

THE PERSON BEHIND THE PRINCIPLES: TEACHING ECONOMICS AT THE INTRODUCTORY LEVEL

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Over a period of nearly 30 years we taught principles of economics to roughly 8,000 students and recently distilled that experience into an e-text titled *PRINCIPLES OF PERSONALIST ECONOMICS: A Critical Examination of Human Persons as Economic Agents* that is accessible without charge or password via the Internet.¹ This e-text follows our own understanding of economic affairs as directed by personal instincts, convictions, values, insights and a philosophy that perceives human beings and, therefore, all economic agents as persons as opposed to individuals.

Our teaching evolved significantly since we first took to the classroom -- we retired in 2007 -- and since we first began questioning the validity and the efficacy of the tools that are routinely employed by teachers of mainstream economics and by those who write principles textbooks. Does the invisible hand, for example, faithfully represent what happens in markets or is it just a manner of speaking? Is it real or rhetoric? Why is the course called the principles course, the mainstream textbook referred to as the principles text, but the teacher expected to teach laws, as in the law of supply, the law of demand, the law of profit maximization? Is there a better way to teach the law (principle) of diminishing marginal utility which taps into the typical student's own experience and connects that principle to the principle of demand?

As our thinking about economic affairs developed by wrestling with those questions, we found ourselves questioning other aspects of the principles course and standard text. In teaching how prices are determined, is it more accurate to ask the question 'Who determines price?' than 'What determines price?'. If it is 'Who determines price?' does it make sense to continue to explain the market as tending toward equilibrium? And if one takes account of the entrepreneur, is it more telling to characterize the market as tending toward disequilibrium?

Through this Socratic method turned inward on ourself rather than outward on our students, we began to see that much of how one approaches the teaching of the principles course depends on the premises that one begins with, and that the single most important premise in

¹ Google Mayo Research Institute. Click on the *Principles* button on the main page and then click the link to *Principles of Personalist Economics*.

mainstream textbooks is that the basic unit of economic analysis is the individual. Little by little we began to appreciate that our understanding of human nature was not fixed in the concrete of individualism, the dominant Western philosophy originating in the 17-18th century Enlightenment which gave birth to the classical economics of Adam Smith, and that there is more to human nature than individuality. A human is a social being no less than an individual being, a union of body and spirit, of intellect and free will, reason and emotion that is better characterized as person and is better represented by the 20th century philosophy of personalism. That discovery changed our way of approaching economic affairs from gut instinct that there is something inadequate about mainstream economics and that we referred to at first as social economics to reasoned argument that we now call personalist economics.

As we drew closer to retirement, this approach was strengthened by the insight that the development of electronic means of human communication beginning with the introduction of the telegraph has changed our awareness of ourselves no less than of others. Thus, as economic agents, we no longer are the one-dimensional individual of mainstream economics, a premise suitable perhaps for economic affairs conducted in the script stage of human communication and directly reflected in classical economics. Rather we are two-dimensional persons, a premise of much greater validity for economic affairs conducted in the electronic stage.

This difference between what may be learned through our e-text and the standard textbook is driven home in virtually every topic addressed in the e-text. Four very brief examples follow. First, we ground the principal pedagogical tool in teaching microeconomics (Marshall's scissors diagram) and the main tool in macroeconomics (circular flow diagram) not in things such as equilibrium/disequilibrium but in the more human language of agreement/disagreement, accord/discord. Second, in presenting economic affairs in terms of human beings acting as economic agents, we find it necessary to address the problem of the conditions under which economic agents act ethically or unethically. Third, defining and measuring poverty is two-dimensional reflecting both the individuality and the sociality of human nature as confirmed by personalism. Fourth, both the principle of diminishing marginal utility and the principle of diminishing returns are presented as originating in the materiality of human nature.

The general goal of the e-text is to instruct the beginning student as to how a capitalist economy functions and dysfunctions both from a mainstream economics perspective that underscores economics as the study of things and from a personalist economics perspective that focuses on human beings as the subject of economics. The e-text presents 36 topics organized around five central themes.

FOUNDATIONS

1. Three Definitions of Economics.

The e-text begins with three definitions of economics. (1) Economics is the study of the transformation of resources into goods and services. (2) Economics is the study of the nature and causes of the wealth of nations. (3) Economics is the study of human beings as economic

agents. The first two definitions lead the student to see economic affairs in terms of *things*, whereas the third definition focuses attention on *human beings*. The first two are foundational to mainstream economics with its positivist view of economics and the economy. The third is foundational to personalist economics with its normative conceptualization of the discipline and the economic order.

2. Three Principles of Economic Justice.

Topic 2 discusses how that behavior may be judged as morally acceptable or unacceptable. Justice -- rendering to another that which is owed -- provides the general standard to be applied in arriving at an appropriate judgment. In economic affairs, three principles apply, each relating to one of the three interactions between human beings: equal-to-equal, superior to subordinates, and member to group. The principle of commutative justice governs the interaction between equals. The principle of distributive justice relates to the interaction between superior and subordinates. The principle of contributive justice regulates the interaction between member and group.

3. Processes, Organizing Principles, Social Values, and Economic Justice.

Topic 3 is a demonstration as to how an economic system is organized, what social values lie beneath the forces that *energize* and *limit* economic affairs, how those social values are linked to economic justice, and how the system is driven by the entrepreneur. There are three principles that organize economic affairs: competition, cooperation, and intervention. The first two operate in an activating mode, while the third operates to limit any excesses with regard to competition or cooperation, such as dumping and price-fixing. Competition and cooperation activate by tapping into human individuality and human sociality respectively.

4. Essential Characteristics of Capitalism.

Topic 4 is an exploration of the essential characteristics of the capitalist system, especially its key institutions. They include private property, private control of decision-making, markets, the activating forces of competition and cooperation, the social values of freedom and community, consumer and producer sovereignty, resource allocation, creative destruction, private creation of credit, the dysfunction and the dilemma of the system. Some of the discussion in Topic 4 is standard mainstream economics thinking, but not all.

MICROECONOMICS

5. Money and Banking.

Microeconomics begins with a discussion of money and banking since the banker is centrally important to the principal agent of economic change, the entrepreneur. In Topic 5 we examine what money is and what it does, what a private commercial bank looks like from the perspective of its profit and loss statement and its balance sheet, and the role of the Federal Reserve System. Here the emphasis is on the bank and banker, the entrepreneur and borrower, and not on the entire banking system. This emphasis allows us to underscore the importance of bank-created credit to the process of entrepreneurial change and thereby highlight the symbiotic relationship between the banker and the entrepreneur. As in Topic 3

where the entrepreneur is introduced, and in Topic 4 that introduces creative destruction and bank-created credit, the presentation in Topic 5 draws heavily on the contributions of Joseph Schumpeter.

6. *Private Creation of Credit.*

This topic on the private creation of credit flows naturally from Topic 5. Our objective in this topic is to illustrate how a private commercial bank in a partial-reserve system makes loans not from accumulated savings but on the basis of its excess reserves and how that capability makes the bank vulnerable to failure. The demonstration is by and large mainstream economics and covers the usual topics: partial-reserve banking, prime rate, promissory note, collateral, loan making, nonperforming loans, and deposit insurance.

7. *Who/What Determines Price?*

In Topic 7 we explain how a market system automatically and routinely eliminates shortages and surpluses and thereby arrives at a market price. However, the student is urged to think about price determination in human terms by starting with the question ‘*Who determines price?*’ rather than ‘*What determines price?*’. We also demonstrate that resource allocation is driven by two forces: the *pulling* force of higher prices offered by producers facing marketplace shortages and production bottlenecks in order to attract the additional resources to address those problems and the *pushing* force of the unmet human material need of workers and resource-holders who no longer are needed by producers facing marketplace surpluses.

8. *Consumer Behavior.*

Topic 8 demonstrates that consumer behavior is characterized by both want satisfaction and need fulfillment and that poverty is a central factor in consumer behavior, which raises the question ‘*What to do for the poor?*’. In this regard, two principles are essential: diminishing marginal utility and subsidiarity. We argue that embedded in the principle of diminishing marginal utility is the concept of the *limit* that originates in human materiality. When the unit of analysis is the person, it is clear that the body itself imposes limits on consumption. Indeed, in the consumption of alcohol beverages, a common expression is *I know my limit*.

9. *Starting and Controlling Private Business Organizations.*

Topic 9 addresses first how a private business organization is established and operates either on the basis of *owning* or *working*, and then contrasts and compares control of decision-making in the economic order and the political order. Understanding the market economy from the perspective of the private business enterprise is crucial because in a market economy most of the production of goods and services and therefore its ability to provision human material need depend on private enterprise.

10. *Worker and Producer Behavior.*

In this topic, the objective is to define the principle of diminishing returns and to link that principle to the cost of production. As with the role of the principle of diminishing marginal utility in consumer behavior, we use *limit* to present the role of the principle of diminishing

returns in producer behavior. Here, too, there are two specific limits: maximum returns (Limit III) and maximum output or capacity (Limit IV). Both are tied to human materiality.

11. Perfect Competition.

In Topic 11, the objective is to show why perfect competition is regarded as a standard of excellence. In brief, mainstream economics idealizes perfect competition because it maximizes efficiency, thereby allowing producers to lower prices. But mainstream economics overlooks the fact that the unrelenting drive to reduce the cost of production in order to compete successfully as the low-price producer leads to greater insecurity among workers, suppliers, and even the owners themselves. There are two major demonstrations in this topic: (1) how perfectly competitive markets operate in the short run and in the long run; (2) why profit maximization occurs at the output level where marginal revenue = marginal cost.

12. Demand, Marginal Revenue, and Market Structure.

Topic 12 presents four visual demonstrations to help the student come to terms with the relationship between demand and marginal revenue in a market structure of imperfect competition versus perfect competition. The first demonstration shows the connection between the demand curve and the marginal revenue curve, between price and marginal revenue, under conditions of imperfect competition. The second shows the same connections under conditions of perfect competition wherein price \equiv marginal revenue. The third shows the same connections under conditions of imperfect competition in a way that differs from the first demonstration. The fourth and last demonstration shows the relationship between elasticity of demand and marginal revenue.

13. Monopoly.

Topic 13 sets out to explain why a monopoly firm is less efficient in transforming resources into goods and services and more likely to generate excess profits than a firm operating in a perfectly competitive environment, and to call attention to the special case of the natural monopoly. The single most important characteristic of any firm operating in a monopolistic market structure its control over price which is attributable to the fact that its product or service is heterogeneous rather than homogenous. The first demonstration presents the case of the monopoly firm operating in the short run contrasted with the long run. In both instances the monopolistic firm generates excess profits, that is profits beyond what are necessary to the continuing operation of the firm.

14. Monopolistic Competition and Oligopoly.

Topic 14 examines the performance of the typical firm operating in a market characterized by monopolistic competition and another firm operating under oligopolistic market conditions. Monopolistic competition reduces to two cases: low-entry barriers and high-entry barriers. An oligopolistic market structure is one in which there is a small number of sellers all of whom have some control over the market price but one firm claims a large share of the market. This special market structure is distinguished by mutual interdependence and at times by collusion and is presented in terms of two demonstrations.

RE-CONSTRUCTING MICROECONOMICS

15. Profit Maximization and the Subjective Dimension of Work.

To be consistent with John Paul II's assertion of the primacy of the subjective dimension of work, of "being more" versus "having more," it is necessary to reject profit maximization as the primary purpose of the firm. In its place this topic proposes that the firm's foremost objective is the maximization of personalist capital. Properly understood, profits are a necessary condition for the firm's survival and when the firm complies with the demands of economic justice profits are ethically good. Personalist capital in effect incorporates the subjective dimension of work into microeconomic theory without dismissing the importance of profits or self-interest.

16. Mainstream Economics, Schumpeter, and Market Structure.

Topic 16 consists of two main parts. The first part provides a summary comparison of perfect competition and four other market structures: monopoly, natural monopoly, monopolistic competition, and oligopoly. In the second part of this topic, we argue that whereas mainstream economics represents competition as centering entirely on price competition personalist economics utilizing Schumpeterian insights understands that competition involves both price and innovation. We point out that entrepreneurship means the homogeneity condition posited for perfect competition cannot be met and that virtually all market structures are imperfectly competitive. And because Americans value the new products and services that innovation brings they protect the property rights of entrepreneurs by awarding patents and copyrights. Removing the protection, in other words, would kill innovation. Consequently, product differentiation and imperfectly competitive markets will remain a permanent part of the capitalist economic order.

17. The Industrial Commons and Other Workplace Regimes.

Viewing the workplace as a collection of assets, which under private ownership are held for the purpose of maximizing the rate of return to the owners, is one perspective that is most popular among mainstream economists. This view asserts that property rights are dominant. Another view identifies the workplace as a collection of assets that, ownership notwithstanding, are under the control of the workers who by virtue of their labor are entitled to appropriate the whole product. This position argues that property rights are subordinate to personal rights. Topic 17 views the workplace as a set of resources that, as with a natural-resource *commons*, yield more or less product (bounty) depending on how skillfully the organizing principles of competition and cooperation are blended. Here, the purpose is not to maximize profits but to meet human material need and to satisfy human wants. Just as sustainability is a necessary condition for a viable natural-resource commons, profitability is necessary in a functioning industrial commons. In this perspective, property rights and personal rights are subordinate to human material need and wants.

18. Humanness, Personhood, and the Person of Action.

In Topic 18 human beings are represented as both body and spirit, the one no less than the other. They are creatures whose very nature demands that they be free to act, at times

rationally, at other times emotionally, and self-determining. Our argument that all economic agents are persons rests on two propositions. First, humanness and personhood are inseparably one. Second, *becoming* a person is not the same as *being* a person. Further, we insist that even though economic agents have instrumental value they have more fundamentally an inherent dignity that makes them nearly divine. If that sacred dignity is denied for one human being it can be denied for any human being, and with that denial basic human equality is rejected. With human equality set aside, personhood can be denied to anyone who does not measure up to whatever critical value, such as instrumental value, sets the standard for acceptance as a person.

19. Capital: Physical, Financial, Human, and Personalist.

Mainstream economists have incorporated three forms of capital – physical, financial, and human – into their ways of thinking about economic affairs. Our examination of capital proceeds from the perspective of the individuality and the sociality of the human beings who design, finance, build, introduce, use, and maintain capital and, with human capital, in whom it is embedded. Physical capital originates in human action, embodies human intelligence, and evolves as human knowledge and understanding advance but cannot materialize without financial capital which also in human action, evolves as human intelligence improves, and requires human direction. Human capital resides in human beings is like physical capital in that it is potentiality waiting to be actualized. Unlike physical capital human capital is self-actualizing. Personalist capital refers to a human development process in which certain good habits or virtues are learned, practiced, and acquired and by which a human being becomes more fully a human person.

20. How Consumption, Work, and Rest Change the Economic Agent.

In personalist economics consumers are embodied spirits who meet their needs and satisfy the wants of the body and spirit through the goods and services they buy and consume in a decision-making process which is essentially active precisely because they are living, breathing, existential actualities, not utility-calculating machines. They truly are *persons of action*. Personalist economics views work as having three effects on the working person: providing income to purchase the goods and services needed or desired, developing a sense of belonging to a group with shared aims, and applying and enhancing creative talents and energies. Personalist economics sees rest in terms of both the human body and human spirit and as crucial to personal development. In the end, rest means setting aside time to care for the human body and spirit in ways other than the ones available through work and consumption.

21. Re-constructing Microeconomics: A Summation.

In summarizing this section on the re-construction of microeconomics, Topic21 focuses on what matters most: the different ways in which economic agency is represented by mainstream economics versus personalist economics. Mainstream economics asserts that in the end the economic agent, *homo economicus*, maximizes utility and profit and the economy functions best when it reaches Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably consists in having more. Personalist economics claims that

most fundamentally the economy functions best when the economic agent, the *person of action*, maximizes personalist capital thereby enhancing him/herself as a human person and rendering him/herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the assertion that the good always inheres in being more.

MACROECONOMICS

22. Macroeconomic Circular Flows.

In Topic 22 the objective is to show how economic sectors are linked by markets, how waste can be represented in the macroeconomic circular flow, and how to personalize the circular flow concept. In contrasting and comparing macroeconomics and microeconomics, we take the view that the former provides a perspective of economic affairs through a wide-angle lens whereas the latter gives a view of the same affairs through a microscope. The result is a modified macroeconomic flow diagram in which human faces are put to the three domestic sectors of the traditional model: *consumers and workers* are substituted for *household sector*, *entrepreneurs and producers* replace *business sector*, and *government sector* becomes *public officials*. *Banker* helps bring a human face to the financial market. Additionally, we incorporate the *bads* associated with natural and labor resources -- depletion, environmental contamination, and unemployment by viewing them as flows that originate in decisions made by consumers, entrepreneurs, and public officials and that are dumped into *sinks* where they remain until they are brought back into the production process by recycling, reprocessing, and re-employment.

23. Four Diagnostic Tools.

In Topic 23 the objective is to present and critique four sets of tools useful in helping to determine what ails the macroeconomy: production, prices, labor supply, and unmet human material need. The first three tools were developed well before the fourth but only the fourth tool measures economic performance in terms of human well-being. The other three measure economic performance in terms of things. Production and prices are presented in conventional terms with the former measured by the national income accounting scheme and prices by the usual price index information. The view of the labor supply in which unemployment is presented as “the hole in the doughnut” is misplaced because the doughnut would not be a doughnut without the hole. Rather, unemployment is to be seen as a hole in the pavement, as something that should not be there and is potentially quite harmful. We resolve the controversy over absolute versus relative standards of poverty in terms of a new standard that combines both and supplies a three-part classification scheme -- the poor, the marginally poor, and the nonpoor -- which is more instructive in understanding poverty and in providing aid to those most in need.

24. The Classical School, Unmet Physical Need, and the Safety Net.

According to the classical school, aggregate demand is the source of a dysfunctional macroeconomy whether the specific problem is inflation or unemployment. The remedy begins with the premise that aggregate demand is a function of prices and asserts that, if the prices of goods and services and of natural, labor, and financial resources, are allowed to fluctuate

freely, stability will be restored whenever inflation is the problem, and full-employment whenever unemployment is the problem. Topic 24 is brought to a close with an extended discussion of the safety net that originated in the New Deal of the 1930s, specifically in the Social Security Act of 1935. The safety net treats the symptoms of economic dysfunction brought home dramatically during the Great Depression and is designed to deal with unmet human material need directly that in the 1930s is traceable to unemployment, old age, and death of the primary wage earner.

25. The Keynesian Revolution.

The objective in Topic 25 is to demonstrate how and why Keynes argued for intervention to address macroeconomic dysfunction through the demand side of the product market. We dwell on four Keynesian ideas: (1) aggregate demand is a function of income not of prices; (2) the liquidity trap; (3) the multiplier; and (4) the role and significance of budget deficits at a time of insufficient aggregate demand. The golden age of Keynesian economics occurred in the early and mid-1960s when the Keynesian remedy for unemployment was tried for the first time in the United States with such success as to lead the followers of Keynes to declare that all economics is Keynesian economics and that the end of the business cycle was in sight once the proper fine-tuning mechanisms were put in place. The wheels came off the Keynesian revolution due in the main to several serious shocks to the economy originating outside the economy including the civil rights revolution, the sexual revolution, the Watergate constitutional crisis, and the tragic war in Vietnam.

26. The Monetarist Counter-Revolution.

The monetarist counter-revolution, we explain, is a direct assault on the *money-is-a-veil* argument in which Keynesians dismissed the role of financial markets in economic affairs. This counter-revolution argued aggressively that intervention based on Keynesian economics is at best a clumsy way to address macroeconomic dysfunction. A much more sensible way to intervene was through the supply of money that if rigidly controlled in terms of annual growth would do far better in addressing inflation and unemployment. The monetarist counter-revolution replaced the Keynesian revolution in the late 1970s after more than ten years of unsatisfactory economic performance known as *stagflation* for which Keynesian economics had no clear remedy. The monetarist counter-revolution collapsed with the extraordinarily high interest rates and unemployment of the early 1980s.

27. The Neo-Classical Counter-Revolution.

In Topic 27 the neo-classical counter-revolution is described as a much more comprehensive resurrection of classical ideas with two new ones added: continuous market clearing and rational expectations. Continuous market clearing means that government intervention in the market is unnecessary because markets routinely and quickly clear away any shortages that stir inflationary pressures and any surpluses that result in unemployment. Rational expectations means that government intervention is futile because economic agents are able to foresee what the government is about to do in the market system and take steps to avoid the impact of that intervention. Neo-classical economics has made major inroads in the discipline

reinforced by a strong affirmation of the unfettered market in financial economics. We observe that labor markets and resource markets do not function like financial markets where the transactions are of a different nature.

28. The Supply-Side Counter-Revolution.

Topic 28 presents supply-side economics that resurrects Say's law to bolster the argument that macroeconomic intervention should take place on the supply side of the product market. Supply-side economics became the heart of Reaganomics during the 1980s in spite of criticism on the part of professional economists who labeled it *voodoo* economics. We review some of the policies implemented in the name of supply-side economics -- a cut in and an indexing of marginal tax rates, a rollback in the capital gains tax rates, a liberalization of depreciation allowances, and sweeping deregulation of businesses and industries previously under government control. We call attention to the claim of supply-side economists that the long economic expansion of the mid-to-late 1980s affirmed the soundness of their analysis and policies. At the same time, we point to the huge increase in the public debt during the 1980s as being attributed by its critics to supply-side economics.

29. Macroeconomic Policy.

Topic 29 opens with a discussion of the four major schools of economic thought -- Keynesian, monetarist, supply-side and neo-classical -- that shape and form macroeconomic policy today. Because there is such sharp disagreement among macroeconomists today, we cover the salient differences between these four models in the context of the macroeconomic circular flow. Most of our effort in this topic is directed toward the one foundation for macroeconomic policy that is widely if not universally affirmed by professional economics: productivity improvement and its role in improving human economic well-being through higher wages, greater profits, and lower prices. No improvement in productivity means that one of the three parties (workers, owners, consumers) is able to capture gain only at the expense of one or both of the other parties.

RE-CONSTRUCTING MACROECONOMICS

30. Subsidiarity and the Proper Role of Government in Economic Affairs.

The principle of subsidiarity applies to all five economic processes: production, distribution, exchange, investment, and consumption. As to the first three, subsidiarity addresses two questions. When should a business enterprise be privately owned and controlled and when should it be publicly owned and controlled? When should intervention to limit competition and cooperation that is running out of control be undertaken by a private organization and when more appropriately should a public agency intervene? The discussion moves on to address: (1) subsidiarity, subsidy, and need; (2) subsidiarity and outsourcing; (3) subsidiarity and cooperating business firms, and with specific examples both inter-firm partnerships and supra-firm alliances. Topic 30 teaches that positive-sum cooperation at both the supra-firm level and the inter-firm level is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. The successful entrepreneur understands that cooperation is not a substitute for competition and that cooperation is not possible without

striking a new balance between the sociality of human beings and their individuality.

31. Financial Meltdown 2008.

September 2008 brought to a head a financial crisis that locked up financial markets and by shutting down vital sources of credit threatened to spread to product and resource markets and in turn to the entire global economy. The meltdown was a long time in the making, having originated with defaults in sub-prime, adjustable-rate mortgages and spreading to giant investment banks and financial institutions elsewhere that had purchased huge bundles of mortgage-back securities on the promise of a return on their investment that would boost their bottom line. The crisis was further exacerbated by the development of credit default swaps that were intended to provide investors with insurance for any losses deriving from borrowers unable to meet their obligations. Federal government intervention came swiftly though clumsily as it searched for the right remedies. It settled on bailing out financial institutions considered too big to fail. A vocal minority urged the government to let the markets deal with the problem by eliminating failed institutions. Their pleas were swept aside as too risky. Examining the meltdown will help us understand how it happened and how best to deal with it when it happens again. And it will happen again because economic agents operating freely in a market economy make mistakes, at times very consequential mistakes

THE VIABILITY OF A PERSONALIST ECONOMY

32. Integral Human Development.

In Topic 32 we argue that personalist economics follows Amartya Sen's proposition that the task for economics is to enlarge everyone's capabilities set and asserts uniquely that the economic agent, the *person of action*, adds to his/her capabilities set by acting virtuously in economic affairs and subtracts from that capabilities 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 development. Personalist economics not only adds an important human behavioral element -- personalist capital -- to Sen's capabilities set but also links that improved set to integral human development and asserts that the ultimate purpose of the economy is maximizing integral human development that is achievable by maximizing that capabilities set. For our purposes as economists, human perfection relates to human perfection in economic affairs and refers to the maximization of integral human development through activity in economic affairs. In other words, the integral human development and human perfection of the *person of action*.

33. Economic Freedom.

In Topic 33, we are concerned with three questions. First, what are the ways in which decisions are made in economic affairs? Second, what role does economic freedom play in a market economy? Third, how important is economic freedom in a market economy? The answer to the first question comes from Joseph Becker reinforced by William Waters. The answer to the second is based on how a market system actually works. The answer to the third originates

with John Paul II's extended remarks on economic freedom particularly in *Centesimus Annus* and *Sollicitudo Rei Socialis*. The conventional wisdom regarding decision-making in economic affairs is that there are only two ways: the individual acting alone and the state acting collectively. Though it constrains economic freedom, the third way -- private group decision-making -- limits the need for the state to intervene in economic affairs thereby protecting the individual from an even greater loss of economic freedom. 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 specific economic problems. While economic freedom is the *most important* characteristic of a personalist economy, intermediary groups are its *distinguishing* characteristic.

34. Caring, Justice, and Christian Charity.

Caring, justice, and Christian charity are alike in that all three do not fit within the orthodox economics paradigm. Nevertheless, when acted upon each one strengthens the character of the economic agent. When they are replaced by the vices of neglect, injustice, and hatred each one weakens the character of the agent. Mainstream economics draws attention to the (opportunity) cost of what an economic agent cannot do or cannot have when that person makes a decision. This cost applies even in those instances where the agent does not deliberately take it into account. However, there is no opportunity cost associated with caring and charity because neither one involves agents transacting business in which *economic gain* for both parties is essential. Even when something material is involved, caring and charity are *gifts* in which nothing is foregone or expected by the caring/loving person. Caring and charity contribute to the character of that person through what we refer to as personalist capital which is one of *the* determinants of integral human development. Neglect and hatred diminish personalist capital, thereby exerting a negative impact on human development. Critics of orthodox economics have been searching for ways to incorporate caring or generosity into their way of thinking about economic affairs. We argue that caring cannot be separated from justice or charity and that all three taken together require re-thinking economic agency and re-considering the philosophy upon which orthodox economics is constructed. Justice without caring or Christian charity falls short of a fully functional economy.

35. Local Economic Development and Persons of Action.

Local economic development can be addressed through two strategies -- attract already established firms to relocate in the area or help local residents start their own businesses. The first strategy is appealing because it offers promise of increasing local employment, payrolls, spending, and tax revenues. The second strategy offers greater promise that start-up businesses will remain in the area when local residents are the driving force behind those firms. Start-ups, however, cannot match the scale of the improvements that locating established firms bring to the local economy. An alliance of ministers, each with a checking account that holds the congregation's funds and the account of any school operating with its sponsorship would approach local banks and invite them to compete for those accounts. The bank with the best plan for local economic development focusing on startup businesses in the targeted area would be rewarded with the accounts of the alliance members. There is no risk to

the alliance provided their funds are kept in FDIC insured accounts.

36. The Twenty Tenets of a Personalist Economy.

It is right and proper, if not actually necessary, to conclude this text with a discussion of the twenty central tenets that constitute the core of a personalist economy. These central tenets, we insist, will endure though others very likely will emerge as we know more about how personalism shapes our understanding of economic affairs. Of these twenty tenets, however, the first -- *the human person is the basic unit of economic decision-making and economic analysis* -- is by far the most important and likely will remain so.

APPENDIX LESSONS LEARNED

There are several important lessons that we have learned over the years about teaching principles of economics from a personalist economics perspective.

First, analogy is a powerful teaching tool that Marshall, for one, demonstrated dramatically with the scissors diagram. Improving as a teacher means finding analogies to help the beginning student grapple with difficult concepts such as diminishing marginal utility by first introducing him/her to a much simpler human situation with which they have some familiarity. Finding those analogies means that the teacher must stay in touch with the student whose life experiences are not the same as the teacher's. It also means being open to the proposition that there is always a better way to teach even for teachers with many years' experience.

Over the years, we have found it instructive to compare the economy to a twin-engine aircraft that is fueled by the credit created by private commercial banks, and is piloted by the entrepreneur who controls the aircraft in flight. Lift is provided by the engines of competition and cooperation. Private and public intervention to rein in excessive competition and collusive cooperation function like the control surfaces of the aircraft allowing the pilot to maintain control in flight. Culture relates to the economy the same way weather influences the aircraft. A culture of life and hope, that is affirmed most fundamentally when human beings are not totally self-absorbed and at least from time to time care about one another in economic affairs, enhances the performance of the economy just as the aircraft performs better in good weather. In contrast, a culture of death and despair, that in the extreme is reinforced by a pervasive attitude that death is the answer to social problems, slows down the performance of the economy just as the aircraft performs less effectively in bad weather.

Second, rhetoric and language shape and even tilt the student toward a particular conclusion that may not be warranted. Notice how the following terms are loaded with meaning: *perfect* competition versus *imperfect* competition; *strong* dollar versus *weak* dollar; *autonomy* versus

dependency; goods versus bads. The student should be warned that at times the language and rhetoric used in economics and employed by commentators on economic affairs can be seriously misleading.

Third, and much related to the second lesson, is that too often abstractions or figures of speech are taken for the real thing. The *market* is not a wizard. It is simply a way of talking about the interaction between buyers and sellers. The *invisible hand* is a way of saying that the common good is served automatically when self-interest is served. Strictly speaking, *supply and demand* determine nothing. Rather it is producers and consumers who determine price by their interaction in the marketplace. In this regard, we have found it helpful to explain to the student that at times what we represent in the form of a diagram showing that, for instance, profit maximization occurs at the output level uniquely associated with the intersection of marginal cost and marginal revenue does not mean that persons in business actually draw marginal revenue and marginal cost curves. Rather, the curves depict our way of representing a decision process that intuits the correct answer by the simple question ‘What will this change in the production schedule do to my cost and my revenue?’.

Fourth, we need to be upfront about human material need, especially human physical need. Attempting to teach economics strictly in terms of wants satisfaction is a serious mistake. The safety net is based on the premise that we have an obligation to help the needy meet their unmet physical need. Poverty is a concept that is grounded in human physical need and cannot be defined in a way that disregards human physical need. Most of the world’s human population are poor, with physical needs that are severely unmet. Our economics must reflect those stark, everyday realities if it is to make any sense at all.

Fifth, Schumpeter is a rich source of support for personalist economics in that he underscores in particular the central roles played by two human agents in the economic affairs of a capitalist system: the entrepreneur and the banker. Also, he provides important insights in comparing the perfect-competition model and the imperfect-competition model. Further, to our mind, he lends support to the legitimacy of supply-side economics.

Sixth, *limit* is a useful pedagogical device because it has application in several areas such as the bank’s excess reserves limiting its ability to create credit, the producer’s capacity limiting his/her production process, the consumer’s human body limiting his/her consumption. Additionally, there is a limit, that many call carrying capacity, as to how much waste and contamination from human economic activity the human population and the rest of the natural world can absorb safely.

Seventh, humor can be used to reinforce the human perspective emphasized in personalist economics. For example, *happy hour* is proof that even the bartender understands the logic of the principle of demand. Laurel and Hardy’s humor can be visually represented by a production function diagrammed in the fourth quadrant. *Pigging out* is admitting that one has exceeded the limit on total consumption represented in the principle of diminishing marginal

utility and deriving from one's bodily nature. The importance of productivity improvement can be driven home by the experience of the Solidarity movement in Poland that brought down the communist regime in part by urging workers not to rebel in the streets but to "go to work and act dumb." Humor can be effective in the teaching process because it is based on some unexpected incongruity in *human* behavior.

Finally, the most important lesson we've learned is that our understanding of economics has improved by thinking of economic affairs more and more in terms of the duality of human nature. That is, *person* is a much more insightful concept than *individual* because *person* includes sociality and individuality whereas *individual* is strictly one-dimensional. *Person* has helped me understand better the difference between competition and cooperation, for example, and between microeconomics and macroeconomics. *Person* coupled with *human material need* has made me aware of the importance of work to human development in ways that are akin to restoring the sight of a person who is blind. It is for that reason that we call the economics that we do *personalist economics*.