms. Human effort has limits and mistakes accelerate at Limit IV.

The observant production manager is able to tell when capacity may be approaching when he/she notices that average costs are rising. Once production has been pushed beyond capacity or Limit IV, mistakes take hold and workers are exposed to greater risk of injury or worse. Defective units are produced requiring costly re-work. A *person of action,* charged with the responsibility for supervising production, may subordinate output to the safety of the work force in order to affirm the workers' inherent dignity as human beings. Additionally, reducing the re-work that attends pushing production beyond Limit IV and assuring the safety of the workforce have the effect of cutting production costs and enhancing the company's competitiveness and profitability.

Putting the concept of the limit at the center of our understanding of worker behavior acknowledges the need for restraint in the production process to avoid re-work and protect workers just as earlier we observed that moderation is required in consumer behavior to assure that the goods and services sought after remain the means to satisfying human wants and meeting human needs and do not become ends in themselves.

One of the most important responsibilities of the employer/producer is wage and salary administration which involves two main tasks: evaluating performance and linking pay to performance. Three central questions must be addressed. How much does the worker contribute as an individual to the assigned tasks, and how much is that work worth? How much are others paid for the same work? How much does he/she contribute to the success of the group to which he/she is assigned, and how much is that contribution worth?

Performance evaluation involves the careful, honest, and comprehensive evaluation of the amount and quality of the work assigned. Evaluation should be quantifiable but for some the nature of their work does not always lend itself to strict quantification. Inevitably, therefore, performance evaluation involves judgment. There are two procedures which help reduce the arbitrariness in making judgments. First, the subordinate prepares his/her own performance evaluation and submits it to the supervisor. Second, the supervisor's performance evaluations are subject to review by the supervisor's own superior.

The best way to assure that performance evaluation is done properly is to select the right persons as supervisors and train them well. The mere fact that a supervisor may have done the very same assigned tasks is no assurance that performance evaluation will be conducted carefully, honestly, and comprehensively. The supervisor must be a person of integrity who understands that compensation is not reducible to labor market supply and demand only**.**

Guided by justice and personalist economics**,** the employer/supervisor has two obligations. Under commutative justice the employer/supervisor has a duty to the employee for "a full day's pay for a full day's work." Under distributive justice, the employer/supervisor has an obligation for "equal pay for equal work." Failing with regard to the first duty in effect breaks the employment contract and reneges on the wages and work specified contractually. Failing with the regard to the second duty is discrimination.

The employee also has two obligations. A "full day's work for a full day's pay" is what the employee owes the employer/supervisor under commutative justice, and as with the employer/supervisor, any failure effectively breaks the employment contract. The employee's second duty is to "do his/her fair share," "pay his/her dues," that is to contribute positively to the success of the group to which he/she has been assigned. This duty is less sharply defined than the first. Much depends on the circumstances at the moment in the workplace and the marketplace. More may be required of a person as a member of the team when the company is facing a difficult deadline, when necessary production materials are not readily available, or when someone on the team is sick or absent.

Even more may be required when the company is on the brink of financial failure. In that sense, contributive justice requires a member to do all that is required for group success provided what is required is reasonable. Thus, personalist economics recognizes that judgment inevitably is a part of any decision as to one's duty under contributive justice**,** and that duty involves an intensely personal commitment as to what is owed. Orthodox economics and the law of nature, on the other hand, assert that what one owes to others is sorted out by the impersonal forces of the market which are directed strictly by the self-interest of economic agents and the *invisible hand.*

In effect, workers are the ground crews, maintenance gangs, flight personnel, air-traffic controllers, and regulatory agencies such as the Federal Trade Commission and the Anti-Trust Division who assure that the aircraft is safe to fly, that the passengers are properly attended during flight, and that the aircraft maintains a safe distance from other traffic on the ground and in flight.

BEYOND PHYSICAL, FINANCIAL, AND HUMAN CAPITAL

More than justice is required to forge human trust. Justice by itself can become cold and calculating if it is not tempered by caring or charity [John Paul II 1998, §1], by a deep regard for the well-being of other humans with whom one interacts on a daily basis. Caring helps develop trust and solidarity by affirming that all humans are equal and never should be used strictly for personal gain. Charity helps develop this sense by insisting that all humans are precious and before all else their well-being, not maximum efficiency, is the most important end of all economic affairs.

Caring lubricates the economic engine so that it can function safely at high temperatures. But caring is a higher-grade oil than justice, and charity -- seeing in every human being a precious human person -- works like an even higher-grade, longer-lasting oil, allowing the economy to function even more effectively and more efficiently. In real terms, caring and charity reach beyond the demands of justice such as when creditors renegotiate credit agreements to ease the burden on the troubled borrower, and merchants give their customers more than they have a right to expect. This additional value, which helps trust and solidarity grow and flourish, has a real economic component -- the real though intangible business asset goodwill. Caring and charity thus become valued economic resources that uniquely acquire value only in the giving and not in the hoarding.

Orthodox economics teaches that production increases with improvements in three types of capital: physical, financial, and human. Personalist economics adds a fourth type -- personalist capital -- which refers to those sentiments and good habits of human beings such as sympathy and generosity that students of economics have known about since Smith's *Moral Sentiments* but have been dismissed by orthodox economics.

Human capital has value when it is put to use by the person who possesses it, and who is free to adapt it to various uses, misuse it, neglect it, abandon it. Human capital is not depleted through use *per se* but can be rendered useless as the person ages and the body and other human faculties decline. Personalist capital, on the other hand, is not an asset to be owned, has no value when it is held as a possession, and is not depleted through use. Its value is not determined by the principles of ordinary marketplace exchange.

Personalist capital is not a commodity. It comes into existence and takes on value only when it is freely given. The generous merchant who gives freely transforms generosity into a *real bargain* for his/her customers, and the caring customer who is loyal to the merchant transforms caring into the merchant's *real asset goodwill*. Similarly, the unselfish employee who gives freely of his/her time and effort beyond what is required transforms that additional work into a *sense of community*, and the magnanimous employer who freely gives his employees more than what is required contractually converts that kindness into *goodwill*.

In both the workplace and marketplace the giving is self-reinforcing and contagious. The merchant who is known for bargains is rewarded by repeat business. Other merchants are inclined to embrace that practice in order to improve their own repeat business. The generous employer is rewarded by more productive and loyal workers. Other employers are apt to follow that example in order to improve their own productivity and the loyalty of their employees. Sadly, though, bad habits such as insensitivity, pettiness, incivility, prejudice, deceitfulness, hostility too are self-reinforcing and contagious. And thus is personalist capital dissipated and destroyed.

Human capital and personalist capital are alike in that both reside in human beings, both can be learned, both can be altered by the very humans in whom the capital resides because humans are self-directed, are capable of acting on their own. Neither human capital nor personalist capital necessarily requires physical capital to function effectively. They are like physical capital that exists only in the form of a material object in the sense that human and personalist capital cannot exist outside the materiality of the human body. All four types of capital are alike in that they contribute to production and for that reason have instrumental value, but human beings most fundamentally have value beyond measure, have a dignity that does not derive from their instrumentality, are ends in themselves and not just means.

Without personalist capital, the economic agent is an individual, a one-dimensional human who is self-absorbed. With personalist capital, the agent becomes a person, a two–dimensional human who is at once an autonomous being and a social being who must balance and re-balance individuality and sociality as his/her functions as an economic agent change and as economic conditions change.

The individual and individualism as integrated into orthodox economic theory no longer are an adequate guide for the law because both originated in the 17th-18th century Enlightenment when awareness of self and others was conditioned by the use of script in human communications which in turn determined how the behavior of economic agents was understood and represented. It is time to recognize that the economic agent is not the same today as he/she was 200 to 300 years ago due importantly to the use of electronics in human communications that has altered awareness of self and others in economic affairs and persuades us that the person and personalism as integrated into personalist economics are much better suited to the demands of teaching and practicing law and justice in the 21st century.

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