Twenty Tenets of a Personalist Economy

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Abstract: This paper offers twenty principles on which to develop an economy from a personalistic perspective. Faced with a market economy and a directed economy, the personalist economy presented in this work places the person at the center of economic activity. The person is who moves the economy as its agent and the human values that emanate from it must be principles to be taken into account in any decision.

Keywords: personalism, economics, economic principles.

Resumen: Este trabajo ofrece veinte principios sobre los que desarrollar una economía desde una perspectiva personalista. Frente a una economía de mercado y una economía dirigida, la economía personalista que se presenta en este trabajo pone a la persona en el centro de la actividad económica. La persona es quien mueve la economía como agente de la misma y los valores humanos que emanan de ella deben ser principios a tener en cuenta en cualquier decisión.

Palabras clave: personalismo, economía, principios económicos.

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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 *many* individuals or *one* group. Group decision-making is either *private* or *public*.

In a market 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*. In a personalist economy the philosophy is personalism and the economic agent is *person of action*.

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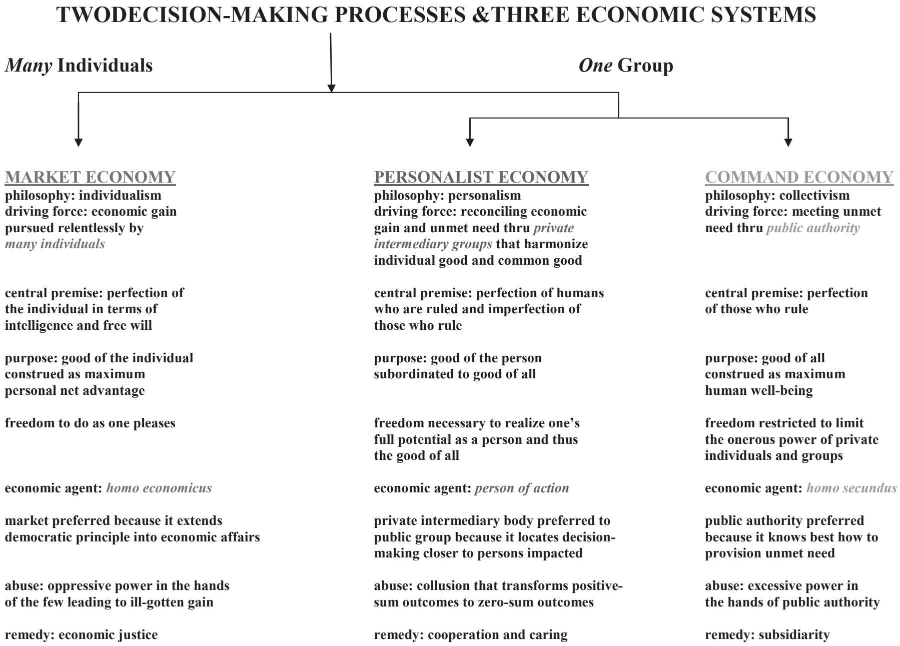
The figure on the following page displays the unique relationships between the two decision-making processes and the three economic systems in reduced form. From this perspective a personalist economy represents an authentic third way for organizing economic affairs. In a personalist economy the distinguishing characteristic is *private* group decision-making.

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 by far the most important and likely will remain so.



1. The human person is the basic unit of economic decision-making and economic analysis. The *person* of a personalist economy is a living, breathing, existential actuality who actively engages in economic affairs and is best represented by Schumpeter's entrepreneur.

In sharp contrast, mainstream economics rests solidly on the premise of the individual as the basic unit of the economic decision-making who is governed by the law of nature and acts in a rational, self-interested manner. The common good is achieved by each economic agent pursuing his/her own self-interest by means of self-regulating impersonal forces of the market or simply *the invisible hand*.

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 mainstream 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 the basic unit of economic affairs, personalist economics sees the person who is an individual being and a social being and at once both matter and spirit. At times, humans act according to the premises of mainstream economics. At other times they act in ways that are emotional, other-centered, and utility-satisficing. The common good is achieved by means of *the visible hand* of human beings acting collectively and, following the principle of subsidiarity, through private organizations before turning to government for help.

The passive nature of *homo economicus* means that his development cannot change any more than a machine can decide to change. Acquiring human capital or social capital does not alter his development because both are viewed not as an integral part of his nature but as possessions and possessing a thing is not the same as developing more fully as a human being.

The dynamic nature of the *person of action* means that his development unfolds over time as he/she acts in a virtuous or vicious manner. The *person of action* does not possess a virtue or vice; he/she becomes a more virtuous or vicious human being, thereby enhancing or diminishing herself as a person. In personalist economics maximizing personal net advantage is not the final objective, human perfection is. As fundamentally different as they were in their economics, on the matter of human perfection as the final objective of the economy both Dempsey and Divine agreed[1].

2. Human beings are sacred with rights originating in their very nature. According to mainstream economics, human worth most fundamentally is determined contractually as for example in the wage contract. Voluntary exchange reinforced contractually is at the very core of a contemporary neo-classical economics which is returning to an economy that is free from government intervention and regulation (often referred to as a *laissez-faire economy*) as the ideal economic order. Personalist economics insists instead that humans are sacred and therefore have a status in economic affairs wherein their inalienable rights are more fundamental than contracts. They are ends in themselves and never to be seen merely as inputs to be valued instrumentally. Following John Paul II, human persons are made in the image and likeness of God and therefore are nearly divine.

3. Human beings are both want-satisfying and need-fulfilling. In their effort to make economics value-free, mainstream economists argue that all consumer behavior is want-satisfying. They do this knowing that if they admit that consumer behavior is also need-fulfilling economics becomes value-laden because need is a normative concept that is defined differently by the persons who use it. For that reason, in mainstream principles texts, poverty (by definition, a normative concept) is addressed separately from consumption as if the two were unrelated. Personalist economics recognizes that consumers are both need-fulfilling and want-satisfying because good economic analysis rests firmly on the foundation of what is real and true and not on what is convenient and contrived.

4. Meeting the needs of the human body is an intermediate objective of an economic system. Mainstream economists construct economics around things and thus the efficient utilization of economic resources is the primary criterion by which the performance of an eco-

[1] B. Dempsey, *The Functional Economy*, Englewood Cliffs: Prentice-Hall, 1958, p. 57. Th. Divine, *Economic Principles and Social Policy,* Milwaukee: Raynor Memorial Libraries archives, Marquette University, 1960, chapter 33, p. 4.

nomic system is judged. In personalist economics human beings matter more than things and for that reason meeting the needs of the human body is only an intermediate criterion by which an economy is to be assessed. In this regard, personalist economics affirms the preferential option for the poor: those who are neediest are to be served first because even the lowliest among us are very nearly divine.

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 (as does, for example, the landlord who allows a poor widow who has charge of her grandchildren to remain in her apartment without charging rent rather than evicting her) contributes to the maximization of integral human development.

Personalist economics perceives consumption, work, and leisure more broadly than mainstream economics. Goods and services are consumed to meet not just the needs and wants of the human body but inevitably certain needs and wants of the human spirit. Work is for the dual purpose of (1) earning the income necessary to acquire the needed and desired consumer goods and services, and (2) becoming more fully human by meeting the need to belong and the need to utilize and develop creative skills and talents. Contrary to mainstream economics leisure is not what one does when not working but how one becomes more fully the human person he/she was meant to be. As with work, leisure is seen in a communal and an individualistic context.

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 leisure– 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 mainstream economics has constructed the concept of *homo economicus* as the essence of economic agency that is a distortion of human nature. Personalist economics argues forcefully that humans are a union of individuality and sociality, sometimes in harmony, sometimes at odds, requiring a reconciliation of deeply personal conflicts such as between work and family, spending and saving. The *person of action* incorporates the sociality of human nature even at the expense of some determinateness in economic analysis because good science begins with the right constructs. Constructing economic agency around the 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 mainstream economists, human reason unlocks the mysteries of the economic order that are expressed with certainty in determinate models, giving their economics the aura of an authentic positive science like physics. In personalist economics, the principle of certainty is not accepted carte blanche. Some indeterminateness is inevitable because human beings are not entirely knowable, and their behavior is not always predictable. Further, human beings alone are moral agents because humans alone have the intelligence and free will to make ethical choices. Economics therefore is a normative discipline, one that is value-laden as opposed to value-free. The challenge to the working economist in this regard is to know the difference between the facts discovered through systematic inquiry and the values that one attaches to those facts.

7. Decision-making centers on markets and institutions. In mainstream 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 at times it is necessary to intervene in the market through public regulatory bodies such as the Securities and Exchange Commission and the Federal Trade Commission or private organizations such as producer and consumer cooperatives in order to assure that the powerful do not devour the weak and the good of the community is not routinely sacrificed to the good of the members taken individually.

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. The three principles of economic justice –commutative justice, distributive justice, and contributive justice– specify the duties that apply to buyers and sellers in relating to one another, to superiors in relating to their subordinates, and to a person in relating to any group to which he/she belongs. These duties, if faithfully executed, protect human wellbeing by curbing the destructive human attraction to ill-gotten gains.

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

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

Christian charity goes beyond the passive Kantian imperative to not view humans as mere instrumentalities. Every follower of Christ is required to actively affirm all human beings as persons. Christian charity, along with justice, eliminates the ill-will, disorder, and dishonesty that otherwise is common to a marketplace and workplace, replacing them with goodwill, solidarity, and authentic bargains. Christian charity has no value when it is hoarded. It comes alive and takes on value only when it is given away, and uniquely is never depleted by use. Neither justice nor Christian charity are virtues that are included in the mainstream economics way of thinking.

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. It is unfortunate that some would reduce social justice to contributive justice alone.

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 derives from the human disposition to undertake certain tasks collectively because they cannot be done effectively or at all by persons working alone. The decision to use competition organizes economic affairs around the Many (individuals). The decision to use cooperation organizes economic affairs on the basis of the One (group). Thus, competition manifests human individuality while cooperation expresses human sociality. Intervention operates in the limiting mode and often involves government action to curb certain destructive human activities energized by competition or cooperation. To protect human wellbeing, such intervention is to be grounded in the virtues of justice and Christian charity. Even when it self-evidently characterizes the relationship between producer and supplier, cooperation is largely ignored by mainstream economics as an organizing principle because it is taken *ipso facto* as collusive behavior.

11. Three social values underlie the three organizing principles. Each one of the three organizing principles rests on a different social value. In the absence of these values in society as a whole, the principles cannot be used effectively to organize economic affairs or used at all. Competition depends on the social value of individual freedom. If persons are not truly free to act, they cannot compete. Cooperation rests on the social value of teamwork, community, solidarity. Without that value being widely shared across society, collective action cannot be undertaken. Intervention rests on the social value of equality in the sense that it is necessary for collective action to stop the powerful from subordinating and exploiting the weak. A *laissez-faire* economic order backed by neo-classical 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. Mainstream economics represents both microeconomic and macroeconomic affairs in terms of a static equilibrium of supply and demand wherein the self-regulating forces of markets bring the system into balance by the systematic clearing away of any and all surpluses and shortages. This view of economic affairs has been characterized as mechanical.

Personalist economics, on the other hand, represents economic affairs as organic wherein the economy is driven dynamically toward disequilibrium by innovational change (creative destruction) that depends critically on the support of credit-creating financial institutions. The difference is between the centripetal-like impersonal forces of the market bringing the system to rest and the centrifugal-like human energy of the entrepreneur initiating change and triggering unrest in the system.

Personalist economics views economic development as based on creative destruction along with Schumpeter's other insights regarding development: creative vision, funding, access to resources, dynamic competition, and resistance to entrepreneurial change. Waters adds two other factors: the natural working together of labor, management, and government, and the cooperation of workers, managers, and owners in the workplace. At the very heart of economic affairs and economic development is the entrepreneur.

We quote directly only the first part of Waters' much longer but beautifully articulated argument that centers attention on the entrepreneur, the quintessential *person of action*.

> "At the heart of economic reality is the change of old production functions and the creating of new ones. Initiating economic improvement is the triad of vision, innovation, and fund creation. Innovation or the launching of vision in the economy is the most vital. While the ideas and inventions (visions) are necessary, as is the third, financial support to permit access to scarce resources (capital), the most difficult work is in the promoting, organizing, and launching of technological and non-technological changes. It is the innovation that constitutes the creative economic activity and brings forth substantial differences in society"[2].

[2] W. Waters, "Social Economics: A Solidarist Perspective", *Review of Social Economy,* Volume XLVI, Number 2, p. 123. J. M. Clark offers a different theory of economic development in which, like Waters, he rejects the determinateness of mainstream economics. Clark's main objection is with the concept of static equilibrium. A. Gruchy, "Theory and Policy in John M. Clark's Social Economics", *Review of Social Economy*, December 1981, pp. 246-249.

Schumpeter provides a concise and convincing argument in defense of dynamic disequilibrium.

> "Development in our sense is a distinct phenomenon entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of the flow, disturbance of the equilibrium, which forever alters and displaces the equilibrium state previously existing. Our theory of development is not but a treatment of this phenomenon and the processes incident to it"[3].

Waters recognizes that this process of change is hazardous and calls for a sense of moral responsibility but, alas, does not explore responsibility any further than to stipulate that Schumpeter's entrepreneur values order.

While the author acknowledges the significance of dynamic disequilibrium in the theory of economic development, in teaching introductory economics he has employed the terms "agreement/disagreement" when he addressed how individual markets work, and "accord/discord" on how the entire economy works. His reason was to underscore that economic affairs are better explained and understood in terms of human beings, specifically the *acting person,* rather than in terms of things such as equilibrium and disequilibrium which give the appearance of economics as a physical science[4].

13. Some limits are present in economic affairs; others must be imposed because human beings are materialized spirits. Though Danner uses "embodied spirit", his formulation and "materialized spirit" are essentially the same. (Danner 2002, p. viii).

Mainstream 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.

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[3] J. SCHUMPETER, *The Theory of Economic Development,* Cambridge: Harvard University Press, 1949, p. 64.

[4] Cfr. W. R. *Entrepreneurship, Dualism, and Causality: An Appreciation of the Work of Joseph A. Schumpeter*, doctoral dissertation, Georgetown University, Washington, D. C. 1952, pp. 93-94; E. O'BOYLE, "The Person Behind the Principles: Teaching Economics at the Introductory Level", working paper, Mayo Research Institute, p. 2, available at http://mayoresearch.org/working-papers/.

Because human beings are matter, they are able to work, need food, drink, shelter, health care, and other needs related to special circumstances such as wheelchairs for those who are paralyzed, and require rest. Thus, economics is organized around three central activities: work, consumption, and rest. However, too much of any one of the three, or too little, threatens human development, and points to the need for limits.

Human materiality imposes certain limits regarding consumption and work. Obesity and anorexia are just two manifestations of consuming too much or too little. Slothfulness and overwork are conditions indicating that a person is working too little or too much, adversely impacting the human body. When it comes to rest, the party animal (too much) and the workaholic (too little) point to the need for limits lest human development is undermined.

There is another limit, known as the budget constraint, that applies especially to consumption. In a market economy the constraint originates in the decisions made by individuals based principally on their incomes and savings. In a command economy it originates to a large extent in the decisions of the central planning authority as to what goods are produced, how much are to be produced, and at what prices.

Human beings, more fundamentally, are spirits who yearn for truth, goodness, and beauty and fulfill those needs by teaching and learning, practicing the virtues and avoiding the vices, and seeking out the beauty rendered by human hands and ever-present in nature. All three are necessary for human development but, as with human materiality, too much or too little threatens development and calls for limits.

Too little or too much regarding truth (knowledge) are manifested, for instance, in ignorance and elitism. Too much beauty occurs when the worship of the One True God is replaced by the worship of physical beauty. “You shall have no other gods before me”. Too little happens when the second-rate takes the place of the stimulating. In economic affairs, too little goodness is manifested in greed, envy, and selfishness. Too much goodness, which is induced by the conviction that more always is better, takes the form of excessive gift-giving, undue praise for minor achievements, and unwarranted subordination to the wants and desires of others. The extremes of too much and too little are harmful to one’s own integral human development and the development of others.

The budget constraint applies as well to the needs of the human spirit. In a market economy teaching and learning, taking in the wonders of nature and human artistic talent, and practicing goodness in everyday economic activities typically demand expenditures for transportation, meals, lodging, and the needs of others. In a command economy central planning decisions largely determine if and under what conditions the needs of the human spirit are addressed.

Every exchange in product and resource markets entails gain for the persons involved provided they are well-informed and free to act. What is gotten in the exchange (use value) is more highly valued than what is given up (exchange value). Thus, every exchange is based on the positive-sum premise. Under competitive market conditions, exchange value (the price) should not vary from one person to the next. While exchange value is determined by market conditions, use value is determined by the value systems of the different persons involved in the exchange.

While exchange takes place only when there is gain for both parties involved, there must be limits to the amount of gain in order to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively and not just those with the power and will to turn gain into excess. Those limits are grounded in the principles of commutative justice, distributive justice, and contributive justice.

Commutative justice states that buyer and seller in the marketplace and worker and employer in the workplace have two duties: exchange things of equal value and impose equal burdens on one another. Gain is realized when use value > exchange value. Even so, justice is served only when equal value means equal exchange value.

When a market is reasonably competitive, exchange value normally does not fluctuate markedly from day to day and is the same or nearly the same for all buyers on the same day. Thus, gain is justified when use value > exchange value restrained by competition.

A problem arises when the market does not impose this restraint, and agents are free to act and willing to take what is not theirs. Commutative justice informs both parties that the only justifiable gain is one that does not deprive the other party of what is rightfully his/hers. Thus, gain is justified when use value > exchange value restrained by faithful adherence to commutative justice in a situation where competition alone does not provide the necessary restraint.

Distributive justice requires the superior to distribute the benefits and burdens of the group among his/her subordinates in some equal fashion. Distributive justice limits ill-gotten gain because the fair-minded superior assures that what is gotten and what is given up are alike for everyone in the same or similar circumstances.

Contributive justice asserts that insofar as a member receives benefits from the group, he/she has a duty to maintain and support the group. Belonging to a group means that every member has a duty to reject any ill-gotten gain that derives from taking advantage of others in the group.

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[5].

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, thereby making economics more relevant to contemporary economic affairs.

Moral Sentiments and *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. Had he lived in the electronic age, Smith probably would have seen more clearly the complementarity in his own work, and would have shared that more profound vision with his followers.

THE COMPLEMENTARITY OF ADAM SMITH'S TWO MASTERPIECES[6]

	Human Awareness	Organizing Principle	Social Value	Principle of Justice	Human Virtues	Ultimate Goal
Wealth of Nations	self ("I")	competition	freedom	commutative	diligence prudence self-reliance	good of individual
Moral Sentiments	other ("Thou")	cooperation	community	contributive	sympathy generosity benevolence	good of all

[5] E. O'Boyle, "Justice Limits Ill-Gotten Gains in Marketplace Transactions", pp. 19-21, available at http://mayoresearch.org/working-papers/.

[6] E. O'Boyle, "From Individual to Person: An Evolutionary Process Grounded in Human Communication", in *Looking Beyond the Individualism and Homo Economicus of Neoclassical Economics,* edited by Edward J. O'Boyle, Milwaukee: Marquette University Press, 2010, p. 114.

15. The evolutionary model is superior to the cyclic model. Mainstream economics is constructed on a cyclic model that applies circular descriptions and explanations to economic events. Among the many examples consider these three: (1) the use of the circular flow diagram to represent the fundamentals of macroeconomic affairs; (2) the business cycle as a representation of macroeconomic affairs unfolding over time, repeating a pattern of expansion, contraction, peak, and trough; (3) 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. With the cyclic model reality is closed in and brought under control. Though assertive, thinking remains in a primitive mode thereby leading to the widespread use of econometrics in mainstream economic analysis. Using cyclic reasoning, and given the data required to operationalize their econometric models, mainstream economists are comfortable in asserting that changes in economic affairs can be predicted. What they do not fully appreciate is that one other requirement must be firmly in place: 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 that is characteristic of market economies, the cyclic model disintegrates for lack of predictability.

There are numerous examples of evolutionary thinking outside mainstream economics. Marx, for instance, was a leading advocate of the evolutionary model. So too were Veblen, Commons, Mitchell, and Ayres. Deriving its inspiration from Schumpeter, the *Journal of Evolutionary Economics* also presents economic affairs in terms of an evolutionary process. Evolutionary economics replaces the maximization and equilibrium assumptions of mainstream economics with "uncertainty and imperfect information, routines, heuristic search processes and optimizing behavior, and nonequilibria"[7]. Evolutionary economists have been applying the concepts of path-dependency, non-linearity, and self-organization from chaos theory to the problems of innovation and technological change.

Daly argued that matter-energy is *degraded* through the economic process (production and consumption) in the same way that matter-

[7] G. BLAUWHOF, "Non-equilibria Dynamics and the Sociology of Technology", in *Evolutionary Economics and Chaos Theory*, edited by L. Leydesdorff and P. van den Besselaar, London: Pinter, 1994, pp. 153-154.

energy is *degraded* through the metabolic process (anabolism and catabolism). In both the biological order and the economic order, the purpose is the same: the maintenance and enjoyment of life. Daly examines the life process, which he regards as the ultimate subject matter of economics and biology, under two aspects: steady-state and evolutionary.

Daly's thinking is linear. He visualizes the flow of matter-energy in economic affairs as "one-way, non-circular, and irreversible"[8]. Several years later Daly employed linear thinking again to give expression to a steady-state economy based on the flow of matter-energy.

Boulding argued that Smith, Malthus, and Marshall employed the evolutionary model and that it was 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. With some reservation, Boulding added Schumpeter to this list of evolutionary thinkers especially as regards economic development. With even greater reservation, Witt and others cited Schumpeter's contributions regarding innovation, the entrepreneur, and economic development as examples of rudimentary evolutionary thinking.

Ong 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"[9]. Among the various examples of "careful selection" and "calculated elimination" are the following: (1) imputing values for unobserved or unobservable variables; (2) omitting regressors and (3) using budget constraints that ignore kinks, discontinuities, gaps, and non-convexities.

Cyclical thinking casts aside "the utterly unrepeatable and unique human person"[10]. 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 eco-

[8] H. Daly, "Economics as a Life Science", *Journal of Political Economy*, Volume 76, Number 3, 1968, p. 395.
[9] W. Ong, *In the Human Grain: Further Explorations of Contemporary Culture*, New York: The MacMillan Company, 1967, p. 89.
[10] W. Ong, *In the Human Grain: Further Explorations of Contemporary Culture*, p. 78.

nomic environment, and in a personalist sense changing by acting virtuously or viciously as an economic agent[11].

16. In the language familiar to economists, the person of action maximizes personalist capital –the practical virtues of justice, courage, moderation, and prudence–. Mainstream economics regards *homo economicus* as subject to change in that the economic agent is capable of acquiring or losing the human capital which is embedded in the agent's very nature. Even so, this change is superficial because it does not change the four fundamental characteristics of *homo economicus*: individuality, rationality, volitionality, and acquisitiveness.

Mainstream economics acknowledges that at times *homo economicus* acts altruistically, in accordance with the needs and desires of others, and reconciles this behavior with the self-centeredness of *homo economicus* by labeling it "enlightened self-interest". Even so, *homo economicus* essentially is *never*-changing because that simplifying proposition assures a predictability of behavior in economic affairs and a certainty regarding empirical findings that fit comfortably in the view of economics as a physical science.

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

[11] Cfr. W. Ong, *In the Human Grain: Further Explorations of Contemporary Culture*, pp. 87, 73, 95; H. Daly, "Economics as a Life Science", pp. 392-394; H. Daly, "The Economics of the Steady State", *American Economic Review,* Volume 64 (1974), Number 2, pp. 15-21; K. Boulding, *Evolutionary Economics*, Beverly Hills: Sage Publications 1981, pp. 17; 85-86; E. Berndt, *The Practice of Econometrics: Classic and Contemporary*, Reading: Addison-Wesley Publishing Company, 1991, pp. 614-649; U. Witt et Alii, *Explaining Process and Change: Approaches to Evolutionary Economics*, edited by Ulrich Witt, Ann Arbor, The University 1992, p. 4f.

In total disregard for the wisdom of the ages regarding moderation and human development mainstream economics asserts that above all else *homo economicus* maximizes net personal advantage in terms of utility and profit and that the economy functions best when it achieves Pareto optimality. Maximizing utility and profit is based on the proposition that the good invariably consists in *having* more. Without fear of compromising human development on the altar of that flawed proposition, personalist economics claims that most fundamentally the economy functions best when the *person of action* maximizes personalist capital thereby enhancing his/her own integral human development and rendering him/herself more effective and more highly valued as an economic agent. Maximizing personalist capital rests on the proposition that the good always inheres in *being* more[12].

17. Following Nobel Laureate Amartya Sen's capabilities-set argument, personalist economics hold fast to the proposition that the economic agent, the person of action, strengthens his/her capabilities set by acting virtuously in economic affairs and weakens that set by acting viciously. Amartya Sen argues that freedom, not the utility maximization principle of mainstream economics, is the ultimate objective of the economy. Freedom, for Sen, has a negative dimension and a positive dimension.

Freedom understood in a positive sense refers to a person's *capability* at any given moment to carry out some specific action. Positive freedom refers to the *potential for acting* and suggests the possibility for personal development. Thus, greater positive freedom may enhance personal development. Diminished positive freedom may reduce it.

Freedom in a negative sense refers to a person's freedom to act without interference from something or someone else. It is the freedom to act that has been restricted but not the potential for acting. For Sen, the two dimensions are alike in that both can free up action that has potential for personal development.

We agree with Sen that maximizing utility is not the end of the economy. However, we disagree with him regarding positive freedom as a replacement for utility maximization for three fundamental reasons.

[12] Cfr. E. O'Boyle, "*Homo Economicus*: Part Human, Part Machine", working paper, Mayo Research Institute, pp. 2, 24, available at http://mayoresearch.org/working-papers/.

First, Sen's capability approach is a broadening of *homo economicus*, the atomistic, fragmented economic agent grounded in the individualism of the 17-18th century Enlightenment in which the value of that individual is determined instrumentally, and therefore varies from individual to individual. Specifically, Sen does not reject the concept of *homo economicus*. Instead, he expands the concept to include sympathy, commitment, and identity.

In personalist economics, instrumental value is replaced by the sacred, inviolate dignity of every human person, and therefore does not vary from one person to the next. There is, in other words, an unchanging, fundamental, God-given equality of all human beings which is missing in Sen's capability approach that he attempts to correct by expanding positive freedom but fails.

Second, nowhere in Sen's capability approach do we find any reference linking capability to the avoidance of vice, which is at the core of personalist capital that is included functionally as one of the determinants of integral human development.

Third, Sen's positive freedom refers to the *potential for acting,* and suggests the possibility for personal development. For us integral human development, on the other hand, refers to the *person of action* who by acting virtuously in economic affairs actually enhances personal development and by acting viciously diminishes personal development.

Sen comes closest to our understanding of the ultimate objective of human activity, but aside from Divine, Dempsey, and Danner, no one in economics to our knowledge has suggested that integral human development is the most important purpose of any economic system. We suggest that *maximizing* integral human development –human perfection– can be incorporated into economic theory through a function that presents human capital, social capital, personalist capital, and material well-being as the independent factors driving integral human development.

$IHD = f\ (HC, SC, PerC, MWB)$

IHD is integral human development and personalist capital (PerC) are paired with their logical counterparts in economics: human capital (HC), social capital (SC), and material well-being (MWB).

Human development is *the* ultimate objective of human existence. Tragically, it has no place in contemporary mainstream economics. Much of this displacement traces to the universal acceptance by mainstream economists of the utility maximization principle as the ultimate end of economic activity that originates with a narrow conceptualization of the economic agent as a utility-maximizing machine and *does not get seriously re-examined*. It is time in economics to admit that we should be applying the maximization principle not to utility but to integral human development wherein true human perfection resides.

Personalist economics follows Sen's argument that the task for economics is to enlarge everyone's capabilities and asserts uniquely that the economic agent, the *person of action*, strengthens his/her capabilities set by acting virtuously in economic affairs and weakens that set by acting viciously. 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 one's capabilities set[13].

18. Personalist economics understands and applies opportunity cost in economic affairs much differently than mainstream economics. In mainstream economics opportunity cost for the consumer is based on the premise that wants are unlimited and *having more* (utility) is good. When a consumer buys a specific product or service he/she foregoes the opportunity to take hold of the utility derived from purchasing a different product or service. The opportunity foregone is regarded as a cost.

Opportunity cost applies to the producer as well. Specifically, it refers to the highest-valued alternative use of the producer's resources. As with the consumer, opportunity cost for the producer is grounded in the premise that *having more* (profits) is good.

At this point, two observations are necessary. First, whether we are referring to the consumer or the producer, opportunity cost is not an out-of-pocket expense. Nothing of true market value is taken from either agent. Second, for both the consumer and the producer opportunity means in effect that they must be free to act.

[13] Cfr. E. O'Boyle, "Adam Smith, Joseph Schumpeter, Amartya Sen: Modern Precursors of Personalist Economics", September 29, pp. 5-8, available at http://mayoresearch.org/working-papers/; A. Sen, "Human Rights and Capabilities", *Journal of Human Development*, Volume 6, Number 2, 2005, pp. 151-166.

For mainstream economists there are two problematical situations. First, what is the true opportunity cost for a wealthy person who has money enough to purchase anything else he/she needs or wants? Is it zero because nothing is foregone? Is the concept meaningful in that person's decision-making process?

Second, what is the opportunity cost for a poor person who has no money to purchase even those things that are most needed? Think of the homeless, for example, or the addicted squatting in a boarded-up building. Is opportunity cost zero too because that kerson is unable to engage in normal everyday exchanges? Or is it infinite because all is foregone? Under these circumstances is the concept consequential?

Similarly, there are two problematical situations for the producer. First, does opportunity cost have meaning for a producer whose substantial investments in plant and equipment are tied to a specific line of products? Plant and equipment that cannot be converted to another use?

Second, does the concept have meaning for the producer who engages in commerce not for profit but as a hobby? Such as a businessman who has made a fortune selling insurance or beer and for his own amusement buys a professional sports team that loses money year after year?

In personalist economics opportunity cost is replaced by the proposition that some goods and services contribute to material well-being and thereby to human development, and some do not. Proper human development calls for consumers to contribute to their own material well-being by practicing good habits such as moderation and prudence in the decision-making process. Clearly wants are unlimited only for those who compulsively pursue what is detrimental to their own human development such as over-eating, drinking excessively, and hoarding.

Further, when there are *no* satisfactory alternatives for the consumer who *needs* orthopedic shoes or a prescribed medication or who *wants* a specific brand of single-malt whiskey or dark-roast coffee, opportunity cost is meaningless. In other words, when an economic agent has no options available at the decision-making moment or wants nothing else at that moment opportunity cost is empty of meaning. When nothing is foregone, opportunity cost is a hollow concept.

When there is *no* alternative use of the producer's resources, as likely with a heavy equipment manufacturer, a ship builder, a for-profit or non-profit medical center, a brick manufacturing facility, by definition nothing is foregone, and opportunity cost is empty of any meaning.

Mainstream economics teaches that opportunity cost originates in the materiality of human nature, the bodily nature of *homo economicus*. What is foregone is something material, something tangible that forms the way that mainstream economists think about economic affairs.

There is, however, more to human nature than the material. Human beings are more than just bodies. *Persons of action* are embodied spirits whose development and perfection are matters of concern to economists to the extent that those persons influence and are influenced by economic affairs. As co-producers of goods and services they are the efficient cause of economic activity, and as consumers and social creatures the final cause.

In personalist economics choices result in gains or losses of material well-being and thereby in human development depending on whether the economic agent is motivated by virtues such as caring and generosity or vices such as coldness and selfishness. *Being* more in terms of human development rather than *having* more in terms of utility or profits is the final end of activity in the economic order. We refer to this way of thinking about the economic agent as the real opportunity to add to or take away from personal human development.

Opportunity cost does not apply to caring or Christian charity because both involve persons who are not interacting for the purpose of *mutual* gain. For sure, the service or material thing freely offered and graciously received has economic value. However, for the persons who receive those gifts nothing is foregone. At the same time, the person prompted by caring or Christian charity appears to be giving up something of value without getting anything of value in return. But there is a real return to the firm that actively engages in caring or Christian charity in that the firm adds to or acquires goodwill that is accounted for on the balance sheet of that firm when it is sold[14].

19. Local economic development requires persons of action, *homo economicus* will not do because he/she is much too passive. Local economic development can be addressed through two strategies –attract already established firms to relocate in the local area or help local residents start their own businesses–. The first strategy is appeal-

[14] E. O'Boyle, "Opportunity Cost and Human Development", working paper, Mayo Research Institute, March 13, 2018, pp. 1-18, available at http://mayoresearch.org/working-papers/.

ing because it offers promise of increasing local employment, payrolls, spending, and tax revenues. For instance, a Wal-Mart neighborhood market with its heavy emphasis on groceries and a pharmacy could work in the targeted area for the company itself and area residents. Often, however, public officials must deliver economic incentives to any targeted company in order to lure it to the local area even though there are no assurances that later on the company will not re-locate elsewhere for a better package of incentives including lower labor costs or be forced to close.

The second strategy offers greater promise that start-up businesses will remain in the area when local residents are the driving force behind those firms. For example, the development of a consumer cooperative to purchase and deliver groceries at reduced prices to coop members could work in a targeted area. However, start-ups cannot match the scale of the improvements that locating established firms bring to the local economy. Further, more than half of all start-up companies fail in the first five years.

Even so, with the right support such as recruitment and training of employees, site location and plant layout, and legal services, it is possible to lower the startup failure rate. What is required is a single institution that can provide direct and inexpensive access to the assistance a startup needs.

Banks do not see themselves in that role. Banks protect themselves from defaults on their loans that arise from start-up failures by requiring start-ups to refinance their loans well before they collapse into failure or by seizing the assets that secured those loans after they fail. Business failures on the part of commercial loan customers mean that banks suffer the loss of the accounts that those customers would have maintained in those banks had they been successful. The loss of any funds in those accounts lowers the bank's limit on its loan portfolios, defined as the bank's excess reserves (accountholder funds on deposit minus reserves as required by the Federal Reserve). Thus, failed businesses operating with borrowed funds from a bank in effect reduce a bank's ability to make loans to other customers through the credit-creation process and thereby reduce the profits the bank could earn from additional loans.

To protect the limit on its loan portfolio, a bank must find new customers willing to open their accounts with that bank. Sometimes a bank resorts to give-away items such as stadium seats or drinking cups to attract new depositors. Sometimes it boosts the rate of interest it pays for new deposits especially for new accounts with large opening balances.

When local ministers with a commitment to social ministry understand the role of their deposits in banking operations, acting together as *persons of action* they can become more effective in local economic development. An alliance of ministers, each with a checking account that holds the congregation's funds and the account of any school operating with its sponsorship would approach several local banks at the same time and invite them to compete for those accounts. The bank with the best plan for local economic development focusing on startup businesses in the targeted area would be rewarded with the accounts of the alliance members. Failure on the part of any enterprise launched with the support of the alliance does not put the alliance ministers at risk. Any losses would be split between the owners of the failed enterprise and the bank. There is no risk to the alliance provided their funds are kept in FDIC insured accounts where the balance does not exceed $250,000.

Any successful bank development plan would have to include the following:

- A commitment to prepare detailed business plans for whatever new enterprises are needed in the targeted area as specified in an agreement with the alliance.
- A pledge to provide the business services/expertise, especially management skills, that a start-up needs or refer that start-up to others in the area willing to offer the required help. The cost of providing those services would be paid initially by the bank with the understanding that the bank would be reimbursed by including those costs in any loan it makes to a start-up enterprise. Local community colleges could provide some of needed skills through coordinated certificate-like programs.
- An agreement with the alliance as to conditions under which the bank is obligated to approve or refuse funding for a start-up.
- In the agreement with the alliance, a set of benchmarks specifying the performance of the bank in terms of number of start-ups launched, jobs and payrolls created, success/failure rates.
- Finally, an understanding that the bank has five years to meet those performance benchmarks or risk losing the alliance's accounts.

Local economic development takes time, lots of time, and waiting takes lots of patience. Who better to instill patience in local residents than their own ministers who willingly have taken on the role of *persons of action* in local economic affairs?[15]

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, 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 individual person and the more powerful state, groups that emerge due to the inability of the individual 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.

By using non-collusive cooperation to work out solutions to problems, intermediate 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 the same day-to-day economic difficulties, these intermediate bodies are as diverse as the individual nature of those human members and the specific economic problems they hope to resolve.

[15] E. O'Boyle, "Principles of Personalist Economics: A Critical Examination of Human Persons as Economic Agents", October 18, 2018, pp. 381-382; available at Mayo Research Institute, http://mayoresearch.org/personlist/.