PERSONALIST ECONOMICS: WHAT IS IT?

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Personalist economics[1] did not suddenly spring to life out of the author's own conscious and deliberate thinking and imagination. Rather, it began with a feeling, an intuition that something was not right with the conventional economics[2] way of thinking about economic affairs. The author's own re-thinking began more or less instinctively with the publication in 1985 of his article on the unemployed as persons (O'Boyle 1985) that drew inspiration from John Paul II's 1981 encyclical *Laborem Excercens*.

At the time, however, we had no idea or clear intention of re-examining economic affairs or economics from the perspective of the economic agent as a person. Individual and individualism still had a powerful hold on us and it took years to break those ties. From time to time a close colleague would ask "What difference does it make" to replace individual with person? Our answer never was clear or convincing. But we continued to work, hoping that we would know more later. Over the years a set of papers emerged that were collected in 1998 in our *PERSONALIST ECONOMICS: Moral Convictions, Economic Realities, and Social Action* and published by Kluwer (O'Boyle 1998). It was our first major effort to establish personalist economics as a new and different way of thinking about economic affairs. Whatever its strengths and weaknesses, it did establish personalist economics as its own genre.[3]

An enormous breakthrough occurred in late July 2000 at a small gathering of friends for lunch with John Paul II in his summer residence in Castel Gandolfo. Responding to one of the guest's pointed question regarding the difference between individual and person and using both hands, John Paul replied with a simple gesture indicating clearly that a human person is very nearly divine. Sitting at the dinner table, he extended his left hand as far to the left as possible and said "this is the individual." Then he extended his right hand as far as possible to the right and said "this is the divine." Finally, he moved his left hand to the

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[1] *Personalist economics* is our preferred expression because it emphasizes that this body of work lies *within* the domain of the discipline of economics. Others are using *economic personalism* which to us indicates a body of work primarily within the discipline of philosophy.

[2] By "conventional economics" we mean throughout what William Waters (1988, p, 115) meant: "classical, neoclassical, Austrian, monetarist, Neo-Keynesian (… after the Hickensian synthesis), supply-side, and rational expectations economics." In the past we often used "mainstream" and "conventional" interchangeably. Herein, we abandon that practice and use only "conventional."

[3] We searched the Harvard University Library on-line catalog to see if anyone had used "personalist economics" and found nothing on that subject, convincing us to use the term to designate our efforts to re-construct economics.

right nearly touching his right hand which remained fully extended and said "this is the person." Nothing before or since has made a greater impact on our thinking.[1]

A conference at DePaul University in summer 1998, with the theme "teaching the social economics way of thinking," was the occasion of our first presentation on how to teach introductory economics from a personalist perspective. Four years later the first draft of our principles of economics, which in the end grew out of teaching introductory economics to thousands of students over nearly a 30-year period, took shape as an e-text.[2]

Several others have helped bring personalist economics to life. William Waters' exposition of the different "hard-core premises" of conventional economics and solidarist economics (his term at the time) was very helpful in sorting out why it is so difficult to substitute person for individual as the basic unit of analysis in economics (Waters 1988). Peter Danner's *The Economic Person* was most instructive at many points, notably on humans as both matter and spirit and on economic gain that helped shape our thinking on justice as setting limits on ill-gotten gain (Danner 2002). Further, Danner has been an important source of support and encouragement for our continued efforts to understand the economic agent as a person.

In the early 1960s John Hackett, a brilliant graduate student in the English department at Saint Louis University, turned our attention to the work of Walter Ong who for many years served on the University faculty. We took his advice but did not see a connection between what Ong was saying and what we were struggling to understand. About 40 years later we began to see for the first time the importance of Ong's insights on human communication and personalism and our own instincts telling us that individual and individualism no longer contribute to a clear and accurate understanding of contemporary economic affairs.[3]

Rupert Ederer's silent, persistent work on translating Heinrich Pesch's *Lehrbuch der NationalÖkonomie* and after many years getting his English translation published reminded us that often this kind of work, to use the familiar cliché, is more perspiration than inspiration.[4] Years before, Richard Mulcahy's *The Economics of Heinrich Pesch* was

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[1] Following John Paul's express wishes that this was just a private lunch with his friends, there is no official record of this meeting.

[2] A copy of the latest edition is available at https://mayoresearch.org/personlist/

[3] See Ong 1967a, 1967b, 1977, 1981, 2004.

[4] See Pesch 2002-2003.

the best single source of Pesch's thinking on economics and economic affairs in English. It is a must read for the English-language student (Mulcahy 1952).

Finally, my dear parents Helen and Daniel O'Boyle were my first teachers, though as Irish immigrants neither one had more than a grade school education. Even so, from their example I learned an independence of mind, a persistence in living one's own convictions, the intrinsic worth of scholarly enterprise, the courage to ask questions when one does not understand and to stand one's ground when others are confrontational and intimidating, and perhaps above all else that we are made in the image and likeness of God. *Requiescant in pace.*

THE THEORETICAL SIDE OF PERSONALIST ECONOMICS

The first and most important strength of personalist economics is that it rests upon and offers a different ideological foundation for doing economics and understanding economic affairs. It suggests re-thinking our premises, re-examining our description of economic affairs, and re-assessing our policy recommendations by substituting personalism for both the individualism of conventional economics and the collectivism of its socialist/communist alternative. It argues that how we understand and describe economic affairs and where we end up in terms of economic policy depend on the premises we begin with and whether we scrutinize those premises or simply accept them as self-evident.

***Origins of Personalist Economics*. Personalist economics originates with Aristotle, Aquinas, and Smith (*Moral Sentiments*) and is linked to Weber and Walras principally through Schumpeter whose entrepreneur is very much a person as opposed to the individual who in his time and ever since has dominated conventional economic thinking. The normative economics of solidarism introduced by Heinrich Pesch and his colleagues and further developed more recently by Bernard Dempsey, Thomas Divine, William Waters, Peter Danner, Franz Mueller, Goetz Briefs, and others represent a clear departure from the positive economics of the conventional. Most important in the development of personalist economics were the contributions of Mounier and John Paul II. Person and personalism and emerged during the electronic stage of human communication and for that reason are much more relevant to contemporary economic affairs than individual and individualism which are tied to the earlier script stage of human communication.**

The concept of the human person emerged in economics from the much earlier concept of the human individual as a consequence of the technological changes that are taking place in human communication and that are changing self awareness and awareness of others. These revolutionary changes in human communication in economic affairs explain (1) why the concept of the individual and individualism are outdated, (2) how little by little and with some confusion nontraditional voices in economics have been attempting to

reconstruct the individual by widening the concept of capital, and (3) why it is necessary to replace both the individual and individualism with a concept and philosophy more compatible with those changes. For details, see Exhibit 1.

***Origins of Homo Economicus vs. Person of Action*. The key to a personalist economics lies in articulating persuasively the need to replace the individual as the central unit of economic analysis, a concept that dates from the Enlightenment, with the person, a concept that is a much better representation of the economic agent in the 21st century. Put somewhat differently, we need to begin our analysis of economic affairs with the *person of action* if we are to understand those affairs and teach them insightfully in a world that today is vastly different than the world that Smith (*Wealth of Nations*), Ricardo, Malthus, and others were called on to understand in their day.**

With the same emphasis we attached to replacing individualism with personalism, personalist economics replaces the *homo economicus* of conventional economics who passively and mechanically maximizes personal net advantage (utility, profits) with the more compelling *person of action* who becomes a more honorable person by *acting virtuously* in business affairs -- is diligent, trustworthy, fair-minded, honest, hard-working -- adds to her personalist capital and becomes an even more honorable person and a more effective and more valued economic agent. At the same time, however, a person who *acts viciously* in business affairs -- is shiftless, corrupt, unjust, dishonest, lazy – depletes her personalist capital and becomes an even more contemptible person and a less effective and less valued economic agent.[1] Personalist capital is like social capital and human capital because even though all three are intangible they most definitely are real and have a place in how we think about the behavior of economic agents. As with social and human capital, personalist capital resides in the human person. Physical and financial capital, on the other hand, reside in things. See Exhibit 2.

See also Exhibit 2A with accompanying text below that explains the flaws in Exhibit 2. We have kept the flawed Exhibit 2 in this text to allow the reader to see more clearly why it is flawed.

***Infusing the Individual with Personalist Capital*. Infusing the concept of the human individual with personalist capital leads directly to the more modern concept of the human**

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[1] In the past we referred to this active economic agent as the *homo socioeconomicus.* Eventually we rejected *homo socioeconomicus* because it did not emphasize the active role of the economic agent sufficiently and replaced it with the *acting person*. Later on we replaced the *acting person* with the *person of action* on grounds that "acting" is mistakenly applied because it suggests someone who serves on a temporary or interim basis.

person because what differentiates individual from person is that the human individual of neo-classical economics is represented as entirely inward-looking whereas the human person of personalist economics is both inward-looking and outward-reaching, concerned with self and interacting with others. At times, the inward-looking and outward-reaching are in conflict as, for example, when a professional couple must cope with the problem of one partner being offered a much better job in a distant city at the same time the other partner is quite comfortable working where they presently live. This outward-reaching dimension is called into play through the various types of human interactions such as between workmates, colleagues, family members, neighbors, partners, and the like. See Exhibit 3.

Those interactions drive human development either in a positive or negative direction, in ways that foster and support such virtues as, for example, benevolence, caring, sympathy, and justice or such vices as meanness, heartlessness, insensitivity, and injustice. The regular practice of the virtues or good habits helps a human being realize more fully her own human potential and thereby become more fully a human person. The routine practice of the vices or bad habits diminishes a person.

Economic Agent: Who, What, Whose? **At present, personalist economics offers a rough sketch as to how to reconstruct the way we study economic affairs and therefore how we teach economics based on thinking about economic agency in terms of the person rather than the individual. To represent the economic agent, we use the *person of action* for two reasons. First, the *person of action* properly emphasizes personhood and personalism in place of individuality and individualism. Second, the p*erson of action* directs attention to the economic agent as one *who* acts in economic affairs rather than as one who is socially embedded, to *what* the economic agent does rather than *where* the agent is situated (see Davis 2003, 2007on social embeddedness and situatedness).**

In order to flesh out the meaning of the *person of action*, we must address this question: "Whose are we?" Conventional economics asserts that we belong to ourselves. Radical economics, on the other hand, insists that we belong to the collective. In the extreme, conventional economics takes a libertarian view of humans that frees the individual from the clutches of the state. Radical economics takes a totalitarian view that not only subordinates the individual to the state but also reduces the individual to an object, a cog in the machine. Personalist economics affirms, instead, that we belong to our Heavenly Father who created us in His image and likeness.

However, unlike the way in which it differentiates itself from the conventional and from radical economics on the questions 'Who?' and 'What?,' *personalist economics* sets itself so far apart on the question "Whose?" that further dialogue is closed off with those in economics who are nonbelievers or hold the view that one's beliefs should not enter their

economics. In a world that is overwhelmingly secular, holding views of the sacred in economics is seen by many as a weakness and by others as a disqualifier. Thus, proponents of *personalist economics* are likely to be marginalized and even excluded from the company of conventional economists and of some heterodox economists. Even so, we are most encouraged by the fortitude in these matters of Jesuit economist Joseph Becker, a renowned specialist in unemployment insurance.

> **In talks I have given over the years to people working in the unemployment insurance program, especially government officials and representatives of management, I have urged them to see the unemployed as Christ Himself, who will someday say to them "Because you did it to the unemployed, you did it to Me" (Becker 1991, p. 56).**

The proposition that we human beings belong to God runs through all of personalist economics. Indeed, we argue that there is no other way to examine economic affairs. Nonetheless, personalist economics is still very much a work in progress.

Cyclic vs. Evolutionary. Economics for a very long time has been dominated by modeling economic affairs in cyclic terms. Others in economics who are not impressed with the cyclic model insist that the proper way to model economic affairs is in evolutionary terms.

As with other disciplines such as history which "repeats itself," economics is constructed on a cyclic model that applies circular descriptions and explanations to economic events. Consider the following four examples from economics past and present: (1) characterizing the market as a system that clears shortages and surpluses, automatically returning to a state of micro-economic equilibrium; (2) employing automatic stabilizers to restore macro-economic equilibrium; (3) describing macroeconomic affairs in terms of the business cycle with its repeating pattern of expansion, contraction, peak, and trough; and (4) promoting the natural-rate hypothesis which claims that unemployment invariably returns to its normal or natural rate regardless of the rate of inflation.

In the cyclic model events are construed as identical and inevitable, and therefore predictable. Reality is closed in and brought under control; though assertive, thinking remains in a primitive mold (Ong 1967a, pp. 87, 73, 95). Thus, the widespread use of econometrics in conventional economic analysis. Using cyclic reasoning, and given the data required to operationalize their econometric models, conventional economists are comfortable in asserting that changes in economic affairs can be predicted. What they do not fully appreciate is that one other requirement -- a central premise of their way of thinking about economic affairs -- must be firmly in place. Specifically and notwithstanding any changes taking place in economic affairs over time, *homo economicus* is an *utterly rational, never-changing human individual.* Without this rationality and

constancy about human individuals as economic agents, and the automaticity which is characteristic of market economies, the cyclic model disintegrates for lack of predictability.

Walter Ong (1967a, p. 89) beckons us to set aside cyclic thinking for evolutionary thinking because "one can make use of the circle model only as a result of a careful selection of details and the calculated elimination of others." Consider these five examples of "careful selection" and "calculated elimination": (1) imputing values for unobserved or unobservable variables; (2) assuming that dependent and independent variables are normally distributed in the population; (3) taking for granted that measurement error is randomly distributed; (4) presuming that in linear programming two of the lines bounding a region of basic feasible solutions do not intersect at the same corner point; (5) using budget constraints which ignore kinks, discontinuities, gaps, and nonconvexities.

Charles Darwin's theory of evolution with its twin emphasis on adaptation of living organism to the environment and natural selection has had a powerful influence on modes of thought well beyond the precincts of biology. Ong (1967a, pp. 61, 78; emphasis added) proposes two arguments in support of the evolutionary model.

> **[First,] the discovery of evolution has undermined cyclic views even more than would at first blush appear. In the universe as we know it, there exists no real model or analogue for cyclicism -- that is the identical and inevitable repetition of an event or two (much less at an infinite number of) points in time.**
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> **[Second,] *the birth of man in the cosmos is striking evidence against cyclicism* if further evidence is really needed. For *here we have the cosmic processes terminating not in repetition but in its antithesis, the utterly unrepeatable and unique human person.***

By extension, Ong is arguing and we certainly concur that there is no way to posit a *never*-changing *homo economicus* without essentially casting aside "the central corporate discovery of all mankind" and without effectively cloning all economic agents from a single cell taken from a hyper-rational abstract human being. At the very heart of economic affairs is found the economic agent who is not cyclic but evolutionary, adapting in a Darwinian sense to the economic environment, and changing in a personalist sense simply by acting as an economic agent.

There are several significant examples of evolutionary thinking *outside* conventional economics. The evolutionary thinking of Thorstein Veblen, John Commons, Wesley Mitchell, and Clarence Ayres formed the intellectual foundations of the Association for Evolutionary Economics. Other examples that demonstrate evolutionary thinking in

economics are worthy of note. Deriving its inspiration from Joseph Schumpeter, the *Journal of Evolutionary Economics* also presents economic affairs in terms of an evolutionary process. Evolution is one of four ideas which are foundational to institutional theory. The other three are culture, cultural relativity, and instrumental valuing (Mayhew 1988, p. 23). Evolutionary economics replaces the maximization and equilibrium assumptions of conventional economics with "uncertainty and imperfect information, routines, heuristic search processes and optimizing behavior, and nonequilibria" (Blauwhof 1994, pp. 153-154).

Analogizing economics to biology, Herman Daly (1968, pp. 392-395) argued that matter-energy are *degraded* through the economic process in the same way that matter-energy are *degraded* through the metabolic process. In both the biological order and the economic order the purpose is the same: the maintenance and enjoyment of life. In his extended analogy, Daly examines the life process which he regards as the ultimate subject matter of economics and biology under two aspects: steady-state and evolutionary. Unlike cyclic thinking, Daly's thinking is linear. He visualizes the flow of matter-energy in economic affairs as "one-way, non-circular, and irreversible."

In the early 1980s Kenneth Boulding (1981, pp. 85-86) argued that Adam Smith, Thomas Malthus, and Alfred Marshall employed the evolutionary model and that it was Leon Walras and his followers who by grounding economics in mathematics subsequently steered it in the direction of the cyclic model. *Economic science, in other words, was first a biological science before it was fashioned into a physical science.*

***Need vs. Want.* A need is something required as demonstrated in the universal human need for food, shelter, and clothing. Many times, however, need is specific to a given person or group of persons such as with insulin that is required to manage diabetes, a specific type of stethoscope for a primary care physician, replacement windshields for automobile owners whose cars have been damaged in a hail storm.**

A want is different. It is something desired. A Lamborghini by a high school senior as a graduation present. A ticket on the first launch into space for wealthy persons as commercial passengers who have everything. In the extreme, the latest status symbol or trinket: pet rocks, Rubik's cube, fidget spinners, baseball trading cards. Needs and wants differ from person to person because human beings are magnificently different. And needs and wants inhere not in the good or service itself, although we may use language that suggests as much, but in the human person.

The differences we observe in human beings are reflected in the different choices they make as consumers and how they justify those choices. A husband may not understand why his wife says she needs the new shoes and slacks she just bought any more than she

may understand why he says he needs the new fishing rod and tackle box he plans on purchasing.

Conventional economics does not differentiate between needs and wants, because in doing so they must acknowledge that some aspects of economics are normative and therefore value-laden, not positive and value-free. That acknowledgement undermines their claim that economics is more nearly like other so-called hard sciences, such as physics and mathematics, because it is value-free. Personalist economics is insistent that need and want must be handled separately. How else can we approach poverty than as unmet need?

When a conventional economist addresses poverty she uses a definition that necessarily is value-laden apparently without giving it a thought. Poverty is not the only issue in economics that is value-laden. The adequacy of benefit amount and benefit duration in unemployment insurance is value-laden. Evaluating a training program for a person who lost her job due to automation strictly in cost/benefit terms instead of what is owed that person in terms of justice, making the issue primarily not value-free but value-laden. The question as to who should be exempted from paying a tax and who should pay that tax is value-laden.

The only way an economist can deal with value-laden issues is for her to state her values openly and invite others to challenge her findings and conclusion by substituting their own values for hers and release their own findings and conclusions. That method allows us to compare and contrast the results from different research which in term can and should lead over time to agreement. See Becker 1961.

***Maximization*. The economic agent constructed by conventional economics on the basis of maximum personal net advantage (utility/profit maximization) also misrepresents human nature. We propose instead that human beings maximize the intermediate goal of personalist capital in which certain virtues such as justice and courage are learned, practiced, and acquired and by which a human being becomes more fully a human person. Further, as human beings develop more fully as a human persons, they become more effective and more highly valued as economic agents. We should add that human beings become less fully human persons by learning, practicing, and acquiring certain vices such injustice and recklessness, and become less effective and less highly valued as economic agents. The final goal of personalist economics is the maximization of integral human development which is driven by four variables: personalist capital, human capital, social capital, and material well-being. The reduced-form function looks like this: IHD = f (PerC, HC, SC, MWB). There is more on human development in the section below on the applied -side of personalist economics. See notably our comments on consumption, work, and rest.**

Ordering Economic Reality. **Personalist economics orders economic reality in terms of the following human activities: producing, distributing, exchanging, consuming, saving, investing, credit-creating, lending, borrowing, innovating, developing, and (re-)vitalizing, and offers an orderly construct for organizing the essential economic processes and functions that are responsive to both human needs and human wants. It provides a principle -- subsidiarity -- for deciding whether that organization should be based mainly on private enterprise or public institutions. Representing economic affairs in terms of human activities puts a human face on economic reality and warns us that our economics has to take into account when those activities are ethically proper and when they become unethical.**

Justice, Caring, Charity**.** **Personalist economics presents a framework for ethical decision-making based on the three central principles of economic justice – commutative justice (also known as the principle of equivalence), distributive justice, and contributive justice -- and demonstrates how they apply in the product, resource, and financial markets. See Exhibit 4.**

By clearly defining those three principles and calling attention to examples of common expressions that derive from those principles in the marketplace and the workplace as well as certain practices that violate the duties they set forth, justice supplies limits on everyday Ehuman activity in both places. In general, conventional economics pays little attention to economic justice. From the early stages of its development, personalist economics has taken the role of justice in economic affairs much more seriously.

Bringing the virtue of justice into play means that *personalist economics* is intrinsically normative and at odds with the logical positivism of conventional economics. What sets justice apart from the other virtues is that in economic affairs it is a *duty*. It is the duty of every human being under contributive justice to use the Earth's natural resources only to the extent necessary, in ways that protect the natural environment, and whenever necessary to contribute to the replenishing of those resources to the extent humanly possible. Further, charity (caring infused with the conviction that every human being is precious) is the guardian of justice, and taken together these two virtues are set apart from the other virtues because as Pesch argued they are the twin bulwarks of human well-being (Mulcahy 1951, p. 168).

The virtue of caring partners with the virtue of justice in protecting human wellbeing in economic affairs. Pulling in the virtue of caring -- Disciples of Christ refer to it as Christian charity -- has the effect of reducing some of the marginalization and exclusion which follows from the way that personalist economics handles the question "Whose?"

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Caring and charity mean going beyond the demands of justice such as workers willing and able to do more than their job descriptions require and merchants willing to give their customers more than they bargained for. This additional value, which helps solidarity grow and flourish, has a real economic component. The worker and employer, the merchant and customer, contribute directly to the real though intangible business asset "goodwill." Caring and charity thus become valued economic resources which are absolutely unique in two ways. First, they acquire value only in the giving and never in the hoarding. Second, they are never depleted in utilization.

Caring helps develop a sense of trust and solidarity by affirming that all human beings are equal and never should be used strictly for the personal gain of others. Charity helps develop this sense by insisting that all humans are precious and before all else their well-being, not maximum efficiency in the utilization of economic resources, is the most important end of all economic affairs. Human beings are not the servants of economic systems. To the contrary, economic systems should be designed and implemented to serve human beings. See Exhibit 5.

Ambiguity of Social Justice. **Personalist economics addresses the ambiguity surrounding social justice, a concept used widely but with different meanings for different users. In addition to the different meanings applied to the term, there are two other sources of ambiguity. First, social justice is referred to under at least three other labels: constructive justice, legal justice, and general justice. Second, there has been some ambiguity originating in careless scholarly work. Confusion is added to the ambiguity by blurring the line between social justice and social charity, and substituting solidarity for social charity.**

To deal with this ambiguity, personalist economics argues that practicing social justice means practicing all three types of justice relevant to economic affairs: commutative, distributive justice, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carrying out their everyday economic activities in common.

Organizing Principles. **All of the human activities enumerated above -- producing, distributing, exchanging, consuming, saving, investing, credit-creating, lending, borrowing, innovating, developing, and (re-)vitalizing -- are organized by three principles: competition, cooperation, and intervention. Competition and cooperate are activating,**

intervention is limiting. Competition and cooperation activate economic affairs like the twin engines of an aircraft provide the lift for the aircraft (economy) and intervention provides the control and direction to economic activities just as the plane's rudder and stabilizers allow the pilot to maneuver the aircraft safely in flight. Caring is the oil that lubricates the engine so that it can function safely at high temperatures. Charity -- seeing in every human being a precious human person -- works like a higher grade oil, allowing the engine to function even more effectively and more efficiently

The entrepreneur is the pilot in the sense of making decisions that determine course and destination. Finally, the investment banker fuels the economy with the credit necessary to start and operate the twin engines of competition and cooperation. Regulatory agencies such as Securities and Exchange Commission and the Federal Trade Commission are responsible for inspecting the aircraft and providing control during takeoff, flight, and landing. The Federal Reserve System assures that the fuel supply is adequate and free of contaminants.

Conventional economic theory regard human cooperation as inherently collusive therefore a zero-sum activity. Personalist economics sees cooperation differently. Collusive but not necessarily zero-sum at all times. Human beings are capable of cooperating in ways that are positive-sum. For cooperation among grape growers and wine makers, see O'Boyle 2019. There is more on the activating principle of cooperation under the applied side of personalist economics below.

Profit vs. Integral Human Development. **Conventional economics takes as the final objective of economic affairs the maximizing of personal net advantage. For the producer, that means maximum profits. Nobel Laureate Milton Friedman (1962) insists that maximizing is the *only* authentic objective of the firm.**

Personalist economics, on the other hand, sets aside this view replacing it with the maximizing of integral human development, which includes material well-being but depends importantly on acquiring personalist capital. Notice the difference between the final objective of conventional economics expressed in terms of things and the final objective of personalist economics expressed in terms of human beings.

In a very real sense, humans are works of art in progress. They paint their own living portraits with third-level work, consumption, and restful activities, becoming whole and complete, just as the artist creates a painting with brush and paints. And just as the artist may abandon the canvas before it is finished, humans may leave their own development arrested. There is more on work in the section below on the applied side of personalist economics.

Economic Freedom. **John Paul II asserts that economic freedom is the foundation of the modern business economy and re-affirms the Church's commitment to freedom as a necessary condition to assure the "transcendent dignity of the person" (John Paul 1991, §32, §46). Four years earlier, he makes the extraordinary statement that "… one must not overlook that *special form of poverty* which consists in being deprived of fundamental human rights, *in particular* the right to religious freedom and the right to *freedom of economic initiative*" (John Paul 1987a, §42; emphasis added).**

At the same time, John Paul spoke eloquently about freedom in the United States.

> **From the beginning of America, freedom was directed to forming a well-ordered society and to promoting its peaceful life. Freedom was channelled [sic] to the fullness of human life, to the preservation of human dignity and to the safeguarding of all human rights. *An experience in ordered freedom is truly a cherished part of the history of this land* (John Paul II 1987b, §3, emphasis in original).**

Even so, he recognizes that freedom in economic affairs is not absolute. Economic freedom, he asserts, is only one element of human freedom. When economic life becomes absolutized, that is

> **when man is seen more as a producer or consumer of goods than as a subject who produces and consumes in order to live, then economic freedom loses its necessary relationship to the human person and ends up by alienating and oppressing him (John Paul 1991, §39).**

While the right of private property assures that the goods produced belong to the persons who produced them and who thereby have a rightful claim on the use of those goods, that claim is not absolute. There is, however, a second claim on their use based on the principle of the universal destination of the earth's goods which states that the material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in their use by the right of private property (John Paul 1991, §§30, 34).

Rather than condemning profits out of hand, John Paul offers the following conditional approval.

> **The Church acknowledges the legitimate *role of profit* as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied….. Profit is a regulator of the life of a business, but it is not the only one: *other human and moral factors* must also be considered which, in the long term, are at least equally important for the life of a business (John Paul 1991, §35; emphasis in original).**

***Intermediary Groups*. A personalist economy represents a viable option to both individualism and collectivism 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. See Exhibit 5.**

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

John Paul's condemnation of socialism derives importantly from the crisis in Eastern and Central Europe in 1989 where two factors played a critical role: "the violation of the rights of workers" and "the violation of the human rights to private initiative, to ownership of property, and to *freedom in the economic sector*" The historical record regarding socialism, he notes, is that human alienation has not been reduced but collectivism has only added to it. The state, he argues, is to be guided by two principles in economic affairs: subsidiarity to assure economic freedom and solidarity to defend the weak, limit the autonomy of the parties who determine conditions in the workplace, and provide basic support for jobless workers (John Paul 1991, §§ 23, 24; emphasis added; §§ 41, 15).

***Simplicity vs. Complexity.* Economic agency in conventional economics is outdated because it has oversimplified its representation of the economic agent -- the individual or *homo economicus* -- in order to simplify economic analysis and produce empirical findings about which it can claim certitude. Personalist economics proposes instead an economic agent -- the *person of action* – who is more faithful to contemporary understanding of human nature and better aligned with human activity in current economic affairs. The result is greater complexity in economic analysis that demands more judgment on the part of the economist in correctly interpreting the findings that the analysis brings forth.**

THE APPLIED SIDE OF PERSONALIST ECONOMICS

The applied side of personalist economics takes the student from theory to practice, from the conceptual to the concrete. Without this second side, personalist economics lacks proof

that it has real-world application and viability.

***Poverty*. Over the years poverty has been defined and measured in terms of two standards. The absolute standard of poverty is built around physical need and the cost of the goods and services required to meet that need in some minimal fashion. This standard is based on the current cost of the Department of Agriculture's 1961 Economy Food Plan. The total cost of the full set of goods and services required to meet physical need at the poverty level is fixed officially at three times the current cost of that Plan. Anyone with income that is below that total-cost threshold is classified as poor.**

The relative standard of poverty is built around the economic resources that a person possesses in relation to the resources of others. To illustrate, a person with income that puts her in the lowest quintile of an income distribution might be classified as poor. Or, poverty might be defined as income that is less than one-half of the median income for the entire population. According to the relative standard, a person who does not have what others possess, however much or little that may be, is poor.

We replace absolute standard with “minimal-living standard" and relative standard with "income-distribution standard" because the new language conveys with greater clarity what the two standards signify and how they are differ.

Analysts who use only the minimal-living standard are not aware that they implicitly define human beings one-dimensionally as individuals alone. Similarly, those who use the income distribution standard alone are unaware that they implicitly construe human beings only as social beings.

Since humans are both individual beings and social beings, a proper definition of poverty incorporates *both* minimal-living to represent human individuality *and* income-distribution to account for human sociality. Thus, a person is poor if (1) she cannot afford the minimum market basket of goods and services and (2) she is separated from the company of others by a wide gap in income. The more severe the segregation or depletion, the greater the personal impoverishment.

Where the threshold is drawn depends largely on the person who is making the estimates of poverty. In other words, the threshold depends importantly on the values of the person making those estimates. Ultimately, though, what should emerge is a consensus among those who specialize in studying poverty based on the evidence that they collect on poverty and what that evidence reveals about the poor. In that regard, defining and measuring poverty is like defining and identifying a good hitter in baseball. Over the years, based on the experience of thousands of players and times at bat, a batting average of .300 or higher is widely regarded as the threshold average for a good hitter. Notice, however, that of late

the definition of a great home run hitter has risen above what for years had been the unattainable total of 60 homers in a season.

Limit. **In characterizing the various human activities that are central to economic affairs we have found *limit* to be a most helpful pedagogical device. It applies, for example, to producing in the sense that every production process confronts the limit of capacity beyond which additional inputs result in actual losses of output. It also applies to consuming in the sense that every consumer confronts the limit originating in her own materiality beyond which additional consumption is irrational because it no longer contributes to human well-being. Another application relates to a partial-reserve banking system in which excess reserves impose a limit on credit creation.**

At the outset, personalist economics did not make full use of the *limit*. For instance, even though waste, resource depletion, and environmental contamination are touched upon, there was no mention whatever of the limit conveyed so fittingly by *carrying capacity*, and nothing more than a superficial understanding that the faithful practice of the three principles of economic justice limits ill-gotten gains. Nor did personalist economics include the rootedness of the limit of capacity in the human body itself in the form of physical fatigue and exhaustion and in the human spirit in the form of boredom and the fundamental human disorder of workaholism. In like fashion, personalist economics did not recognize the limit on human consumption originating in the human disorder of compulsive buying or shopaholism. These issues already have been addressed but likely require further scrutiny.

Equilibrium vs. Agreement. **At the micro-economic level, conventional economists refer to the intersection of the supply curve and the demand curve as the point of equilibrium, and the market price at that point as the equilibrium price. Personalist economists prefer to call that intersection the point of agreement and the market price the agreed price because agreement underscores that markets are places for sorting out differences between humans whereas equilibrium suggests that markets are places for striking a balance between things. Simply put, humans reaching agreement compared to things being exchanged.**

More specifically, markets operate systematically and automatically to produce the conditions whereby buyers and sellers are brought to agreement. Whenever the price is greater than the market price, the quantity supplied > the quantity demand. The resulting surplus sends a clear signal to sellers to lower the price since sellers are interested in selling their products and services, not holding on to them. Sellers lower price until the surplus is eliminated. Similarly, whenever the price is less than the market price, the quantity demanded > the quantity supplied. The resulting shortage signals sellers to raise the price until the shortage is eliminated that occurs at the point of intersection of the supply curve and the demand curve. In other words, when buyers and sellers are in agreement.

Conventional economics represents macroeconomic affairs in terms of a static equilibrium of supply and demand wherein the self-regulating forces of markets bring the system into balance by the systematic clearing away of any and all surpluses and shortages. This view of economic affairs has been characterized as mechanical. If and when the macro-economy achieves static equilibrium, we refer to that condition as macro-economic *accord*, language equivalent to agreement at the micro-economic level for the very same reason. Economic affairs at both levels are less about things and more about human beings.

Personalist economics represents economic affairs not as mechanical but organic wherein the economy is driven dynamically toward disequilibrium by innovational change that depends critically on the support of credit-creating financial institutions. The difference between the conventional and the personalist views corresponds to the difference between the centripetal-like impersonal forces of the market bringing the system to rest and the centrifugal-like human energy of the entrepreneur initiating change and triggering unrest in the system. For the same general reason we replace "equilibrium" with "agreement" at the microeconomic level, personalist economics substitutes "accord" for "equilibrium" at the macro-economic level.

The Grandfather Clock. **In the following we use the grandfather clock as a metaphor for the economy in order to delve further into the difference between static equilibrium and dynamic disequilibrium.**

The grandfather clock operates on the energy supplied by weights that are connected by chains to power gears. As the weights drop, energy is transferred to the power gears and in turn to the timekeeping gears. The simple harmonic motion of the swinging pendulum precisely regulates the movement of the hour and minute hands across the face of the clock assuring that the clock is telling time accurately. Economists espousing static equilibrium, as it were, observe the clock (economy) while it is running and telling time (producing goods and services) and decide to leave well-enough alone. In effect, they require an economic agent who is mechanical, who responds passively to a set of options or opportunities in ways that at intended to maximize personal net advantage, and who is best described as *homo economicus*.

However, the hands of the clock do not continue moving and telling time indefinitely. When the chains become fully extended and the weights no longer are able to transfer energy to the power and timekeeping gears, the clock stops.

When a mechanical clock comes to a halt it cannot re-wind itself. Someone must pull the chains to raise the weights so that they can begin to drop again and transfer energy to the

pendulum. Under these strict conditions the clock will continue to tell time indefinitely.

Because no metaphor is completely true, the economy does not suddenly grind to a halt, but it does begin to slow down because the human forces that drive economic affairs including consumer confidence, producer expectations, a willingness to extend credit and take on debt, an eagerness to invest or consolidate, a vision of the future filled with new ideas and new ways, do not provide a steady source of energy to economic affairs from one time period to the next.

Advocates of dynamic disequilibrium claim that a market economy that has slowed down needs the disruptive human energy supplied by entrepreneurs in order to begin operating at a higher level of economic activity. For them disruption is part and parcel of a market economy because economic affairs are driven not by mechanical forces, but human energy. Unlike machines, human beings are active, creative, intuitive, spontaneous, and reflective. Free and unpredictable. Consequently, entrepreneurial energy does not flow in a perfectly steady stream. It comes in waves that no one can see clearly beforehand, opening up new economic opportunities for some, closing down old ways of conducting business for others. Boom and bust. Gains for some, losses for others. Remove the entrepreneur and you are left with static equilibrium of conventional economics that is modeled after machines. Insert the entrepreneur and you get dynamic disequilibrium of personalist economics that is triggered by humans.

For the personalist economist, static equilibrium or macro-economic accord is fleeting. Dynamic disequilibrium or discord is the true nature of macro-economic affairs.

Consumption. Conventional economics regards consumption as satisfying human wants and the prudent consumer as the one who maximizes the utility gotten from the available income, maximizes personal net advantage. Whatever the consumer does with the goods and services purchased is strictly her own business because no one knows better than the consumer what will best satisfy her wants. For that reason, even when the food bought and consumed is virtually the same, there is no difference between having a holiday dinner alone or spending it with family and friends. No difference between shopping for a suit, dress, or pair of shoes alone or in the company of another. No concept in the conventional way of thinking that being alone may mean loneliness and loneliness in turn can have a negative effect on the human spirit. This disregard for the human spirit derives from the premise of conventional economics that the consumer is an autonomous strictly want-satisfying individual who functions mechanically as an embodied creature in a material, physical world where pleasure and pain are measured and compared in a decision-making process which is essentially passive. Anything relating to the human spirit is not economics even when it is tied closely to consuming as in sharing an appetizer at dinner or sitting in a

sport bar with friends watching a favorite team lose. In conventional economics, all existence is individual existence.

Personalist economics holds fast to the view that consumers are beings with a body and a spirit -- an embodied spirit -- and that they meet the 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 are more than individuals. They are *acting persons,* and for better or worse the action undertaken often changes the person who acts. Routinely eating too much diminishes a person who in the extreme becomes a glutton. Regularly sharing lunch with another often makes for a lasting friendship. In personalist economics, all existence is co-existence.

The physical dimension of human existence matters much but is subordinate to the spiritual dimension. Indeed, extravagant regard for one's own material existence, which increasingly characterizes contemporary western culture, "... consumes the resources of the earth and [one's] own life in an excessive and disordered way" (John Paul 1991, § 37). The danger is that consumption, carried to an extreme, reduces the consumer to a mere material being. Instead of *having* more, which modern economies celebrate and conventional economics tacitly affirms, John Paul urges men and women *to be* more, to develop the full potential of their personalities, to be a complete human person, and not just a self-absorbed human being.[1] Though personalist economics admits there are many difficulties in measuring the effects of consumption on the human spirit those effects are every bit as real as the effects on the human body.

The poor person has an unmet need for the basics that sustain human existence.

***Work.* Personalist economics views work as having two effects on the working person. First, it provides income to purchase the goods and services that are needed or desired. Second, it provides opportunities to (a) associate with others in the workplace and develop a sense of belonging to a group with shared aims, and (b) to apply and enhance creative talents and energies. Conventional economics regards the first but not the second as within the domain of the discipline because the first effect is objective in nature representing what the worker contributes to the production of goods and services whereas the second effect is subjective representing what the work itself does to the person of the one who works.**

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[1] John Paul spoke of the difference between *having* and *being* in an earlier encyclical letter (see John Paul 1987a, § 28, wherein he calls attention to this difference as pointed out by Paul VI in *Populorum Progressio*).

The objective side of work demands a human body. Put differently, virtually no work can be accomplished by anyone other than an embodied human. In that regard there is little to choose between conventional economics and personalist economics.

The subjective side of work responds to the needs of the human spirit but the spirit first must be embodied because without the body no work can be done and therefore no subjective effect can be brought forth. Here personalist economics clearly departs from conventional economics.

The second effect can be positive or negative. To illustrate, discriminating in pay and promotion and assigning a person to work for which she is overqualified turn the subjective effect negative. Designing and implementing a pay and promotion scheme based squarely on performance and finding the best match between the work to be done and the skills and talents of the worker turn the subjective effect positive. The objective effect of work is tied ultimately to the goods and services produced. The subjective effect is linked to the human spirit and for that reason has an impact on the development of the worker as a person. Anyone who works, even those with good-paying, challenging jobs, knows the difference between a good day at work and a bad day, and that difference often is reflected in their performance and physical appearance.

John Paul's recognition of the need to belong is embedded in his assertions that the fundamental dimension of human existence is co-existence (see John Paul 1994, p. 36), that a person grows through "increased sharing in a supportive community" (see John Paul 1991, § 41) and is implied in his call to "solidarity and common action" as a reaction against "the degradation of man as the subject of work" (see John Paul 1981, § 8).

The jobless person has an unmet need for work.

***Rest Replaces Leisure*. By defining leisure as time spent not working, for what *it is not*, conventional economics has nothing more to say about leisure. Personalist economics sees leisure much differently and proceeds to examine it in the context of the workplace and the marketplace. In order to address leisure in *positive* terms -- for *what it is* -- personalist economics replaces "leisure" with "rest."**

It is instructive to begin addressing rest by first briefly examining the three distinct levels of human action. First-level action, which is associated with *physical freedom,* is action that leads naturally to a specific outcome provided there is no physical constraint in place. The newborn baby naturally takes to her mother's breast provided she is not physically separated from her mother. First-level action is very simple action.

Second-level action, which is linked to *freedom to do as one pleases*, is action that is undertaken to achieve a specific end. At this level, two conditions must be in place: (1) the end must be desired and (2) the means employed must be sufficient to achieve the desired end. Often the kind of freedom involved in action at the second level clashes with a requirement imposed by society that limits the freedom to do as one pleases. A man is free to marry whomever he pleases but not to beat his wife or abuse his children. Human beings are free to do as they please, provided they act responsibly.

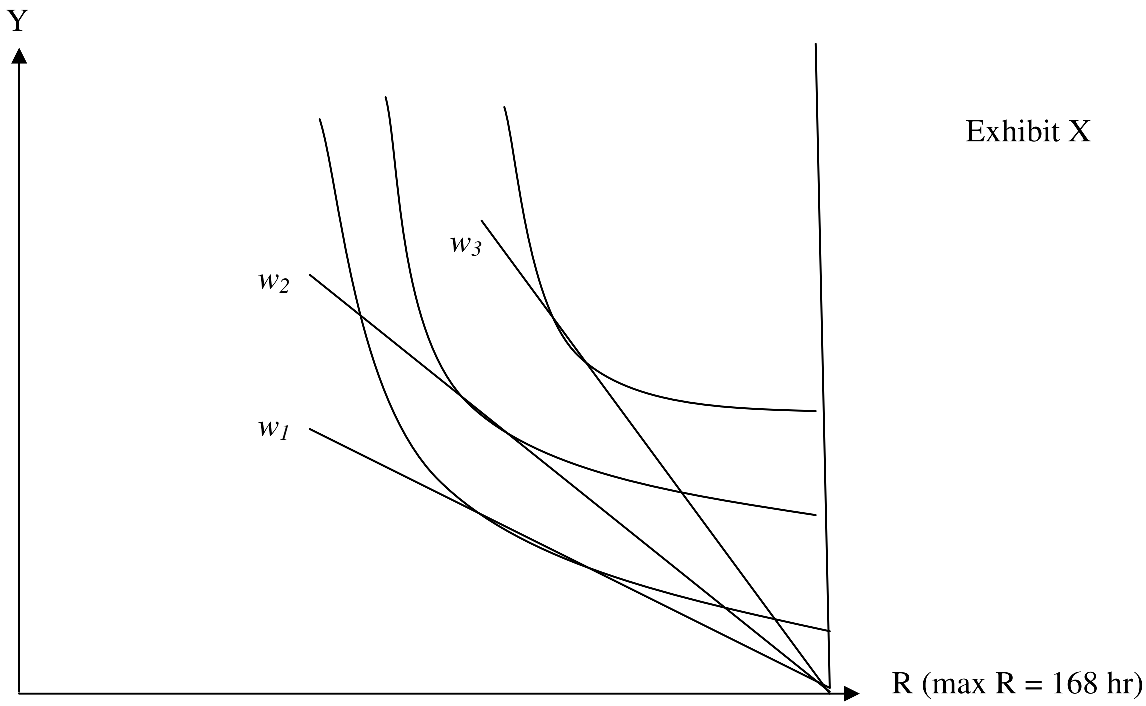
Third-level action, which is associated with *freedom of self-determination*, derives from the good that it produces in the person participating in the action. Fishing for the purpose of catching fish to be prepared and cooked for dinner is purposeful and foresighted and therefore is action on the second level. Fishing with another person in order to enjoy and strengthen a friendship is action at the third level. It is third-level action, which is associated with self-determination that makes for a better person (Grisez and Shaw 1974, pp. 2-17).

Rest is third-level action that puts a person in contact with truth, goodness, and beauty, or lies, wickedness, and ugliness. From this perspective, rest is energetic rather than lifeless, purposeful instead of listless. More precisely, rest is like work in it subjective dimension and consumption in that it is activity that helps a human being become more fully a human person. There is a special linkage between consumption and third-level restful activities in that those activities frequently involve some out-of-pocket expenses. The ticket price is only a portion of the total cost of taking the family to a major league baseball game. Though it might be shared or borrowed later by others, a book had to be purchased before it could to be read strictly for third-level enjoyment or edification. The very same book bought by a graduate student who has been assigned a research project is second-level action. These restful activities enhance the human person. In like fashion, a visit to a bordello, tickets to a match that turns riotous, the purchase of pornographic materials are third-level activities that diminish the human person.

The workaholic has an the unmet need for rest.

Rest, Work, and Moderation. **The impact of moderation on work and rest can be handled through indifference curve analysis where hours of rest per week (R) is plotted along the horizontal axis with a maximum limit of 168 (24 hours x 7 days). Weekly income (Y) is plotted along the vertical axis, and different wage rates ($w_1 < w_2 < w_3$) are represented as different opportunity lines. This kind of analysis produces both a demand curve for rest and a supply curve for labor because one more hour of work makes for one less hour of rest. See Exhibit X.**

A higher wage is represented by a steeper opportunity line. In general, a worker supplies more hours of work and demands fewer hours of rest when the wage rate is higher. However, when the wage rate is sufficiently higher, the worker demands more hours of rest and supplies fewer hours of work but still enjoys a higher weekly income. The result is the backward bending supply curve of labor. See Exhibit Z where Y_h represents the hourly wage and W_h represents the number of hours of work. The exact shape of the backward bending supply curve depends on the income and substitution effects related to changes in the wage rate.

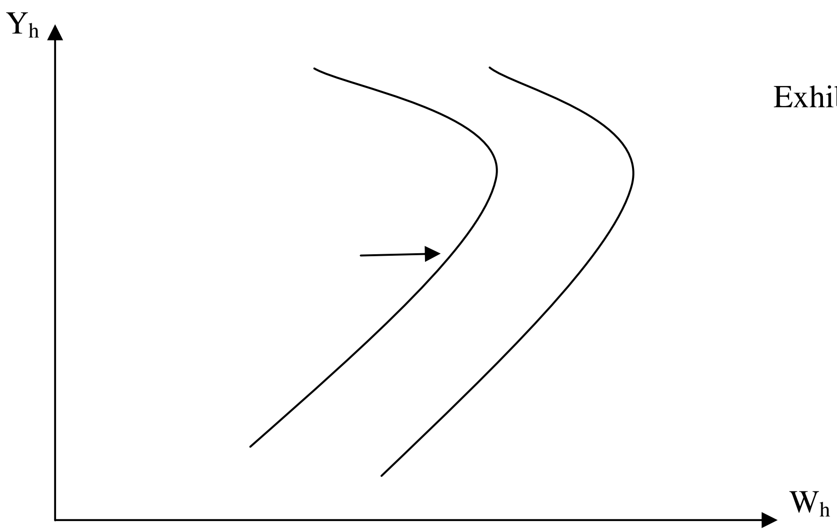


Source (with modifications): McKenna, *Intermediate Economic Theory,* The Dryden Publishers, 1958, p. 141.

Moderation with regard to rest -- the supply curve of labor shifts to the right where more hours of work are supplied at any given wage rate (see Exhibit Z) -- can be represented by a new indifference map (see Exhibit X). Thus, at any given wage rate fewer hours of rest are demanded.

Moderation regarding labor can be represented in similar fashion using a different indifference map. Accordingly, the supply curve of labor shifts to the left where at any given wage rate fewer hours of labor are supplied and more hours of rest are demanded. Moderation, in other words, involves finding the golden mean between too much work/too little rest and too little work/too much rest.

With the usual full-time workweek defined as anywhere from 35 to 48 hours, more than half of the week's 168 hours are taken up with rest. What goes into those hours depends very much on the unique circumstances of every human person. Rest could involve activities as varied as hobbies, entertainment, play activities with children, participation in community organizations, prayer and worship services, exercises, and social networking. Work, too, differs from person to person, including activities such as commuting, on-the-job training, volunteering, business travel, conferences, and mentoring.



Conventional economic theory has not progressed to the point where the unmet need for rest is recognized as a problem. However, anecdotally we know of persons who are exhausted and terribly in need of rest. Further, and most importantly for our purposes, limits on the number of weekly hours of work reinforce the need for days of rest, and vacation leave confirms the need for longer periods of rest. In this matter, moderation plays an important role. Personalist economics sees rest as critically important to integral human development and human perfection wherein maximizing IHD brings a person closer to human perfection. Conventional economics holds a much different view regarding the end of economic activity and the means to achieve that end.

Social Function of Property. **John Paul II in *Sollicitudo Rei Socialis* (*SRS*) argues that private property is not exclusively private in nature, that it has a social function. Borrowing language that applies to residential property sales in which the buyer borrows some of the funds necessary to purchase the property and acquires the title, John Paul asserts in *SRS* that "private property … is under a "social mortgage" (John Paul 1987a, §42).**

Just as a conventional mortgage binds the homeowner to repay the financial institution that made ownership of that home possible, a social mortgage obligates the owner of private property to give back to the community so that those with no private property holdings have access to the same basic services such as health care, education, and transportation that helped make possible the personal development of that property owner. *Homo economicus* of the libertarian persuasion recognizes the duty in accepting a conventional mortgage, but not the duty in a social mortgage. The *person of action* of the personalist persuasion acknowledges both.

The assertion that private property is under a social mortgage raises two elemental questions for personalist economics. First, why is the principle of private property subordinated to the principle of the universal destination of the goods of the world? Second, what kinds and amounts of social mortgage payments or other transfers are sufficient to satisfy the demands of the social function of private property?

Regarding the first question, the principle of private property, which states that a person has a right to what he creates with his own hands, is not an absolute principle because God created the universe for the benefit of all humankind. The goods produced through the ownership of private property are the means by which human material need is met and for that reason alone private property is subordinate to the universal destination of the goods of the world.

As to the second question about the kinds and amounts of social mortgage payments or other transfers that satisfy the demands of the social function of private property, personalist economics argues that there are two types: private and public. Given its preference for the principle of subsidiarity, personalist economics emphasizes the private type. One private form is the voluntary transfer of funds generated from production at private enterprises to organizations that provide services for those in need either by those enterprises acting individually or collectively through such community-based appeals as United Way. A second type involves enterprise-based plans that provide employees an opportunity to acquire ownership in the enterprise.

There are several types of public arrangements that qualify as social mortgage payments including taxation, regulation, mandates, patents, and eminent domain. We mention here only three. Regulation restricts the ways in which a private property owner may use her holdings by setting limits, for example, on hazardous emissions into the environment and through zoning ordinances that set limits on the specific activities -- residential, commercial, industrial -- that are acceptable in a given geographic location. A public mandate such as a minimum wage or health insurance coverage for workers forces the

private property owner to transfer some of the proceeds from production originating from private property to needy others who do not own that property. Personalist economics supports these public arrangements provided they are administered according to the three principles of justice and they are made necessary because private arrangements are insufficient to meet the needs of persons who have private property holdings.

Sustainability. **Sustainable development depends on production and production, in turn, depends on the economic agent as its efficient cause. In that sense, sustainability is properly considered contingent being and as with all contingent being is constituted by an actuating principle and a limiting principle (Renard 1957, pp.7-15; and Becker 1961, p.11).[1] Neoclassical economics identifies the actuating principle as human wants, and the limiting principle as the resources available to satisfy those wants. The two converge in the market system.**

The actuating principle refers to the positive effects of sustainable development on human need. That need is twofold: the need of the body and the need of the human spirit. The needs of the body include sustenance and rest. The needs of the spirit include a need to know and understand truth, goodness, and beauty, and a need for opportunities to develop and use one's creative talents, skills, and energies. Humans also need to associate with like-minded others, to experience a sense of being included, of being valued by the group(s) to which they belong.

Though important, the needs of future generations are clearly secondary in the sense that the present generation consists of living human beings whose basic needs cannot be subordinated to the needs of future generations that at the moment consist of humans not yet alive. To do otherwise means subordinating human actualities to human potentialities, putting the supposed and uncertain needs of the future ahead of the real and certain needs of the present. In the extreme, doing otherwise means starving the present to feed the future.

The limiting principle refers to the negative effects that a concern for sustainability is intended to limit. Some of the limits set by humans strictly speaking are necessary for survival. Personalist economics defends the imposition of limits on the use of toxins and asbestos, for example, because left to the market alone human bodily health and well being are not adequately protected. Other limits justified by personalist economics may relate more directly to a need of the human spirit such as limiting residential development in order to protect a pristine natural view.

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[1] **The need for limits was recognized by John Paul II in his and the ecumenical patriarch of Venice's declaration on environmental ethics in 2002 (John Paul 2002, § 1).**

As members of the human family, human beings have a duty in contributive justice to maintain and support a life-giving, life-sustaining environment. To ignore or dismiss this duty threatens all living things and in the end is self-destructive. Thus from the perspective of its own limiting principle sustainable development is a moral issue.

Carrying capacity, by which we mean Earth's capacity for absorbing contamination without threatening the very existence of living creatures who depend on the environment for their survival, is the first and foremost norm constraining economic development. Exceeding this limit by ill-advised economic development schemes or unfettered market activity, though such schemes and activity may appear to serve human need and may even be intended to serve that purpose, has exactly the opposite effect. Put differently, development that threatens human survival is not sustainable.

In like manner, utilization of natural resources especially vital nonrenewable resources to meet the needs of the current generation has to be constrained in order to provide adequately for the needs of future generations, *even when the carrying-capacity limit has been respected.* Here sustainable development is not a matter of threatening human survival but of acting as a responsible steward.

Additionally, primary limits are imposed on economic development by the effects that it has on natural resources, especially nonrenewable resources, and the extent to which development contributes to contamination of the air, soil, and water.

Secondary limits arise from the problem of meeting human need that forces us to decide whether to act as separate individuals or as a community. Thus sustainable development involves deciding when to act as the Many and when as the One. Development, therefore, of necessity is subject to political limits.

Tertiary limits originate in the negative impact that sustainable development has on production and employment and the destructive dimension of innovational activity undertaken as a part of meeting the need of the human spirit for creative opportunities.

Market Structure and Conventional Economics. **Market structure can be reduced to five basic types: perfect competition, monopoly, natural monopoly, monopolistic competition, and oligopoly. We address them from the perspective of conventional economics and from a Schumpeterian perspective. Schumpeter's argument is more convincing to a personalist economist than a conventional economics. Our concern is strictly with the long run.**

According to conventional economics, in the long run the profit-maximizing firm in ...

.. a perfectly competitive market *operates at maximum efficiency* and generates *no excess profits*:

price = minimum unit cost @ profit-maximization

… a monopoly market *operates below its maximum efficiency* and *generates and is able to protect its excess profits* in the long run because it has no competitor with a product or service that is a close substitute to hold its prices in check:

price > unit cost > minimum average total cost @ profit maximization

… a natural monopoly market *operates below its maximum efficiency,* even so it has a *huge advantage in terms of its unit cost* and *generates and protects its excess profits* in the long run:

price > unit cost > minimum unit cost @ profit maximization
unit cost is substantially lower than in perfect competition
price and profits can be reduced by regulation

... a market structure of monopolistic competition with low entry barriers generates *no excess profits* but *operates inefficiently* because it sustains losses when it operates at maximum efficiency:

price = unit cost > minimum unit cost @ profit-maximization

... a market structure of monopolistic competition with high entry barriers *protects its excess profits* but *does not operate at maximum efficiency:*

price > unit cost > minimum unit cost @ profit maximization

… in an oligopolistic market structure operates *below its maximum efficiency* and its *excess profits are protected* in the long run especially through collusion.

price > unit cost > minimum unit cost @ profit maximization

In a perfectly competitive market, the typical firm's demand curve is *identical* to its marginal revenue curve. In every other market structure addressed, the two are *not identical*. As to the long run, *price in a perfectly competitive market < price in the other types of markets with the possible exception of the regulated natural monopoly.*

As to the very nature of competition, conventional economists assert that *competition is driven by prices* and firms that survive in the long run are the ones that are able to operate

most efficiently. The more competition that can be injected into the marketplace through strict enforcement for example of the Sherman Anti-Trust Act that prohibits restraint of trade and monopolization and the Clayton Act that outlaws price discrimination, the more efficiently the firms are forced to operate, and the lower the prices that consumers are required to pay. In social Darwinian fashion, only the efficient survive.

Market Structure and Schumpeterian Economics. **Schumpeter would argue differently. Entrepreneurs are the key agents of change in a market economy and by introducing new products and services and by penetrating new markets undermine one of the conditions necessary for perfect competition to become a reality and to continue for an indefinite period of time, that is a homogenous product or service. Indeed, perfect competition is impossible because it is absolutely incompatible with entrepreneurship. Further, for many years society and the government have acknowledged the importance of innovation and have protected the entrepreneur by awarding copyrights and patents, and by holding legally liable those who do not respect the entrepreneur's right to any profits that are associated with the commercial use of those copyrights and patents.**

Schumpeterian economists assert that ***competition is driven by innovation as well as price.*** **The firms that survive in the long run are the ones that innovate; excess profits are the reward for their risk-taking entrepreneurship. In other words, the dominant social values in America assure that virtually every firm operates in an imperfectly competitive market. Even conventional economists affirm that innovation plays a competitive role when they enter the product market with their own economics textbooks that invariably are touted by their publishers as different and better than the competition. Their textbooks never are marketed to instructors of economics on the basis of price.**

To an advocate of personalist economics **the typical business enterprise is like the human cell that must divide and separate in order to survive. In order for a company to prosper and endure, someone must be entrepreneurial. Failing to innovate assures its ultimate demise.**

Short Run and Long Run. **The short run is that period of time from the present into the future when the established firms in a market can be assured that they will face no new competition. The long run is that time in the future and beyond when established firms can anticipate new firms entering their market and competing against them. In teaching entry-level micro-economics, we felt uncomfortable with the standard explanation of the difference between the two. Looking back, that explanation is based on a premise that a firm is a thing rather than an association of human beings.**

Just as a driver enters a highway when it facilitates going from one place to another and exits when that purpose has been served, a business manager enters a market when that market opens up opportunities to earn a profit and exits when those opportunities close down. Carrying that analogy a step further, Exhibit 6 illustrates the difference between the short run and long run. This insight was suggested by a student in our principles class.

Economic Unification. **The term "the new economy" emerged in the dot.com boom of the 1990s (see, for example, Mandel, pp. 90-12). It remains relevant today well after the bursting of the dot.com bubble because "the new economy" is more than merely a catchphrase. Economic affairs are conducted differently today in part for two main reasons. First, the information-communication technology revolution has permanently altered the way that economic agents interact and in turn has changed the economic agent's awareness of others and of self. Second, increasingly commerce is conducted in ways that the sovereignty of the nation-state no longer matters, or matters as much as it used to. Large, supra-national economic unions such as the European Union have broken down barriers between countries in Europe that until recently impeded the flow of goods and services and economic resources.**

Globalization. **Economics addresses globalization from two perspectives. The first perspective grounds the discourse in terms of the conventional economics way of thinking which is widely embraced by Western academic economists. The second, which most definitely is a minority view within economics, addresses globalization in terms of the personalist economics way of thinking.**

The first perspective regards itself as entirely value-free even though its own hard-core premises originate in the philosophies of individualism and utilitarianism. The second perspective which originates in the philosophy of personalism finds no fault with being value-laden because in the final analysis there is no other way to proceed in evaluating the economic globalization which is by definition a value-laden task. In other words, the conventional perspective brings to bear on this question only a few principles from positive economics. The personalist economics perspective brings to bear a larger set of principles from normative economics.

The personalist economics perspective is the more relevant one. We rest our argument on principles not just from personalist economics but from two other major sources. The first source is the 1948 Universal Declaration of Human Rights. The other source is John Paul II's many public statements over the years on economic development and globalization specifically and on economic affairs more generally. The conventional view is couched in such language as the individual, efficiency, equilibrium, and costs and benefits. Our view is presented in words such as person, sufficiency, agreement, and rights and duties.

Personalist economics defines economic globalization in terms of two pillars. The first pillar is the practice of economic agents (business enterprises, banks, and finance companies) working in different countries and serving the world market without a prevailing national base. These agents change their location between national territories on the basis of opportunities for growth and profit, and they grow not because they are supported or protected by the nation-state but through their own efforts. They carry out their economic affairs as if the boundaries which define the nation-state do not exist.

Internationalization, on the other hand, is characterized by business enterprises and markets which have a prevailing national base and which have relationships with each other in the context of international trade. The distinction between globalization and internationalization does not depend on the size of the companies, since some national agents are larger and more powerful than some global agents. The difference is that under internationalization economic agents act with some considerable regard for the boundaries which define the nation-state where they are originated and the other nation-states where they carry on their business.

The second pillar of globalization concerns the relationship between finance and development. The complex events which link the evolution of financial systems to processes of development have undergone a striking process of acceleration in recent years. While large-scale industrialization in the second half of the 19th century led to the development of many different national financial systems, the processes of globalization in the second half of the 20th century and deepening in the 21st century have led to a stratification of different levels of finance in different economic and financial systems. We identify three levels specifically: global finance, national finance, and the system of local (formal and informal) credit. High finance has a substantially global dimension both with regard to the economic agents who work in it and to the financial products which are exchanged in it, neither one having a permanent link with the nation-states in which the financial activity is carried out.

To conclude, the theoretical and applied sides of personalist economics have been reduced to 20 tenets and are available in the Appendix A. A reading list of materials on or related to personalist economics and the personalist economy is available in Appendix B.

FOUR ESSENTIAL QUESTIONS

Progress on the development of personalist economics turns first on the answers to four questions. What are the stages of development of the economic agent? Why is the economic agent considered never-changing by conventional economics but ever-changing by personalist economics? When, where, and at whose hands did *homo economicus* originate? How and why did individualism become so deeply embedded in economics from the time of

Adam Smith? The challenge in our work in progress is to integrate our answers into a seamless whole.

First Question. Stages of human development? **Conventional economics rests on the philosophy of individualism, whereas personalist economics gives expression to the more modern philosophy of personalism. The very heart of conventional economics is the unique individual made of matter and reason, belonging to no one other than self, whose economic behavior is free of the influence of others. Similarly, the beginning of personalist economics is the irreplaceable person, an individual being and a social being, made of matter and reason, emotion and spirit, acting with an awareness of others, belonging to no one other than the Heavenly Father who created human beings in His image and likeness.**

Across the vast expanse of human history, the economic agent has been represented principally as slave, object/instrument, and individual. Among economists the economic agent has been represented variously as human and person in addition to slave, object/instrument, and individual. By starting with the human being as a one-dimensional individual or object/instrument, conventional economics twice denies any role for the social dimension of human nature. First, the routine interactions of the Many (individuals) taking place in a market economy rest not on the social value of authentic community but on the social value of individual freedom. Second, notwithstanding the view of conventional economists to the contrary, the One (group) is more than simply the sum of the Many. The One, as seen from the perspective of personalist economics, is unified by being grounded in the social value of community.

Personalist economics argues that each human being is two-dimensional twice over. First, humans are individual beings and social beings: solitary *and* communal, self-made *and* culture-bound, autonomous *and* dependent, rational *and* emotional, self-centered *and* other-centered. Our argument conforms to the judgment that human development depends on both nature and nurture.

Second, humans are both matter (the visible outwardness) and spirit (the invisible inwardness): not a spirit inside a body which suggests that the spirit is subordinate to the body, but a body inside a spirit -- an embodied spirit -- which underscores both as essential, and differentiates a human person from a pure spirit. Following John Paul II, the human being is the one who pursues the truth, and whose body is the medium whereby a person expresses self. Pegis (1948) asserts that in order to pursue knowledge adequately, the human must be material. Accordingly, we represent a human being as a "materialized spirit," not a dualism in which the body is subordinated to and separable from the spirit, but a union of body and spirit.

The challenge is to define the various stages of development that take place as a human being matures and becomes more fully a human person. Maslow's hierarchy of need and Kohlberg's stages of moral development may be instructive.

Second Question. Never-changing Individual versus Ever-changing Person? **Whereas conventional economics thinks about economic affairs in terms of a cyclic model, personalist economics thinks in terms of an evolutionary model. Simply put, economic agents are not rigidly predetermined, fully revealed, and entirely predictable throughout economic history. They are not *never*-changing. Rather, as human persons economic agents are dynamically evolving, only partially revealed to themselves and others, and unpredictable. They are *ever*-changing, frequently called on to reconcile the conflicting demands of the "I" and the "thou."**

The economic agent in an evolutionary model allocates economic means between various ends, accumulates wealth, cooperates in provisioning human needs and wants, and supports socially endorsed ethical standards. By construing the economic agent as a multi-dimensional person rather than the one-dimensional optimizing allocator of conventional economics, personalist economics renders economic analysis more problematical, requiring more judgment on the part of the analyst and yielding less certainty in its findings.

In his Nobel lecture, Joseph Stiglitz observed that there is considerable evidence indicating that "the economists' traditional model of the individual is too narrow." That evidence is found in part in attempts to re-make *homo economicus* as *homo reciprocans, homo politicus, homo sociologicus* and other variants. We have found support in Walter Ong for the view that the economic agent is ever-changing. We have yet to fully explore the considerable literature from evolutionary economics for additional support.

Even though we have used Exhibit 2 for more than ten years (see O'Boyle 2009), until very recently we failed to recognize that it employs a cyclic design that contradicts our position that the proper way to think about economics and economic affairs is evolutionary. The following addresses that flaw.

The feedback loop[1] is a way of representing what is learned by an economic agent in a social interaction and incorporated as in the case of a young man who learns to weld by paying to attend a vocational education program and thereby becomes better able to provide for his family. In personalist economics the feedback loop is an affirmation of the essentially self-centered economic agent who pursues *having more*. It works on the material well-being of the economic agent.

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[1] See, for instance, Soros 2014.

Acting virtuously, on the other hand, involves something that is freely given, not taken, expressing other-centeredness in which there is no expectation of getting anything in return. The virtuous person is admired not for *having more* but for *being more*. The feedback loop is present but this time it works on the character of the economic agent.

The one who acts viciously takes without giving in defiance of the usual norms of economic *exchange. She is self-centered in the extreme, such that selfishness replaces self-interest. Having more* is corrupted into *taking more*. The feedback loop is present with the vicious person who quite often joins with others in criminal activity, learning from them and her victims. Without a fundamental character change, the vicious person has a reputation as a bad person whose claim on what belongs to someone else ideally is ruled on and condemned in the justice system.

We use linear vectors in Exhibit 2A for three reasons. First, the vector affirms the evolutionary way of thinking about economic affairs. Second, the vector is a way to visualize human development as an economic agent pursues *having more* which if it does not interfere with *being more* is necessary for an economic agent in order to alleviate the burden of unmet personal and family need. Third, in Exhibit 2A the separation of both the upward-to-the right vector and the downward-to-the-left vector into two sections provides a way to emphasize the difference between *having more* and *being more, having less* and *being less.* and the difference between the economic agent's intermediate objective and her final objective.

The feedback loop is not visually represented in Exhibit 2A. However, the loop is present there but not visible in that it accounts for movement along the vector toward *having more* when the *person of action* acts acquisitively and along the vector that leads to human perfection, toward *being more,* when that person acts virtuously. In like manner, it is present in that it accounts for moving along the vector toward *having less* when the *person of action* acts foolishly and along the vector that ends in human degradation, in *being less,* when that person acts viciously.

***Third Question. Origins of Homo Economicus?* The roots of *homo economicus* run deeply in conventional economics and, as Ong states, a fascination with individuals and individual differences "marks nineteenth century thought" in the British Isles and on the Continent -- the time and place where the historical antecedent of conventional economics elevated *homo economicus* to the status of icon that simplified economic analysis of the old economy of slow-paced oral and written communication and the hugely powerful nation-state. It no longer suffices for the new economy of high-speed electronic-digital communication and supra-national bodies such as the European Union and the World Trade Organization that**

increasingly subordinate the nation-state in order to promote economic efficiency and development.

Economic agency is at the core of our understanding of economic affairs because as Alfred Marshall suggested more than 100 years ago economic reality is what ordinary people do in the everyday conduct of their economic affairs. There is, in other words, no single concept more significant to the economic way of thinking than *homo economicus*. The fact that *homo economicus* traces back to the origins of economics as a separate discipline and today is taught and accepted widely across economics, often with no effort to examine and reflect on its meaning, is indicative of the grip it has on those who teach and are taught the economic way of thinking.

There is a growing literature on the meaning of *homo economicus* which has been used by conventional economists for many years. At the same time, there is some confusion regarding its origins. Sheasby attributes it to Lowe's *Economics and Sociology* published in 1935. With Zabieglik concurring, Persky identifies the term with Pareto's *Manual* in 1906 though he admits that he had not completed a thorough search of European sources. Pareto himself ascribes the expression to Volterra in 1901.

In personally researching this question, we were startled to learn that no one knew for sure where *homo economicus* originated. Among the sources we turned to were Menger, Veblen, Mill, and Comte. None, however, preceded Pantaleoni's *Principii di Economia Pura* published in 1889. Persky dates the origins of *economic man* to Ingram's *A History of Political Economy* published in 1888.

Our research efforts uncovered *oeconomicus* alone in the 1847 and 1826 editions of Rau's *Grundsätze Volkswirthschaftslehre* suggesting that the full expression originated in the German-language economics literature well before Pantaleoni's use. We suggest turning to the literature of the Austrian school if the Rau lead is inconclusive.

***Fourth Question. Individualism and Conventional Economics?* Starting more than 200 years ago, individualism, materialism, empiricism, and secularism took firm hold not just in economics but across all of Western culture, and not just for the moment. The result has been a split from Aristotle and Aquinas, from God and revelation.**

Ong's powerful insights help explain the emergence of individualism in Enlightenment of the seventeenth-eighteenth centuries. Three events/developments are crucial: printing press, Protestant Reformation, and Ramist pedagogy. All three represent a departure from Aristotle and Aquinas. All three occur in Western Europe, the first in the fifteenth century, and the other two in the sixteenth century.

These three events/developments made humans more inward-directed, more centered on self, and at the same time less outward-directed, less concerned about others, and more open to individualism. Ramism, adds Ong, reduced what we learn through the other senses – smell, pressure, sound, tastes – to visual forms such as a table, graph, wave length. This visuality in turn is at the very heart of modern science and conventional economics with its insistence on the individual as the basic unit of economic analysis and its claim of certainty in economic analysis.

Ong's claims demand further scrutiny so that we can state with greater assurance why individual and individualism are embedded so deeply in conventional economics.

OTHER ISSUES REQUIRING OUR ATTENTION

Having More, Being More. **Consuming and (re-)vitalizing bring to the fore the difference between *having more* and *being more*. As John Paul II has warned repeatedly under the heading of the dangers of consumerism, without limits on consuming and *having*, (re-)vitalizing and *being* are slighted. At what point does *having more* threaten *being more*? Does the *person of action* reconcile the two through the practice of Christian charity?**

The Divided Self. **At first personalist economics paid much too little heed to the matter/spirit duality and the divided self. Human beings are both matter and spirit, material beings and spiritual beings, the one corruptible, the other indestructible. Personalist economics today is making an effort to better understand how and why economic agents act when they are conflicted between what their individuality prompts them to do and what their sociality asks them to do. Conventional economics has swept away the divided-self nature of the economic agent. How are we in personalist economics to restore the divided-self of the *person of action*?**

Human Trafficking and Slavery. **Personalist economics understands the need to reconcile human trafficking and slavery with the principle of equality. Slavery in the United States did not end with the *Emancipation Proclamation*. Even today, trafficking and slavery continue apace though few Americans are aware of them or admit to their true dimensions. In our examination of this issue, we put slavery and trafficking in a contemporary global context because both involve movements across many international borders.**

Personalist Economy, Private Economy, and Command Economy. **Economic systems are based on three essential pillars: decision-making process, philosophy, and economic agency. There are only two processes by which decisions are made: by individuals (the Many) and the group (the One) are made. At the same time, there are three philosophies**

that are foundational to organizing economic affairs in the electronic stage of human communication: individualism, collectivism, and personalism. There are three ways to represent the economic agent in contemporary economic affairs: *homo economicus, homo secundus*,[1] and *person of action*. In a private economy the philosophy is individualism and the economic agent is *homo economicus*. In a command economy the philosophy is collectivism and the economic agent is *homo secundus*. A private economy features the philosophy of individualism and *homo economicus* as the economic agent. A command economy is grounded in collectivism and *homo secundus* as the economic agent. In a personalist economy the philosophy is personalism and the economic agent is *person of action*.

Exhibit 5 displays the unique relationships between the two decision-making processes and the three economic systems in reduced form. Economic affairs. In a personalist economy the empirical evidence of private group decisison-making that is cooperative, positive sum in nature, as opposed to collusive, zero-sum in nature. We already have identified several and refer to them as supra-firm alliances. The key to finding them is located in the reason given for their establishment. Specifically what need prompted their founders to look for cooperation from their associates and rivals? What was it that they could not manage acting as independent individuals that they hoped to handle through an alliance?

Human Wants, Human Needs, Moderation, and Conventional Consumption Theory. **Consumption theory from a conventional economics perspective begins with consumption goods, x_1 and x_2, both of which are human wants, yield satisfaction as they are consumed, and are substitutes for one another as, for instance, butter and margarine. The three curved lines represent different levels of satisfaction, with the highest satisfaction being associated with the curved line furthest to the right. Taken together they are referred to as indifference curves. See illustration below.**

Any given indifference curve is actually a series of points at which different combinations of the two consumption goods yield the same satisfaction. In addition, lines b^1, b^2, and b^3 represent three different budgeted amounts of money to be spent on the two consumption items. When all three budget lines touch the x-axis, this consumer is spending all of her money on x_1. When they touch the y-axis, all of her money is being spent on x_2.

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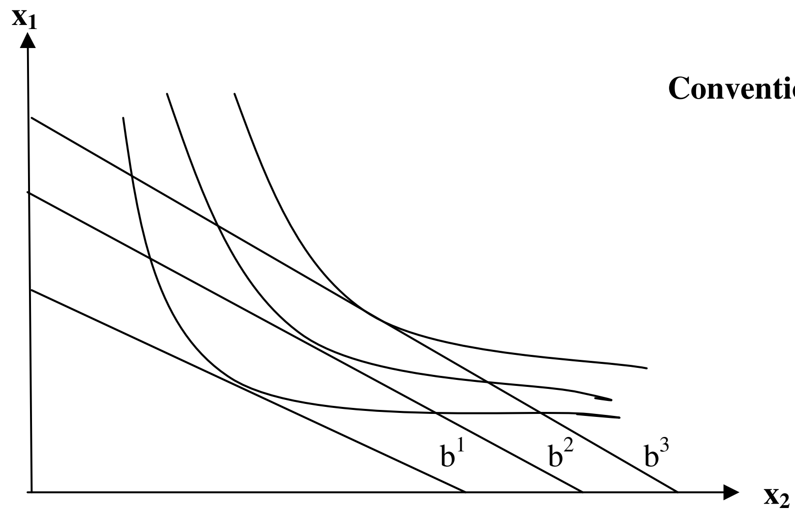
[1] **A person who is subordinate to the state. Our own replacement expression for *homo sovieticus*.**



Conventional Consumption Theory

Conventional economics informs us that given the total amount the consumer has budgeted for x_1 and x_2, the optimum allocation of her money is identified with the points of tangency between the budget lines and the indifference curves which along a given curve represents that combination of x^1 and x^2 linked to the same utility and which upward to the right represent higher utility in ordinal not quantitative terms.

Two pressing questions remain for personalist economics. First, is it appropriate to include human needs in human wants as conventional theory does in this illustration or is it imperative to somehow separate the two? Second, is it possible to modify this illustration to accommodate a consumer who is not entirely rational in all decision-making? One who desires something to which she is addicted and ought not to consume at all or one who though not addicted consumes too much and requires moderation? Perhaps through shifts in the indifference curves, one direction for moderation and the opposite direction for gluttony?

Unification of Micro-economics and Macro-economics. **The individuality and sociality of the human person afford an opportunity to unify economic theory wherein individuality (the Many) is the focus of microeconomics and sociality (the One) is the center of macroeconomics. Putting the isolated individual at the very heart of economics and assuming that economic laws are the sole measure of human activity close down that opportunity and assure that conventional economic theory remains truncated indefinitely.**

At times, it is difficult to determine where in economic affairs individuality ends and sociality begins. However, as we learn more about the impact of individuality and sociality on economic affairs, we are better positioned to merge microeconomics and macroeconomics into a unified whole.

OTHER QUESTIONS REQUIRING OUR ATTENTION

1. How to reconcile freedom and economic security?

2. How does the concept of opportunity cost apply to human material *needs*?

3. Which concept is better suited to personalist economics – opportunity cost or opportunity for personal development?

4. Why has conventional economic theory not incorporated the three virtues of generosity, benevolence, and sympathy that Adam Smith addressed at length in his *Theory of Moral Sentiments*?

5. How does representing the economic agent as the *person of action* change the way we think about international trade and economic development? Globalization?

6. How does Amartya Sen's capability approach contribute to personalist economics? See, for example, these publications.

- ***Poverty and Famines: An Essay on Entitlement and Depravation.* Oxford: Clarendon Press, 1981.**
- ***Consumer Goods and Capabilities.* Amsterdam: North-Holland, 1985.**
- **"Human rights and capabilities," *Journal of Human Development*, Volume 6, Number 2, 2005.**

7. Is the concept of the divided self relevant to our understanding of the economic agent?

8. What is the difference between the divided self of personalist economics and the multiple selves espoused by other social economists?

9. How do we replace the macroeconomic circular flow diagram with an exhibit which is linear/evolutionary?

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

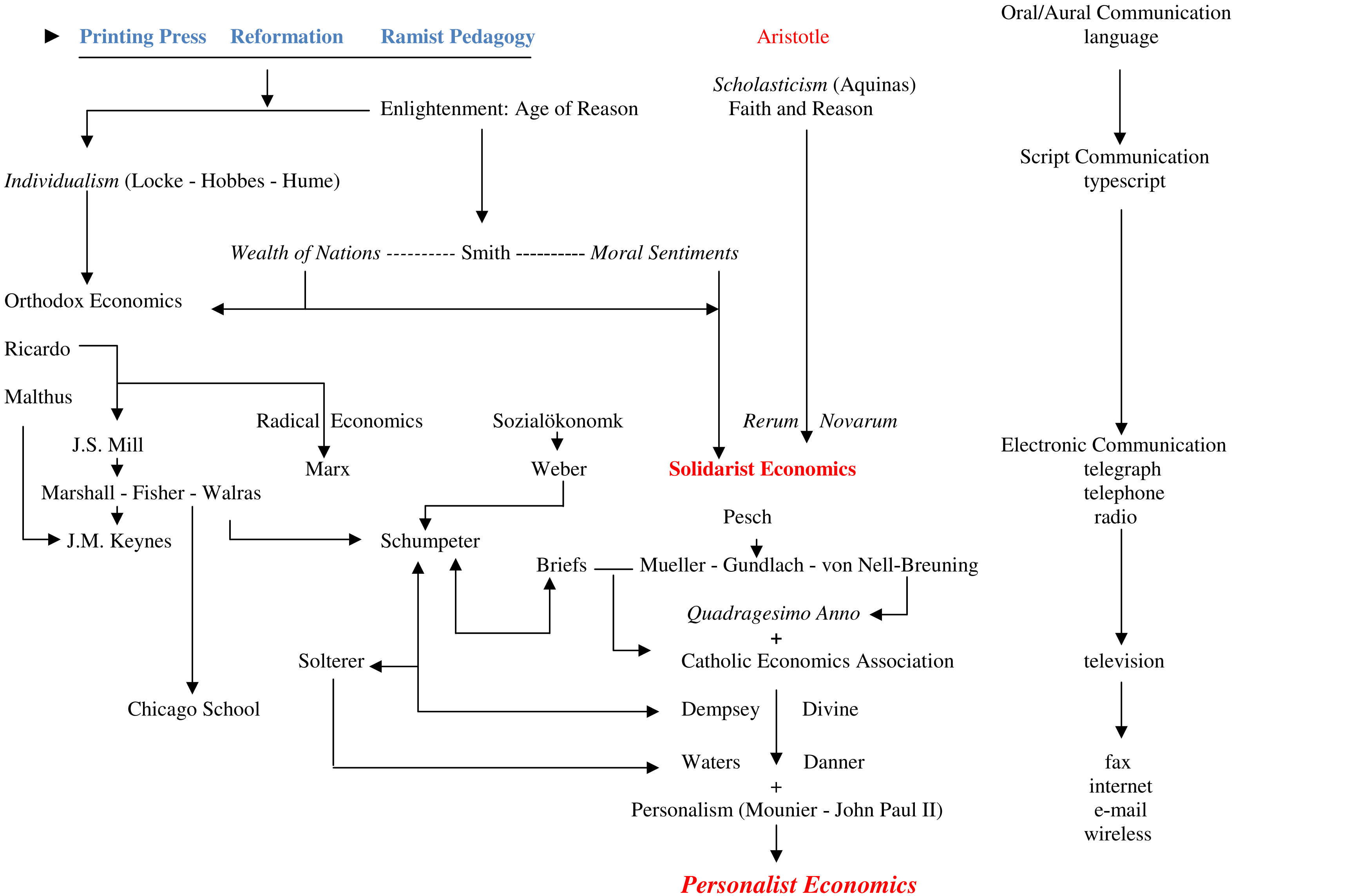
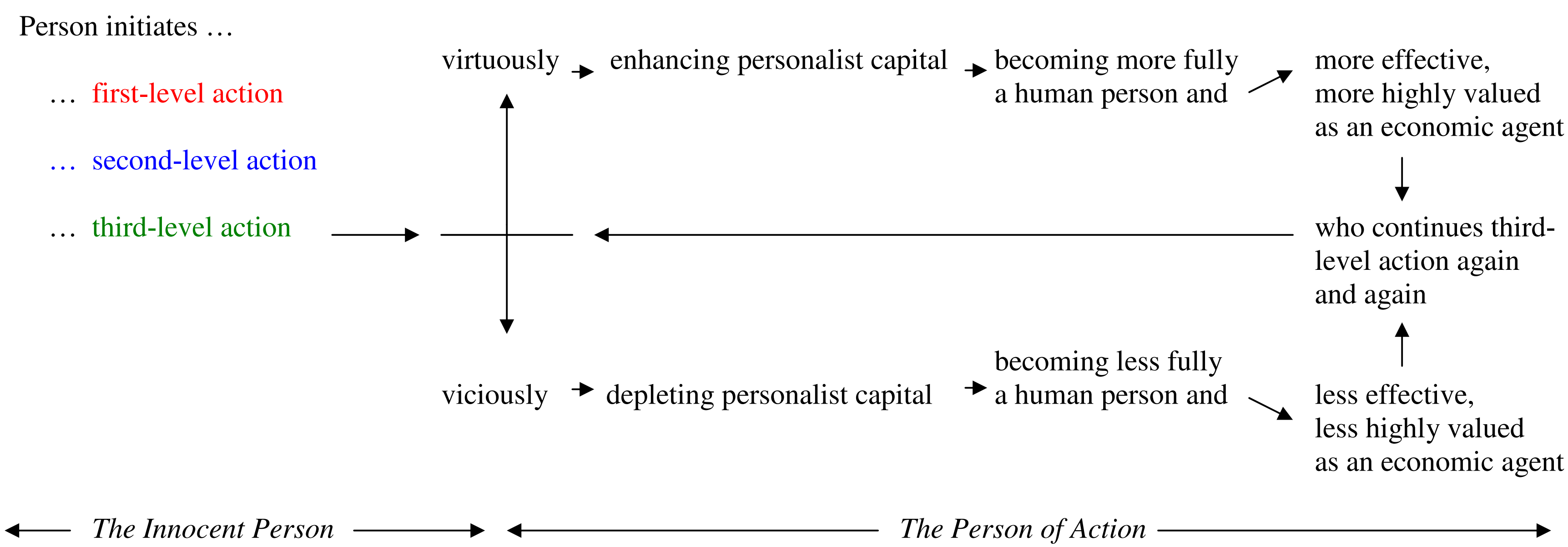


**EXHIBIT 2. ACTING VIRTUOUSLY OR VICIOUSLY AND PERSONALIST CAPITAL:
THE DEVELOPMENT OF THE HUMAN PERSON AS AN ECONOMIC AGENT**



In terms of the four cardinal virtues, acting virtuously means *justly, prudently, courageously, moderately.*

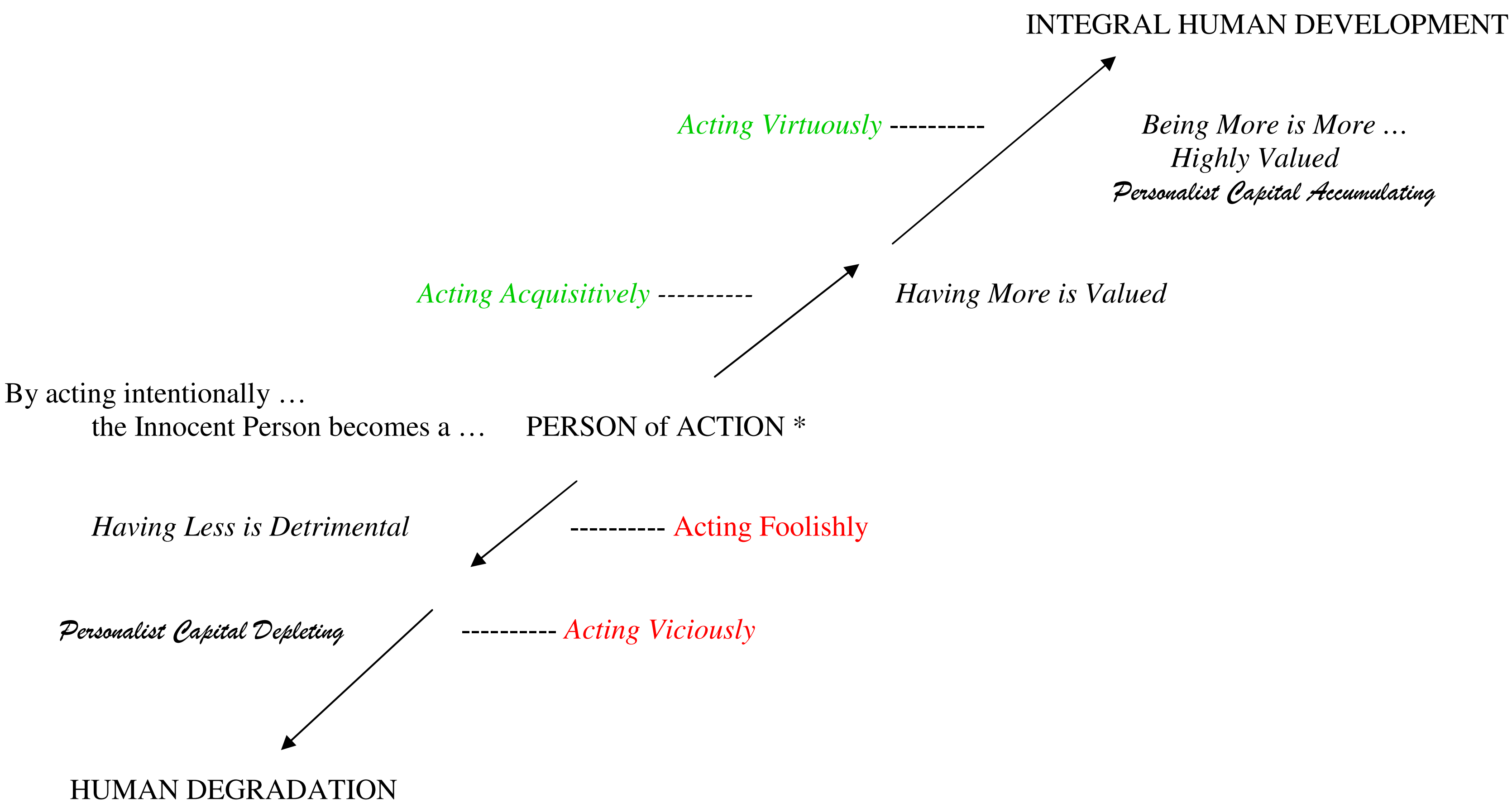
In terms of the four cardinal vices, acting viciously means unjustly, unwisely, cowardlhy, excessively

Third-level action is associated with self-determination; the significance of third-level action is the effect (good or evil) on the person engaged in the action.

First-level action, which is associated with *physical freedom,* is action that leads naturally to a specific outcome provided there is no physical constraint in place.

Second-level action, which is linked to *freedom to do as one pleases*, is action that is undertaken to achieve a specific end.

EXHIBIT 2A. THE EVOLUTIONARY DECISION-MAKING PROCESS OF THE PERSON OF ACTION



* Acting effectively at the second level results in having more. The feedback loop is present at this level, is working on the material well-being of the *person of action*. It is present at the third level provided *having more* does not interfere with *being more*. At the third level, the feedback loop is working on her integral development. *Having more* is an intermediate objective. *Being more* is the final objective.

With the feedback loop in place, acting foolishly/viciously leads to *having less/being less*. To human degradation.

EXHIBIT 3. INFUSING THE INDIVIDUAL WITH PERSONALIST CAPITAL

Machine-like Individual + Personalist Capital = *Person of action*

grounded in the philosophy of individualism that dates from the 17-18th century Enlightenment and describes the individual as inward-looking, utility-maximizing, want-satisfying, free to act, rational and predictable, for whom all existence is solitary existence

grounded in the philosophy of personalism that first found expression in the electronic age[1] *and describes the person as individual being and social being, inward-looking and outward-reaching, utility-maximizing and utility-satisficing, free to act and accountable for choices made, need-fulfilling and want satisfying, rational and emotional, unpredictable, for whom all existence is co-existence*

energized by electronic media & interacts with others who are[2]…

family members	*classmates*	*professional colleagues*	*workmates*
partners	*volunteers*	*fellow religionists*	*union members*
mentors	*rivals*	*trade association friends*	*neighbors*

these interactions foster and instill human virtues/vices such as:

caring …………...	*heartless*	*trustworthy* ………	*inconstant*
benevolent ……….	*mean*	*loyal* ………………	*treacherous*
just …………….....	*unjust*	*faithful* …………	*deceitful*
generous …………	*greedy*	*forgiving* …..……	*merciless*
sympathetic ……..	*insensitive*	*grateful* …………	*resentful*
altruistic ………...	*egoistic*	*kind* ……………..	*envious*
moderate ….........	*self-indulgent*	*diligent*…………..	*lazy*

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[1] See Walter J. Ong, *The Presence of the Word: Some Prolegomena for Cultural and Religious History,* New York: Simon and Schuster, 1967, for more on person and the electronic stage of human communication.

[2] See Gary S. Becker, *Accounting for Tastes*, Cambridge: Harvard University Press, 1996, [p. 4], for a similar listing of social interactions.

EXHIBIT 4. COMMUTATIVE JUSTICE, DISTRIBUTIVE JUSTICE, CONTRIBUTIVE JUSTICE

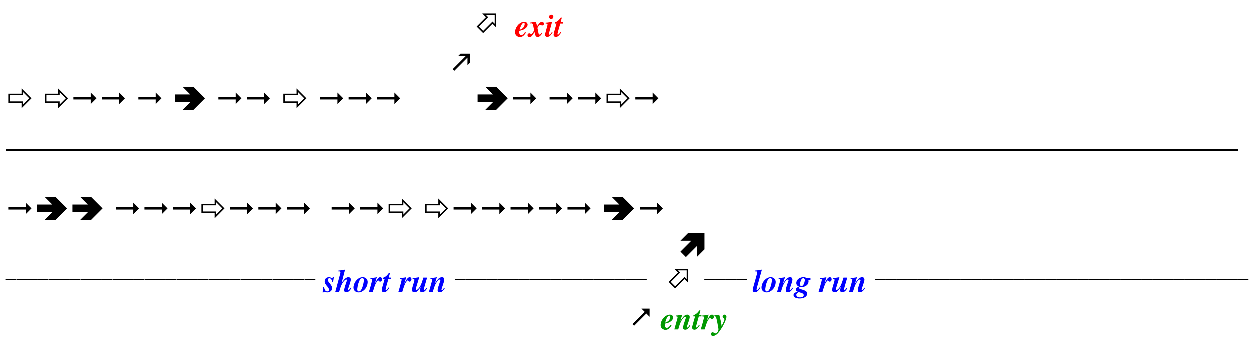
Principle	Obligated Person(s)	Definition	Common Expression	Unjust Practices
Commutative Justice ==========> also called equivalence or exchange justice	buyer & seller mutually obligated producer & consumer mutually obligated worker & employer mutually obligated	both persons are obliged to exchange things of equal value & to impose equal burdens on the other	full day's work for full day's pay "caveat emptor"- *common expression in negative form*	embezzlement robbery forgery bait & switch loan sharking gouging ripping off counterfeiting
Distributive Justice ==========> similar in part to the social justice of liberation theology	superior obligated to subordinate	the superior is obliged to distribute any benefits or burdens associated with belonging to the group among the members in some equal or proportional fashion	equal pay for equal work equal opportunity affirmative action comparable pay for comparable work	favoritism discrimination sexism/racism ageism nepotism cronyism anti-Semitism kickbacks bribes
Contributive Justice ==========> also called social or legal justice	member obligated to group	to the extent that a member receives benefits from belonging to a group, she is obliged to contribute to the support of that group	doing my fair share pulling my load paying my dues sacrificing my lesser good for the group's greater good	insider trading industrial … … spying … sabotage computer virus tax evasion insurance fraud freeloading goldbricking

EXHIBIT 5. TWO DECISION-MAKING PROCESSES and THREE ECONOMIC SYSTEMS

Many **Individuals** | *One* **Group**

PRIVATE ECONOMY	**PERSONALIST ECONOMY**	**COMMAND ECONOMY**
philosophy: individualism driving force: pursuing individual good relentlessly thru *market exchange*	philosophy: personalism driving force: pursuing individual good thru *market exchange,* reconciling individual good and common good thru *private intermediary groups*	philosophy: collectivism driving force: meeting unmet need thru *public authority*
central premise: perfection of the individual in terms of intelligence and free will	central premise: perfection of humans who are ruled and imperfection of those who rule	central premise: perfection of those who rule
purpose: good of the individual construed as maximum personal net advantage	purpose: good of the individual construed as integral human development	purpose: common good as determined by central planning agency
freedom to do as one pleases	freedom necessary to realize one's full potential as a person and thus the good of all	freedom restricted to limit the onerous power of private individuals and groups
economic agent: *homo economicus*	economic agent: *person of action*	economic agent: *homo secundus*
market preferred because it extends democratic principle into economic affairs	private intermediary body preferred to public group because it locates decision-making closer to persons impacted	public authority preferred because it knows best how to provision unmet need
abuse: oppressive power in the hands of the few leading to ill-gotten gain	abuse: collusion that transforms positive-sum outcomes to zero-sum outcomes	abuse: excessive power in the hands of public authority
remedy: economic justice	remedy: cooperation and caring	remedy: subsidiarity

EXHIBIT 6. ILLUSTRATING THE ECONOMIC CONCEPTS OF THE SHORT RUN AND THE LONG RUN IN TERMS OF THE FLOW OF TRAFFIC ALONG A LIMITED-ACCESS HIGHWAY



The short run is that time period when some firms may exit the market but no new firms enter the market; competition takes place among the firms already in "the flow of traffic."

The long run is that time period "down the road" when new firms enter "the flow of traffic"; with their entry competition becomes more intense.

Low barriers to new firms entering "the flow of traffic" may be thought of as a large number of highway entry ramps that are tightly clustered as in a densely populated urban area. High barriers may be construed as a small number of entry ramps that are widely dispersed as in a sparsely populated rural area. A monopoly (single seller) and a monopsony (single buyer) may be represented in terms of a single vehicle traveling along a highway where there are no entry ramps.

APPENDIX A
TENETS OF A PERSONALIST ECONOMY

Twenty central tenets constitute the core of a personalist economy and confirm that a personalist economy is a truly *realistic* alternative to a market economy and a command economy. These tenets will endure though others very likely will emerge as we know more about how personalism shapes our understanding of economic affairs. Of the twenty, the first is and likely will remain by far the most important.

1. The human person, not the human individual, is the basic unit of economic decision-making and economic analysis. The distinction between individual and person is directly traced to the advancement of human communication from the script stage of the classical economists to the electronic stage of contemporary economics that has profoundly changed human awareness of others and of self. Human beings are not the never-changing, static, and predictable individuals of conventional economics, no different today than they were in an age of drawn-out communication. They are the ever-changing, dynamic, and unpredictable persons of personalist economics who inevitably change as they interact with others in an age of instant communication. As John Paul II demonstrated at a lunch in Castel Gandolfo, the human person is very nearly divine.

2. Human beings are sacred with rights originating in their very nature. According to conventional economics, human worth is determined contractually. Personalist economics insists instead that humans are sacred and therefore have a status in economic affairs wherein their inalienable rights are more fundamental than contracts. They are ends in themselves and never to be seen merely as inputs to be valued instrumentally.

3. Human beings are both want-satisfying and need-fulfilling. Conventional economics regards consumers as strictly want-satisfying economic agents who maximize personal net advantage. Personalist economics recognizes that consumers are both need-fulfilling and want-satisfying who ultimately maximize integral human development.

4. Meeting the needs of the human body is an intermediate objective of an economic system. The ultimate objective of an economic system is human perfection which in economic affairs is achieved by maximizing integral human development. Maximizing personalist capital by acting virtuously rather than viciously contributes to the maximization of integral human development. In personalist economics, *having* matters less than *being.* The things one owns are less important than integral human development. In the end, all three principal economic activities -- consumption, work, and rest -- provide opportunities to acquire the virtues that contribute to personalist capital or the vices that

diminish personalist capital.

5. The *person of action* replaces *homo economicus.* By effectively denying that humans are embedded in families, communities, neighborhoods, companies, and civic organizations, conventional economics has constructed the concept of *homo economicus* as the essence of economic agency that is a distortion of human nature. Constructing economic agency around the dynamic *person of action* rather than the passive *homo economicus* makes for a microeconomics based on human individuality and a macroeconomics based on human sociality, and indicates the direction to be taken to finally create a unified body of economic theory.

6. Economics is a value-laden discipline that struggles to sort out the uncertainty in economic affairs. To conventional economists, human reason unlocks the mysteries of the economic order that are expressed with certainty in determinate models, giving their economics the aura of an authentic positive science like physics. In personalist economics, the principle of certainty is not accepted carte blanche. Some indeterminateness is inevitable because human beings are not entirely knowable and their behavior is not always predictable.

7. Decision-making centers on markets and institutions. In conventional thinking, the economy is self-regulating wherein any intervention on the part of the government is regarded as a departure from the efficiency of the market system. Personalist economics accepts the market system subject to the constraint that it may be necessary to intervene in the market through public regulatory bodies or private organizations such as trade or professional associations and inter-firm partnerships.

8. Justice and Christian charity are necessary to check abuses that derive from excessive gain-seeking behavior. In a market economy, transactions are driven by gain-seeking behavior. Without the prospect of some gain, an economic agent simply is not motivated to complete a transaction. However, at times agents are exploited, deceived, mistaken and consequently are deprived of the gain that is their due. The virtues of justice and Christian charity are twin bulwarks that help protect humans from the abuses that originate in the excessive gain-seeking behavior of others.

9. Social justice requires the individual to do all that is necessary for the common good. Practicing social justice means practicing all three types of justice relevant to economic affairs: commutative justice, distributive justice, and contributive justice. All three are necessary for the common good because all three foster the trust required for human beings to carrying out their everyday economic activities in common.

10. Three principles organize economic affairs: competition, cooperation, and intervention. The first two activate economic affairs on the basis of two human dispositions. Competition is based on the human disposition to undertake certain activities alone for the reward to be gotten from completing those activities successfully. Cooperation is based on the human disposition to undertake certain tasks as a group because those tasks cannot be undertaken by individuals acting alone. Intervention operates in the limiting mode and often involves government action to curb certain destructive human activities energized by competition or cooperation.

11. Three social values underlie the three organizing principles. Each one of the three organizing principles rests on a different social value. Competition depends on the social value of individual freedom. If persons are not truly free to act they cannot compete. Cooperation rests on the social value of teamwork, community, solidarity. Intervention rests on the social value of equality. A *laissez-faire* economic order backed by conventional economics is based on the social value of freedom from government intervention and regulation. In personalist economics, freedom also means freedom to act as a responsible human person.

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

13. Some limits are present in economic affairs; others must be imposed because human beings are materialized spirits. Conventional economics separates body and spirit and centers entirely on human materiality as if to say that the house which provides shelter matters but not the home where family members develop and mature as human beings. Personalist economics argues that it is necessary to address both matter and spirit. Indeed, both are relevant: the house as shelter and the home as a place for human development. The practical virtue of moderation, along with commutative, distributive, and contributive justice, provides useful and effective limits on human material needs and the needs of the human spirit. Their faithful practice contributes powerfully to the realization of the full

potential of every human being.

14. No less than his *Wealth of Nations*, Adam Smith's *Moral Sentiments* should inform our re-thinking of economic affairs. Indeed, there are compelling reasons to include both masterpieces in a reconstruction of economics around the *person of action* as the basic unit of economic analysis and personalism as its philosophical foundations. *Moral Sentiments a*nd *Wealth of Nations* are complementary works that should be read and interpreted together to fully appreciate Smith's enormous contribution to our ability to describe and understand contemporary economic affairs more accurately.

15. *The evolutionary model is superior to the cyclic model.* Conventional economics is constructed on a model that applies circular descriptions and explanations to economic events. Among the many examples are these three: the use of the circular flow diagram to represent macroeconomic affairs; the business cycle as a representation of macroeconomic affairs unfolding over time, repeating a pattern of expansion, contraction, peak, and trough; the natural-rate hypothesis which claims that unemployment invariably returns to its normal or natural rate regardless of the rate of inflation. In the cyclic model events are construed as identical and inevitable, and therefore predictable. Using cyclic reasoning, and given the data required to operationalize their econometric models, conventional economists are comfortable in asserting that changes in economic affairs can be predicted.

Evolutionary economics replaces the maximization and equilibrium assumptions of conventional economics with "uncertainty and imperfect information, routines, heuristic search processes and optimizing behavior, and nonequilibria" (Blauwhof 1994). Marx was a leading advocate of the evolutionary model. So too were Veblen, Commons, Mitchell, and Ayres. Today evolutionary economists are applying the concepts of path-dependency, non-linearity, and self-organization from chaos theory to the problems of innovation and technological change.

Cyclical thinking casts aside "the utterly unrepeatable and unique human person" (Ong 1967a). Thus, according to Ong, there is no way to posit a never-changing *homo economicus* without essentially casting aside "the central corporate discovery of all mankind" – the evolutionary process. At the very heart of economic affairs is found the economic agent who is not cyclic but evolutionary, in a Darwinian sense adapting to the economic environment, and in a personalist sense changing by acting virtuously or viciously as an economic agent.

16. The *person of action* maximizes personalist capital -- the practical virtues of justice, courage, moderation, and prudence. Conventional economics asserts that above all else

***homo economicus* maximizes personal net advantage in terms of utility and profit and that the economy functions best when it achieves Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably consists in having more. Personalist economics claims that most fundamentally the economy functions best when the *person of action* maximizes personalist capital thereby enhancing her own integral human development and rendering herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the proposition that the good always inheres in *being more*.**

17. Following Nobel Laureate Amartya Sen's capabilities-set argument, personalist economics holds fast to the proposition that the economic agent, the *person of action*, strengthens her capabilities set by acting virtuously in economic affairs and weakens that set by acting viciously. Acting virtuously contributes to personalist capital just as acting viciously diminishes it. Further, strengthening everyone's capabilities set enhances integral human development just as weakening that set impairs it. Personalist economics not only adds an important human behavioral element -- personalist capital -- to Sen's capabilities set but also links that improved set to integral human development and asserts that the ultimate purpose of the economy is maximizing integral human development which is achievable by maximizing that capabilities set.

18. Personalist economics understands and applies opportunity cost in economic affairs much differently than conventional economics. In the economic decision-making process, conventional economics draws attention to the cost of what an economic agent cannot do or cannot have when that person makes a decision even in those instances where the agent is not explicitly aware of that cost. Opportunity cost for the producer is grounded in the premise that what is foregone is feasible and profitable. For the consumer opportunity cost is grounded in the premise that what is foregone is available and desired.

Opportunity cost does not apply to caring or Christian charity because both virtues involve persons who are not interacting for the purpose of mutual gain. Both virtues alter the basic requirement for economic exchange to take place. For the self-interested *homo economicus* of conventional economics, a comparison is made as to whether what is gotten in the exchange is more highly valued than what is given up. In contrast, the person in need who accepts what has been offered by a generous or loving person gives up nothing of economic value. For the *person of action* who is prompted by generosity or love nothing of tangible value is gotten in the gift-giving process. Rather, integral human development is enhanced.

19. Local development requires a dynamic *person of action. Homo economicus* will not do because she is much too passive. Development is promoted by two strategies: locating large

established enterprises in the target area or supporting many small start-up firms. An alliance of local ministers can impact local development by acting together, pooling their individual checking accounts, and offering that pool of resources to any local bank that is willing to make loans to start-ups in the target area that need credit in order to begin operations. Any business failure associated with this kind of program does not impose a financial burden on the alliance members because they are protected by FDIC deposit insurance. The burden is split between the failed business owners who must liquidate their assets to pay their loan indebtedness or by the bank in the form of loan loss whenever the liquidated assets are insufficient to pay off the loans entirely.

20. A personalist economy is based on the market mechanism, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination of the world's goods, and the legitimacy of profit, and personalist capital. A personalist economy represents a viable option to both capitalism and socialism because it is organized around private groups positioned between the weak *person of action* and the more powerful state, groups that emerge due to the inability of that person to adequately address specific economic problems. These private intermediary groups, which help reconcile individual good and the common good, are the distinguishing characteristic of a personalist economy.

APPENDIX B
A READING LIST OF MATERIALS ON PERSONALIST ECONOMICS AND SOLIDARIST ECONOMICS:
PREMISES, THEORY, AND APPLICATIONS

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See www.acton.org/pub/journal-markets-morality for the Acton Institute's website where articles on economic personalism which are published in the *Journal of Markets and Morality,* are accessible. Economic personalism is like personalist economics in that both derive insights from the philosophy of personalism. They differ, as the names imply, in that economic personalism underscores philosophy where personalist economics centers on economics.