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*Making Leisure for Culture Through the Cultivation and Democratic Distribution  
of Pure Surplus Income: Lonergan's Economics and the Social Dividend*

Abstract of Paper: The paper below explores Bernard Lonergan's new paradigm for macroeconomics because it suggests a true vocation for business in service of the human good. Lonergan's work envisions economic activity as a fundamental rhythm of two foundational, integrally interrelated circuits -- a basic circuit of supply and demand and a surplus circuit. These circuits are part of a larger rhythm of human activity that transcends the merely economic sphere. The economic rhythm has a vital function within the larger rhythm of human activity. It constitutes the material fabric of the superstructure of cultural activity constituting the universal rhythm and is valuable from that standpoint. Unless the material foundation is healthy, the superstructure cannot flourish.

The chief mark of the optimal operation of the economic rhythm *vis-à-vis* the larger rhythm is not some factor extrinsic to the economic rhythm itself, such as the extent of production of material stuff or the degree of employment of a putative labor force, but, rather, the size of the pure surplus income it produces and the equitable and democratic distribution thereof throughout human society as a whole.

The paper explore how Lonergan conceives the generation of pure surplus income in service of human freedom and culture on the basis of two volumes of his economic writings in his collected works: Vol. 21, For a New Political Economy and Vol. 15, Macrodynamics: An Essay in Circulation Analysis, together with sufficient secondary literature interpreting them. It investigates his conception of "the social dividend," comparing it to similar notions arising in connection with Louis Kelso and Mortimer Adler's Capitalist Manifesto to which the author was drawn during the Fourth International Symposium on Catholic Social Thought and Management Education held in July 2000 in Puebla, Mexico.

Text of Paper

*Introduction*

Bernard Lonergan is, no doubt, best known for his theological tractates interpreting the writings of Thomas Aquinas and for his brilliant constructive work in Insight and Method in Theology. Yet he was a wide-ranging thinker with an ultimately practical orientation to promoting and implementing the human good across the whole broad spectrum of human activity. He recognized that economic activity furnishes a stable material base for human culture and thereby produces the conditions under which the human good may be realized. Further, he viewed the

human good as being substantially under threat in the face of events like the Great Depression and the kinds of economically motivated politics comprising communism, liberal capitalism, and national socialism that contextualized, fueled, and continued beyond the Second World War. It is not surprising, therefore, that the seriousness of his theological enterprise prompted him to turn substantial attention to economics in the course of his researches.<sup>1</sup>

So far, Lonergan's economic writings have received very little attention from mainstream economists. Indeed, it is almost certain they do not know his work. The instant conference provides a fortuitous opportunity to debut his economic ideas among scholars and business practitioners just because its planners seek new ways to conceive the business enterprise.

This paper explores Lonergan's paradigm for macroeconomics because it suggests a true vocation for business in service of the human good. Lonergan's work envisions economic activity as a fundamental rhythm of two foundational, integrally interrelated circuits -- a basic circuit of supply and demand for basic consumer goods and services and a surplus circuit of supply and demand for producer goods and services. These circuits are part of a larger rhythm of human activity that transcends the merely economic sphere. As Lonergan writes in For a New Political Economy:

. . . Men strive in many fields: they organize human society by politics and war; they orientate their lives by philosophy and religion; they augment knowledge by science and perpetuate intuitions through art; they cool passion and regulate equity by law; they protect and hasten health by medicine; and generation succeeds generation in this heritage of culture through the testament of education. All of this is a rhythmic transformation of natural potentialities by human effort; none of it is, strictly, economic activity. Yet conditioning all culture and inextricably confused with it, there is the economic factor. . . .<sup>2</sup>

As the quotation indicates, the economic rhythm certainly has a vital function within the larger rhythm of human activity. Economic activity is the material fabric of the superstructure of cultural activity constituting the universal rhythm. Unless this foundation is healthy, the superstructure cannot flourish. Further, the economic foundation is important, not *in se*, but in its relation to the larger rhythm and its service of it.

The chief mark of the optimal operation of the economic rhythm *vis-à-vis* the larger rhythm is not some factor extrinsic to the economic rhythm itself, such as the rate of full-time employment, but, rather, the sufficiency of the pure surplus income it produces for use in service of the highest possible standard of living for the whole community and its actual use to that end in an equitable and democratic distribution.<sup>3</sup> In Lonergan's scenario "pure surplus income" comprises amounts systematically available on a cyclic basis for new capital investment over and above what is needed to satisfy subsistence needs and the cost and maintenance of capital equipment,<sup>4</sup> while "highest standard of living" includes leisure for culture. One could conceive its being possible, with a relatively small labor force and sufficient mechanization, to achieve an income sufficient to cover both the subsistence needs of a large community of rotating workers and others participating in some way in an enterprise and costs of maintenance and repair of capital equipment, so that all interested persons are substantially free from the obligation of work artificially imposed upon them for the mere purpose of making a living.<sup>5</sup> Assuming that the income generated also includes substantial amounts available for new fixed reinvestments capable themselves of producing streams of income to support further human activities, these persons may, then, pursue and develop their own peculiar gifts and talents for the good of the entire community and the overall vitality of its cultural life.<sup>6</sup> Such freedom for cultivating the

human good is the proper end of democratic freedom in Lonergan's view. And pure surplus income from that standpoint properly operates as a social dividend ordered to that purpose.<sup>7</sup> But Lonergan believed human freedom in the sense defined to be unattainable absent a suitable relation of economics to politics. As Lawrence, Byrne, and Hefling explain:

. . . For the Lonergan of *Insight* (first published 1957), economic ends fit concretely into an ordered hierarchy: technology, which is the society's concrete possibility for transforming the potentialities of nature into the standard of living, is subordinate to economy, which is the process for producing and distributing the best possible standard of living; and economy is subordinated to a political order embodying a democratic, free-enterprise economy. If the concretely functioning economy disposes of material and technological resources to mediate the material conditions of human living, the task of politics is to constitute an ethos for disposing of the economy, 'an ethos that at once subtly and flexibly provides concrete premises and norms for practical decisions. At the core of any ethos, according to Lonergan writing in *Method in Theology* (1972), is a normative scale of values: *vital* values condition and are subordinate to *social* values such as a prosperous economy; social values condition and are subordinate to *cultural* values that give meaning and value to a society's way of life; these cultural values condition and serve *personal* values --the freedom and dignity of each human being; and all these values condition and are oriented and fulfilled by *religious* values relating us directly to divine transcendence.

Hence, a key to grasping the intent of this *Essay* is Lonergan's recognition that political and economic goods of order are distinct yet not separate. If the distinction is not maintained both in theory and in practical policy-making, catastrophic confusion results: 'the materialist trinity' of liberal capitalism, communist socialism, and nationalism or fascism, each of which illustrates what happens when the proper limits of politics and economics are not respected. Politics then becomes less a mediator of practical intelligence than an arbiter of sheer power; at the same time, economics becomes politicized, not in the sense of a practically intelligent subordination to higher political ends, but in the sense of unintelligent, unreasonable, and irresponsible manipulations of the economic good of order that run counter to the intelligibility proper to economic processes.<sup>8</sup>

For Lonergan only a free enterprise system allows the relation of politics and economics adequate to the ends of human freedom as set forth in the quotation because only it is in accord with economic truth. A wrongly conceived material foundation for society ensures further conceptual errors producing distortions of culture as a whole, as the totalitarian socioeconomic systems of the twentieth century have demonstrated.<sup>9</sup> But free enterprise, for Lonergan, did not mean a *laissez faire* capitalism; it meant an economic system running freely, i.e., running without impediment, in accordance with a natural *ordo* intrinsic to the dynamics of production in an exchange economy. "Free from impediment" entailed freedom from artificial measures imposed upon economic processes due to misconceptions of their real character. Lonergan viewed most government actions to control the economy, such as deficit spending, creative taxation, and policies to ensure a favorable balance of trade as misbegotten initiatives of this kind.<sup>10</sup> Likewise, he maintained that bureaucratic plans for the economy within the strictures of ideological programs like socialism, communism, or fascism, by their very nature prevented intelligent decision making directed to the natural rhythm of a free exchange economy; so these also were counter to the human good.<sup>11</sup>

Aiming for a critical assessment, I explore how Lonergan conceives the generation of pure surplus income in service of human freedom on the basis of two volumes of his economic writings in his collected works: Vol. 21, For a New Political Economy and Vol. 15, Macrodynamics: An Essay in Circulation Analysis, together with sufficient secondary literature interpreting them. I investigate his conception of "the social dividend" from a global standpoint, comparing it to similar notions arising in connection with Louis Kelso's writings to which I was drawn during the Fourth International Symposium on Catholic Social Thought and Management Education held in July 2000 in Puebla, Mexico.

I will briefly comment upon the compatibility of Lonergan's and Kelso's economic theories with the aims and goals of promoting the human good. And, in the process of carving out space for a vocation of the business enterprise, I will comment upon the organizational considerations that would facilitate such a vocation. I leave to business experts and practitioners the further imaginative task of conceiving particular ways of rendering pure surplus income effective as a social dividend. For the reader's convenience I have arranged my discussion under the following four headings: (A) Gaps Between the Rich and the Poor in Modern Exchange Economies of the Capitalist Variety: Lonergan's Economics as Educator; (B) Impact of the Wealth and Opportunity Gap on Human Freedom and the Development of Human Culture; (C) Bridging the Gap Before the Eschaton: A Reflection on Minimum Conditions in Light of Lonergan's Macroeconomic Dynamics; and (D) Louis Kelso and the Deepening of Insight Concerning the Minimum Conditions for Freedom and Culture in the Modern Capitalist Exchange Economy. For Lonergan's views, I will rely primarily upon the 1983 version of his *Essay in Circulation Analysis*.<sup>12</sup> The potential of Lonerganian and Kelsonian Economics to usher in a better human future will, I hope, prove sufficiently intriguing to serious students of business, finance, international trade relations, and international peace to warrant further study and inspire experiments in practical application.

*(A) Gaps Between the Rich and the Poor in Modern Exchange Economies of the Capitalist Variety: Lonergan's Economics as Educator*

Lonergan's somewhat unusual economics sheds light on the manner in which gaps between the poor and the rich occur as a consequence of the way capitalism works in modern capitalist exchange economies. His interest in this problem is apparent from his repeated observations about a consistent gap between advances in technology and rises in the general standard of living, his analysis of the reasons for that gap in his circulation analysis, and his concern with bridging the gap by promoting an understanding of the natural rhythm of exchange economy it violates. He observes, for example:

. . . It has been thought very odd that, while England began its economic takeoff (Rostow) around 1790, wages in England did not begin to rise until 1870. . . .<sup>13</sup>

.....  
.....

Now to change one's standard of living in any notable fashion is to live in a different fashion. It presupposes a grasp of new ideas. If the ideas are to be above the level of currently successful advertising, serious education must be undertaken. Finally, coming to grasp what serious education really is and, nonetheless, coming to accept that challenge constitutes the greatest challenge to the modern economy.

We have had the great surplus expansion of the industrial and scientific revolutions. But we have yet to master the basic expansion [the one that increases the general standard of living.] First it was dodged by the worldwide pursuit of a favorable balance of foreign trade. When political economy overcame mercantilism, it clung to the practical wisdom that guided the surplus expansion and to the scientific ideal of the necessary laws of nature to be deduced from assured principles. Eventually through strikes, labor legislation, and the application of scientific ingenuity to practical inventions, the tables have been turned. In a number of countries today there is massive production of consumer goods and services. But even in them there is much poverty and backwardness. And in the rest of the world the old methods of cooperation and survival are being, or have already been, lost without the new methods effectively taking hold.<sup>14</sup> [Material in brackets added for clarity.]

The gap-generating mechanism is directly linked to practices instituted by governments and capitalists due to entrenched biases and misunderstandings of the natural rhythm of an exchange economy. So comprehending the natural rhythm is essential to the discussion.

By "exchange economy" Lonergan meant the answer, concretely worked out, to the question "Who, among millions of persons is to perform which, among millions of tasks, in return for what, among millions of possible rewards." <sup>15</sup> In such an economy, there is a distinction between what people do for themselves or for others on a *pro bono basis* and what they do for remuneration. Economic questions concern only exchanges for remuneration. An exchange economy requires a proportionate return for a variety of goods and services produced for others and directs them to markets variously on the local, national, and international levels. It allows the market to arbitrate rewards and regulate contributions through the vehicle of supply and demand. <sup>16</sup> Lonergan is primarily interested in a developed economy with its own financial institutions that generates both consumer and capital goods. <sup>17</sup> Lonergan does a functional analysis that he calls "Circulation Analysis" of the aggregate flows of money associated with the productive process on an economy-wide basis. He defines the "productive process, as follows:

. . . [T]he productive process of the exchange economy is a process of production for sale. Already it was remarked that the productive process included sales management as well as production management. The remark has now to be complete. The productive process includes not only sales management but the sales themselves. What is produced and not sold either does not appertain to the exchange economy at all or else it is an unfinished product. Inversely, in any section or stage of the productive process, goods and services are completed only if they are sold and only when they are sold. For in the exchange economy production is not a matter of art, of doing or making things for the excellence of the doing or the making; it is a matter of economics, of doing and making things that other people want and want badly enough to pay for. <sup>18</sup>

Lonergan conceives two fundamental aggregate flows of money within the parameters of the productive process in an exchange, one pertaining to a basic circuit pertaining to the dynamic flow of basic consumer goods in the economy and a surplus circuit associated with the dynamic flow of capital goods and services in the economy, as well as a redistributive relation between them. <sup>19</sup> Further, there are two major classes of payments, operative payments and redistributive payments. Operative payments are associated with operative exchanges, i.e., exchanges that properly belong to the productive process, such as those involving the transfer of some element completing a section or stage of the productive process. <sup>20</sup> Redistributive payments pertain to nonoperative exchanges. Nonoperative exchanges transfer ownership with respect to elements that are not part of the current productive process. They may involve, for example, the sale of used goods or the land occupied by a business enterprise or needed as a condition precedent for its operation. <sup>21</sup> Operative exchanges are Lonergan's key concern. He is also interested in redistributive exchanges between the two circuits inasmuch as they are necessary factors in long-term expansions of the economy.

The relation between the basic and surplus monetary flows is, according to Lonergan, the key to the health of the economy. It is governed by two cardinal rules: *Neither circuit can permanently drain the other of funds without eventual serious detriment to the economy.* <sup>22</sup> Further, *the flow of money in the circuits must follow the dynamic rhythm of the productive process itself.* <sup>23</sup> William Matthews articulates the latter rule in particularly clear terms:

. . . The financial rule governing intelligent economic expansion in an exchange economy is that the movement of money from the redistributive zone [banks, etc.] to the basic consumer and surplus producer circuits must be adapted to the dynamic and cyclical rhythm of the production process. If the production process is such that it grows all the time by a small percentage, then financing it is simple. If at certain points it takes off and grows, wave-like, from one level

to another, financing it is complex. There are two phases in financing a pure cycle of economic development. In the first phase, extra funds have to flow into the surplus or producer circuit, but not into the basic consumer circuit. Savings, investment, and profits have to increase. When the acceleration of the surplus stage of the expansion has peaked and is decreasing, savings, investment and profits have to decrease with it. Money, in quantity, has now to be made available and redistributed to the basic circuit so that the fruits of the capital investment can be reaped worldwide. The autonomy of money circulation in each of the circuits, and of variations in such circulation in relation to phases in the production process, has to be respected. Accordingly, there arises the possibility of a financial ideal and of deviations from that ideal. . .

. . . The ideal is the perfect adaptation of the quantity and circulation of money to the production process. Deviations will be failures in finance to adapt. According to Lonergan, one of the root causes of the [great] depression was the failure of financial procedures to adapt to the inherent dynamic of the production process. . . .<sup>24</sup> [Material in brackets added for clarity.]

Lonergan insists that one circuit will always operate at the expense of the other unless their natural rhythm *vis-à-vis* each other in their mutual relation to the process of production is respected with the unpleasant result of depressions, recessions, and slumps.<sup>25</sup> Expectations in line with his model indicate that in a static state of the economy, there should be no crossover in the money between the circuits. In an expanding economy, i.e., one tending eventually toward a long-term general improvement in the standard of living, there is a crossover in favor of the surplus circuit, and in an economy reaching a new equilibrium after a long-term expansion, the crossover in favor of the surplus circuit is eliminated in favor of a reverse flow that brings the crossover, once more, to zero.<sup>26</sup>

A crossover in favor of the *surplus* circuit is required in the case of a long-term economic expansion inasmuch as such expansions are largely linked to capital improvements implementing new technologies with long range implications for the common quality of life in a community. Since Lonergan is primarily interested in expansions of the latter variety, though he speaks, as well, of short term accelerations, I will limit my discussion mainly to the long-term phenomenon, too. However, it may be useful to observe the difference between them. Lonergan explains it as follows:

. . . A short-term acceleration is an increase in rates of production due to a fuller use of existing capital equipment, to a greater efficiency of labor and management, to a decrease in stocks of goods. A long-term acceleration is an increase in rates of production due to the introduction of more capital equipment and/or more efficient capital equipment. The latter is termed a long-term acceleration because it changes the basis on which the short-term acceleration works: the short-term acceleration makes the best of existing equipment; the long-term improves and increases the equipment which a corresponding short-term acceleration will use in the fullest and most efficient manner. . . .<sup>27</sup>

A rather substantial crossover between the circuits is necessary in a long-term expansion because an economic takeoff is impossible if the money in the circuits remains constant. As Matthew Williams observes in his consideration of Lonergan's economic theory, a long-term expansion requires at least an increase in the frequency with which money travels through the circuits. A faster cash flow, in other words, is minimally necessary:

. . . Consider a community about to embark on a major expansion. Suppose the quantity of money circulating in the consumer and producer circuits is kept constant. . . . Under those circumstances is expansion possible? Because production is for exchange, the only way in which it could be expanded would be by increasing the frequency of circulation of money in the circuits, thus generating a higher turnover frequency. On the present presuppositions, which clearly put before us the way money is constrained to flow, there are no other possibilities. Analysis reveals that economic take-off is impossible if the quantity of money in the circuits remains constant . . .

Paul Hoyt-O'Connor observes the need for an increase in the magnitude of the money in the circuits, as well:

In his text, Lonergan took considerable pains to argue that long-term accelerations of the productive process in an exchange economy, for all practical purposes, stand in need of increments per interval in the supply of available money. While it may be theoretically possible for monetary accelerations to consist in higher frequencies of payments merely, it remains highly unlikely. Monetary accelerations are more probable if the magnitudes of payments increase as well. If flows of good and services are also to increase, enterprises need additional money to augment their outlays to their employees, their suppliers, and to the producers of new surplus equipment and services. Hence, on Lonergan's account, increments in the supply of money normally make their 'normal entry' into the circuits through flows of payments from the redistributive function [e.g., banks and other financial institutions] to the supply functions.<sup>28</sup>

The increased flow of money matches the need to gear up production of new capital equipment on the surplus level for eventual use by producers of basic goods.

Since Lonergan's theory presents an alternative heuristic model of economics that does not reflect familiar categories of business accounting, the significance of conceiving the two aggregate monetary flows as real phenomena *in se*, the rule for keeping them in balance, and the references to "crossovers" between the two circuits, as well as the need for money in connection with a "long-term expansion" may be quite difficult to discern. Continued description of how the flows of money are supposed to relate and what happens when they do not do so properly will undoubtedly aid the reader's comprehension. They will also heighten his intuition that implementing Lonergan's economic theory within any concrete context would require major changes in present accounting categories, practices, and procedures for the purpose of aiding the quantitative measurements pertinent to it. To this end, let us return to the observation that the flow of money has to follow the natural rhythm of the productive process and attempt to articulate the key features of that rhythm.

Lonergan sets the stage for his description of a "pure cycle of the productive process," i.e., the rhythm mentioned above, with some advance observations concerning the character of a long-term acceleration. He notes that a long-term acceleration, i.e., "expansion" results from long-term planning. It is something massive, involving a changeover in the capital equipment of an economy.<sup>29</sup> The reason is that new capital formation makes no sense unless there is a perceived long period of use for it; upon that perception it makes sense to be thorough in the task of implementing its potential.<sup>30</sup> Once one embarks upon the project, one will not do it in bits and pieces. Producing a single producer product with the new capital equipment presupposes a series of changes in the productive process preceding its use, involving other new units of production at the surplus level. Accordingly, the approach to the changeover will be holistic.<sup>31</sup> Clearly, the more encompassing the long-term acceleration, the greater the surplus expansion will be.<sup>32</sup> Once the new capital equipment is in place, the producer products it can make will suggest whole series of basic products for manufacture and services accompanying them.<sup>33</sup> These features of the long-term expansion account for its potential to fuel an acceleration of the standard of living in an economy as a whole.<sup>34</sup> Lonergan explains that in the first stage of a long-term acceleration, an increasing quantity of materials is consumed and an increasing quantity of labor required at the surplus level with no increase in the standard of living.<sup>35</sup> Then, once the period of new capital formation is complete, the capital can be used to create new kinds of producer goods having great implications for improvements in the basic standard of living. So a long-term acceleration occurs in a wave, such that a basic expansion follows a surplus expansion at an interval.<sup>36</sup> He explains that a long-term acceleration is always dependent upon the natural

resources and population in an economy, as well as on the level of cultural, political, and technical development within the economy preceding the acceleration. Ideally, it exploits existing potentials to give rise to higher order potentialities for further cultural, political, and technical developments.<sup>37</sup>

Describing "the wave of a long-term acceleration in greater detail, Lonergan posits that any long-term acceleration begins with a short-term acceleration."<sup>38</sup> Acceleration, in other words, does not happen all at once. First there is a more efficient use of capital equipment already in place for manufacturing producer goods apparently concomitant to the efforts to changeover to new equipment and perhaps anticipatory of delays that would otherwise result in the transition period. Lonergan does not really elucidate the latter step<sup>39</sup> So one is left to speculate. I have found that the stated assumption helps in the interpretation of Lonergan's text. So I offer it as a working hypothesis.

In any case, once the new capital equipment begins to be produced, a long-term acceleration really takes off on the surplus level ostensibly because of the demand or anticipated demand among basic producers for the more readily available stream of producer goods made possible by the new capital equipment (at cheaper and cheaper prices as the surplus expansion proceeds).<sup>40</sup> According to Lonergan, the rates of production on the surplus level increase during this period in an ever more extreme geometric progression, which appears on a graph as an ever more extreme concave curve upward.<sup>41</sup>

The activities in the surplus stage of production are not without effect on the basic stage of production. Lonergan specifies that as soon as there is some significant expansion in the surplus arena, the basic stage of production begins a short-term acceleration.<sup>42</sup> One might imagine this to be due to the purchases on the basic level of cheaper more readily available producer goods made possible either by the more efficient use of existing capital corresponding to the short-term acceleration on the surplus level or by the incipient increased rate of production of producer goods made possible by the new capital equipment on the surplus level prior to the time that such equipment is universally in use. The short-term acceleration on the basic stage probably most often corresponds to the short-term acceleration on the surplus level. There is necessarily a lag between the short-term acceleration of the basic stage and the long-term acceleration corresponding to the availability of the new capital equipment, on a widespread basis, on the surplus level.<sup>43</sup> The lag time is precisely that period required for production at the surplus stage to reach levels allowing the new capital equipment completely to replace old capital equipment on the surplus level, so that increased levels of production of producer goods can be generalized.<sup>44</sup> No similar lag between short-term and long-term acceleration occurs at the surplus stage of production because that level of production is not dependent upon activity of some higher level stage.<sup>45</sup>

The rate of production corresponding to the short-term expansion on the basic level will reach a peak, according to Lonergan, reflecting that some activity has begun on the surplus level (the short-term expansion in which there is a more efficient use of existing capital) and reflecting it in a proportionate way.<sup>46</sup> The expansion on the basic level means that the rate of production of consumer items by basic producers using the more readily available producer goods will increase, making consumer items more readily available at a cheaper rate. The rate of activity during this early period will, however, drop off, since the rates of production of producer goods made possible by a more efficient use of capital equipment are not permanent.<sup>47</sup> In other words,

producers on the surplus level will stockpile only so much producer product with the intent to accommodate demand at the old rates for the period of time it takes completely to replace the old capital equipment with the new capital equipment. As the old capital equipment on the surplus level is more and more completely replaced, long-term expansion on the basic level occurs in a geometric progression reflecting the geometric progression of the long-term expansion on the surplus level.<sup>48</sup> Once the long-term expansion on the surplus level is complete with the replacement of all old capital equipment, the surplus expansion is over and the basic expansion is left to meet its term in a higher level of production.<sup>49</sup> Lonergan maintains that the ultimate situation is a static phase in which the level of production of producer goods and the level of production of consumer goods are both on new high but constant levels. Further developments leading to new long-term expansions wait only for new ideas, methods, and organization.<sup>50</sup>

The pure cycle of the productive process is, then, a fourfold wave-like movement the moments of which are, in order, (a) short-term surplus expansion; (b) short-term basic expansion; (c) long-term surplus expansion; (d) long-term basic expansion. Lonergan expresses the same content in slightly different terms in his summary of the pure cycle:

So much for the outline of an expansive pure cycle. It assumes a long-term acceleration of the productive process and asks how such an acceleration develops. It answers by positing three periods. Generalizing short-term acceleration in both surplus and basic stages gives an initial proportionate expansion. The development of long-term acceleration in the surplus stage and its lags in the basic stage gives a surplus expansion. The emergence and generalization of a long-term acceleration in the basic stage, together with the impossibility of maintaining the increasing rate of acceleration in the surplus stage, gives a basic expansion. . . . Without urging the necessity of such a cycle, one may say that it is solidly grounded in a dynamic structure of the productive process; and one has only to think of the practical impossibility of calculating the acceleration ratios [ ] to smile at the suggestion that one should attempt to 'smooth out the *pure* cycle.'<sup>51</sup>

Lonergan maintains that the pure cycle of the productive process described above allows no room for slumps or "negative accelerations." It is an entirely progressive movement but proceeds in waves or cycles, since at some times the surplus stage of production accelerates more quickly than the basic stage and *vice versa*. Lonergan implies that if this rhythm were respected, there would be no depressions or recessions.<sup>52</sup>

Having clearly delineated the basic rhythm of the productive process, one can reasonably approach the question why the flow of money in an economy should follow the rhythm of production. As Lonergan observes, the productive process itself gives rise to the need for a certain kind of monetary flow:

. . . [A] surplus expansion calls for saving, and a massive surplus expansion calls for massive saving. In contrast, the basic expansion calls for ever-increasing consumption. So the practical wisdom cherished in the surplus expansion has to give way to a quite different type of practical wisdom in the basic expansion.

The difference is not merely an internal difference, a change of mentality and attitude. For the simplest way to obtain great savings, and so promote a surplus expansion is to increase the income of the rich, who can hardly spend more on their standard of living. Again, the simplest way to promote consumption is to increase the income of the poor, and thereby make it possible for them to improve their standard of living.<sup>53</sup>

Accordingly, the pure cycle cannot occur unless the commensurate flow is in place. It will instead be destroyed by monetary circulation problems:

. . . The acceleration of the productive process, if it is to succeed and not be destroyed by maladjustments to change of phase, postulates that in a proportionate expansion [**equilibrium state**] the rate of saving be constant, that in a surplus



income brackets, while those to whom they sell are, by and large, not in the same category. Accordingly, to operate in synchrony with the rates of saving needed to support the pure cycle of production, prices should rise in the basic final market during a surplus expansion, so that the rich may invest, and progressively decline as that expansion tapers off, so that the poor may spend and enhance their standard of living. Lonergan explains how strategically placed price increases automatically adjust the rate of savings to the needs of the productive process as follows:

When, then, prices rise, there is no tendency, at least in the first instance, for quantities to contract. It follows that rates of payment expand proportionately to the rise of prices to give a very large increase to total outlay and income. Again, in the first instance at least, this large increase of income consists in speculative profits of the entrepreneurial class, and as one may suppose this class to be already in the higher income brackets, it follows that the increment of total income resulting from rising prices is an increment in the higher income brackets and so mainly an increment in surplus income. Thus the mechanism of rising prices involves a shift in the distribution of monetary income in favor of the higher income brackets and so in favor of surplus income. This shift in distribution, of course, is achieved though increasing the money in circulation and not by decreasing the monetary income of other brackets. Nonetheless, the equivalent of that effect is had by the reduction of the purchasing power of monetary income. Now the greater the rise in prices, the greater the increase in monetary income, the greater the increase in surplus income, and the greater the reduction of the purchasing power of monetary income. Hence a sufficient rise in prices will always succeed in adjusting the rate of saving to the requirements of the productive phase. No doubt, as prices rise, the income groups increase their respective fractions  $w_i$  by some positive increment  $dw_i$ , and no doubt this involves a positive increment in basic monetary income. But also there is no doubt that as prices rise, the capacity of successive lower income groups to effect positive increments  $dw_i$  becomes more and more negligible; the fraction  $w_i$  cannot be greater than unity. Hence, as prices rise real saving is forced upon each lower group; on the other hand, as prices rise, the consequent increment in speculative profits and so of surplus income is far greater than any greater spending effected by the small numbers in higher brackets.<sup>60</sup>

Similarly, falling prices automatically decrease the rate of savings to free up funds to fuel a basic expansion:

Prices fall. This fall has the double effect of increasing the purchasing power of income and bringing about an egalitarian shift in the distribution of monetary income. The increase in purchasing power is obvious. . . . The fall of prices, unless quantities increase proportionately and with equal rapidity, brings about a great reduction in total rates of payment. Receipts fall, outlay falls, income falls. The incidence of the fall of income is, in the first instance, upon the entrepreneurial class, and so in the main it is a reduction of surplus income. Thus we have the same scissors action as before: purchasing power of income increases, and the proportion of basic to surplus income increases, the rate of saving is adjusted to the rates of production as soon as the selling-price level falls sufficiently.<sup>61</sup>

Money does not, however, generally flow perfectly in accordance with the pure rhythm of the productive process but almost invariably flows in a manner that prevents the pure cycle from manifesting because of misunderstandings regarding the need to adjust the rate of savings to the phases of the productive process. These misunderstandings, while not without their detriment to the surplus expansion, work to disrupt, particularly the anti-egalitarian shift needed for the basic expansion. It is to our advantage, nonetheless, to observe how both expansions may be short-circuited.

Lonergan observes that the adjustment *via* the pricing mechanism of the rate of savings needed for a surplus expansion does not work unless the amount of money in circulation expands as quickly as prices rise and also as quickly as the productive expansion of quantities requires.<sup>62</sup> Otherwise, one simply succeeds in adjusting the productive process to the rate of savings instead of adjusting the rate of savings to the productive process; and this development artificially cramps the surplus expansion. Furthermore, unless the pricing adjustment is sufficiently steep to effect the desired redistribution of income to the surplus income for the higher income brackets,

there will be no increased rate of savings. Instead, the monetary income of lower income groups will increase just as rapidly as the purchasing power of money contracts (e.g., through pressure by labor unions). In other words, there will be systemic inflation instead of an anti-egalitarian shift of income to the rich. The incomes of the lower income brackets will continue to be excessive and prices will keep spiraling upward. With the upward spiral of inflation, banks become nervous about lending money and credit contracts. The surplus expansion is, in this case, short-circuited or weakened and so, therefore, is the basic expansion consequent upon it. Lonergan sees organized labor as the biggest problem in connection with short-circuiting the surplus expansion:

. . . [T]he trouble is that, in every second instance, organized labor can point to the rising prices as palpable proof of the rising cost of living and further can point to increased profits as proof of industry's capacity to pay higher monetary wage rates. Every delay in granting wage increases is of general advantage. On the other hand, every grant of such increases may indeed shift the burden of forced saving from industrial to other lower-income groups, but certainly causes prices to spiral upwards and so hastens the curtailment of credit.<sup>63</sup>

Adjustment *via* the pricing mechanism to free the money needed for a basic expansion can also be miserably thwarted. Lonergan explains that falling prices are interpreted as signs that expansion in the basic sector has gone too far, rather than as a sign that it has just begun. Instead of allowing the falling prices to find their natural bottom, steps are taken to contract the basic sector. So output is reduced in the attempt to increase demand and with it price; and the income of the lower brackets is further reduced. Prices fall even farther and the steps to contract are repeated. This process continues until prices quit falling; but when they stop falling they are higher than they would have been had they been left to find their own natural bottom. The difference between what they would have been and what they are is ostensibly one measure of the extent to which the basic expansion is curtailed by such artificial initiatives. The total effect is that the adjustment of the rate of savings needed for a basic expansion that allows those in lower income brackets to avail themselves comfortably of more goods and services for a higher overall standard of living does not occur.<sup>64</sup>

The above difficulties resulting in the short-circuiting of the surplus or basic expansion, as the case may be, proceed, in Lonergan's view, from an inability to distinguish between relative and absolute price fluctuations.<sup>65</sup> He explains:

. . . As prices are in themselves relative, insofar as they express demand, so also they must be interpreted relatively with regard to expansion and contraction. When the prices both of  $i$  and of  $j$  are falling, and  $i$  more than  $j$ , it may still be true that the production of both should be increasing, though with the production of  $j$  increasing more than the production of  $i$ . For the fall of prices may be general and absolute; as such it will result not from a change in demand but from a failure in income distribution to adjust the rate of saving to the phase of the productive process; to allow such a general maladjustment to convert a basic expansion into a slump is to cut short the expansive cycle of the productive process because one has confused real and relative prices with monetary and absolute prices. Inversely, the rising prices of the surplus expansion are not real and relative but only monetary and absolute rising prices; to allow them to stimulate production is to convert the surplus expansion into a boom. This, I believe, is the fundamental lack of adaptation to the productive cycle that our economies have to overcome. The problem, however, has many ramifications of which the most important is the relativity of the significance of profits. . . .<sup>66</sup>

Lonergan dismisses traditional reliance on shifting interest rates as the answer to the dilemmas he notes regarding adjusting the rate of savings to the phases of productive process.<sup>67</sup> In traditional theory, it was thought that increasing the rate of interest, understood as the price of money, provided sufficient incentive for people to save and, likewise, decreasing them was a disincentive. Lonergan points out that this simple theory is inadequate to the magnitude of the

problem of adjusting the rate of savings to the phases of the productive process. He notes, for example, that the surplus expansion requires not only an increased rate of savings but a continuously increasing rate of savings. Incentives to such savings could only be accomplished *via* interest rates if there were a corresponding rate of increase of interest rates.<sup>68</sup> To effect the needed savings *via* interest rates, he says, would require "enormous interest rates backed by all propaganda techniques at our disposal."<sup>69</sup> In his view reducing purchasing power by raising prices is a much more effective, rapid, and efficient means of attaining the desired end.<sup>70</sup> Further, shifts in rates of interest are ineffective to achieve redistribution of income. A reduction of income in the basic sector is not identical to an increase in the money supply because it is merely one component therein. So an operation on the money supply is too blunt an instrument to work effectively as a tool for adjusting the rate of savings to the productive process.<sup>71</sup>

The misunderstandings described above that prevent the flow of money from following the productive process and result in short-circuitings of the surplus or basic expansions, along with their consequent slumps, recessions, and depressions are traceable, according to Lonergan, to one root misconception: capitalists fail to distinguish between the constant normal profit allowing the maintenance of a certain standard of living, as well as the replacement and maintenance of capital equipment, and the pure surplus income meant for reinvestment that constitutes a social dividend.<sup>72</sup> The effects of this ignorance are worth quoting in Lonergan's own words, though the material is lengthy:

The basic mistaken expectation rests on a failure to distinguish between normal profit, which can be constant, and a social dividend which varies. It mounts in the major surplus expansion; it declines as that expansion tapers off; it vanishes when the expansion has finished.

By constant normal profit I mean the excess of bills receivable over bills payable during the surplus expansion is not in its entirety a contribution to personal income. The part that would be profit in the stationary state still is profit. But the excess over that part is a social dividend. It is not money to be spent. It is not money to be saved. It is money to be invested either directly or, through the redistributive area, indirectly. For it is the equivalent of the money that, if not invested, contracts surplus production, [and] that if invested keeps surplus production at its attained volume; [moreover] if a further appropriate sum is added interval by interval, surplus production will not merely level off but keep accelerating.

The fact, of course, is that no difficulty is experienced in financing the surplus expansion. It is the first step towards increasing the standard of living of the whole society, and there seems to be little evidence that entrepreneurs, financiers, engineers, workers commonly are hesitant about taking that step.

The difficulty emerges in the second step, the basic expansion. In equity it should be directed to raising the standard of living of the whole society. It does not. And the reason why it does not is not the reason on which simple-minded moralists insist. They blame greed. But the prime cause is ignorance. The dynamics of surplus and basic production, surplus and basic expansions, surplus and basic incomes are not understood, not formulated, not taught. When people do not understand what is happening and why, they cannot be expected to act intelligently. When intelligence is blank, the first law of nature takes over: self-preservation. It is not primarily greed but frantic efforts at self-preservation that turn the recession into a depression, and the depression into a crash.<sup>73</sup>

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At the root of the depression lies a misinterpretation of the significance of pure surplus income. In fact, it is the monetary equivalent of the new fixed investment of an expansion: just as the production of new fixed investment is over-and-above all current consumption and replacement income; just as the products of new fixed investment emerge in cyclic fashion, so also does pure surplus income emerge in cyclic fashion. It is mounting from zero at a moderate pace in the proportionate expansion, it is mounting at an enormous pace in the surplus expansion; but in the basic expansion first average, and then aggregate pure surplus income begins to decline, and eventually they have reverted to zero. Now it is true that our culture cannot be accused of mistaken ideas on pure surplus income as it has been defined in this essay; for on that precise topic it has no ideas whatever. . . . pure surplus income, as distributed, is the

remainder of income that is not spent at the basic final market either directly by its recipient or equivalently through the action of others spending more than they earn. Thus pure surplus income may be identified best of all by calling it net aggregate savings and viewing them as functionally related to the rate of new fixed investment.<sup>74</sup>

The consequence is that net aggregate savings vary with new fixed investment, and the complaint is that there exist, in the mentality of our culture, no ideas, and in the procedures of our economies, no mechanism, directed to smoothly and equitably bringing about the reversal of net aggregate savings to zero as the basic expansion proceeds. Just as there is an anti-egalitarian shift to the surplus expansion, so also there is an egalitarian shift in the distribution of income in the basic expansion. But while we can effect the anti-egalitarian shift with some measure of success, in fact, the egalitarian shift is achieved only through the contractions, the liquidations, the blind stresses and strains of a prolonged depression. Once  $f$  [the ratio of pure surplus income to total income] has passed its maximum, the average ratio of pure surplus to the outlay of an entrepreneurial unit, [ ] has to decrease. Once  $v$  [fraction of surplus income [ ] has passed its maximum, the aggregate of pure surplus [ ], has to decrease. There is operative a general 'squeeze.' There is no mechanism for providing adaptation to this squeeze. There follows chaos. [Material in brackets and omissions in brackets introduced for clarity.]<sup>75</sup>

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... The same reasons that enabled some unit of enterprise to recapture more than an average share of pure surplus income during the surplus expansion now will enable them to resist a proportionately more than average reduction of their share of pure surplus. Thus the squeeze is operative most of all upon firms that have a less than average share of pure surplus. As it proceeds, it will eliminate not merely any pure surplus they receive but as well their replacement income and part of their basic income. Such relative invulnerability brings the circuits to a distorted quasi equilibrium in which an artificial rate of pure surplus income is sustained by a rate of losses. Individuals continue to receive more income than they spend at the basic or at the surplus final markets. There is no compensating rate of new fixed investment to offset this drain. . . .<sup>76</sup>

Evidently, the systematic requirement of a rate of losses will result in a series of contractions and liquidations. Any particular firm may succeed in strengthening its position. But that only transfers the squeeze elsewhere. Any number of firms may go bankrupt and be liquidated. But until the position of the strong is undermined by the general and prolonged contracting, the requirement for the rate of losses continues, and with it the depression.<sup>77</sup>

One may glean from the material quoted above that the failure to reinvest the social dividend is the chief reason for slumps and depressions. Lonergan even suggests that if capitalists made the distinction between constant normal profit and the pure surplus income constituting the "social dividend," they would be prepared when the surplus expansion began to wane. Further, not having made themselves dependent on the surplus or otherwise having appropriated it to their own use but having invested it, they could ride out any contraction in the surplus arena with relative ease. They could, in fact, sustain surplus production at the new high level predicted by the pure cycle, as well as have additional resources to fuel yet a new pure cycle with the beginning of a new surplus expansion, when new ideas conducive to such development appeared on the scene. Without supplying his reader with a theory of investment sufficient to produce the latter happy result, however, Lonergan merely observes that the failure of modern economists, business people, and government officials to appreciate the role of pure surplus income in an economy has resulted in the lamentable circumstance that modern economies have not developed vehicles allowing for a smooth transition between the tapering off of the surplus expansion and the beginning of the basic expansion.

Lonergan explains elsewhere in his text that ignorance about the distinction between constant normal profit and the pure surplus income constituting the social dividend, as well as the desire to avoid the slumps and recessions that accompany a surplus expansion when the dividend is not suitably reinvested, has generated a series of artificial measures designed to keep the surplus expansion going. These actually can put off a basic expansion almost indefinitely in today's

increasingly global economy, creating a semi-permanent gap between rich capitalists and the poor noncapitalists, and causing long-term deteriorating effects for the economy as a whole: namely, the very recessions and slumps that the measures were instituted in the first place to avoid. Such negative effects can be mitigated by allowing the productive process to migrate to foreign markets, by implementing deficit government spending, and by redistributing income through the income tax.<sup>78</sup> But Lonergan maintains that measures of the latter kind only succeed both in putting off the day of reckoning and forcing others outside the original economic community to pay the price. Even the latter effect is temporary, however, as the problem eventually returns full circle to its original home with the emergence of the "rentier" economy.<sup>79</sup>

A concrete example assuming Lonergan's framework may help illustrate these cascades of related problems. I will begin with the "favorable balance of trade" problem. I will illustrate it, using a simple example involving the surplus circuit to help elucidate the idea of a surplus expansion; but be aware that an example confined to the level of the basic circuit would have been equally appropriate. The favorable balance of trade problem can occur with respect both to surplus and basic goods. This circumstance does not emerge clearly from Lonergan's text, though he would, no doubt, have conceded the point. It has no bearing on his general claim that the favorable balance of trade problem emerged as a phenomenon associated with the large scale surplus expansions constituting the industrial and scientific revolutions of the Western world. That sense of surplus expansion is what Lonergan really means by the term. A surplus expansion is a significant, widespread cultural, as well as economic event. My example has its limitations because one would have to consider it generalized across many different industries as a result of a pervasive new shift in the ideas of human culture, if it were adequately to represent Lonergan's notion of the surplus expansion in relation to the favorable balance of trade problem. It is perhaps best to think of it as one of many like events within the larger event comprising the industrial and scientific revolution.

Suppose one is a widget manufacturer (WM) and there is a steady demand for widgets. The maker of the machines (MM) that WM uses to make widgets has discovered a new technology allowing WM to make more effective, fancy widgets at twice the rate that WM made normal widgets before. This development means, *inter alia*, that it will take WM less time to make the widgets the market requires than it did before. The demand for the widgets will go up both because they will be more readily available and because they have special new features. The ready availability will be a factor tending to keep the price down and the special new feature will be a factor justifying a price increase accounting for the difference in quality. Once WM has the new widget machine, he could lay off workers, reducing his costs, adding to his profits, repaying the loan he procured to purchase the new machine, and perhaps enhancing his pure surplus income for new investment. Other widget makers could do the same. These actions would produce a pool of unemployed workers who would have to be retrained to do something else. If all WM's reinvested their pure surplus income, they would put more money into circulation; and this action might indirectly help the persons they laid off by making more money available for credit. Credit is precisely what they might need to allow them to procure the retraining they needed to fit them to new jobs and make ends meet in the meantime. In any case, reinvestment in the domestic economy makes more opportunities available to help compensate for the loss of jobs.<sup>80</sup> This is, perhaps, one scenario Lonergan might prefer to the alternative.

Alternatively, WM could try to corner more of the widget market at the expense of his competitors. There is after all, only so much demand for widgets even of the fancy, new variety.

WM wishes to corner more of the widget market, rather than be content with his accustomed market share because he fears his competitors will do the same. So WM keeps his workers and makes twice as many widgets. In fact, all WM's make twice as many widgets, driving down the price by the volume and driving up the demand because of the availability. To the extent that selling twice as many allows WM still to make the profit he had previously made while not selling twice as many, he is at least breaking even. This he will undoubtedly do, given that the premium for the advanced widget technology is a price component that did not enter into the mix before. WM's profits must, of course, cover his own standard of living, the cost of the new widget making machines, his costs of labor, and his costs of maintenance and repair. His pricing will have to take care of these factors. He hopes, of course, to make a killing by knocking his competitors out of the box.

One might analyze the flows of money in connection with the two scenarios outlined. Money has to go from the redistributive function [RF; e.g., finance institutions] to surplus supply to enable the making of the machines desired by basic producers such as WM. Monies going to surplus supply are not, of course, available for use in the basic circuit. To the extent that monies moving to and from the redistributive function *vis-à-vis* the two circuits do not balance out to zero, there will be a net contraction of one circuit at the expense of the other. For the sake of the hypothetical, assume that all other things are equal and the new widget making machine is the single new phenomenon in the economy.

So all other things being equal, the RF \$'s that go to surplus supply entail that there are fewer RF \$'s available for credit in the basic circuit. I prescind for the sake of this simple illustration from considering the effects of an expansion of the money supply by, e.g., the Federal reserve. The scarcity of RF \$'s means there will be a contraction in the basic circuit as the surplus expansion relating to the new widget making machines begins to be underway. Basic consumers have to be thrifty, since prices are rising to aid the expansion in the surplus circuit. They may have to work longer hours to sustain a certain standard of living.

The RF \$'s going to surplus supply will contribute to the process of generalizing the capital equipment needed to produce the new widget making machines on the surplus level. When the surplus producer sells the new widget making machines, he will do so at a premium sufficient to recover the costs of the changeover, his standard of living, his labor costs, and the cost of replacement and maintenance of the new capital equipment, as well as to award himself for his own ingenuity. He will sell a great many of the widget making machines, at first, as all widget makers replace their old equipment. The premium above the costs specified plus any amount with which the surplus producer has decided to award himself is pure surplus income, i.e., that quantity Lonergan calls the social dividend.

Increased flows of money are not available as credit from RF to the basic circuit until RF gets something back from what it has lent to the surplus producers to fuel the surplus expansion. The return on the loans to surplus supply will become the stream that can flow to surplus demand, once loan payments begin. To finance the purchases of the new equipment under the first scenario, surplus demand (the widget makers) will simply reduce its work force in anticipation of its greater expected productivity, allowing money to flow to surplus supply so that surplus supply can repay the redistributive function. Under the second scenario, the plan may be slightly different; WM may, for example, have to make a more efficient use of capital equipment or hire

cheaper labor to obtain the funds to purchase the machines. Some loans may be available from RF, although credit will be tight, since a great deal of it is going to the surplus level.

In either case, because the demand for the new widget making machines will be very great at first, surplus supply will make a very great deal of money. There is an expansion in the surplus sector. As all widget makers approach complete replacement of all their widget equipment, demand for the new widget machines will ease up and lead toward a rate of purchase more like the old level. But MM has become used to and likes the new level that has produced pure surplus income for him. Rather than investing it he has used it to enhance his standard of living by paying himself an outrageous six figure salary; redecorating his offices and improving the appearance of his plant; purchasing a company jet; buying a few boxes for his clients at Soldiers' Field, Wrigley Field, and Cellular One Stadium; and paying his own workers a little more money, etc. But now he faces the danger that with the shrinking market, his own company may be forced out of business in the face of his competition. All are scrambling to capture the shrinking market. Rather than allow a contraction in the surplus market that might force him to sell his BMW and fancy new home, not to mention his company, MM will attempt to keep the surplus expansion going by making his product available to other markets.

If MM had not completely tied up his pure surplus income in self-interested expenditures, contraction would not be a problem for him. The return on the investments that he would have made with that sum would have seen him through the transition, even if he eventually had to shut his doors. Contraction would, of course, still have been a problem for the workers he would have had to lay off, once demand for the new machines went down. On the other hand, a whole host of opportunities would be available to these workers, given that the expansion in the basic sector was now underway and on the upswing.

MM, however, is not really thinking about anyone but himself; having been educated that the only reason to go into business is to make profit for himself, he wants to continue reaping an exorbitant reward for as long as possible. So he indeed successfully makes the effort to expand to a broader market. He keeps borrowing from RF, keeping credit tight for the basic circuit and thus ensuring a contraction in the basic circuit. He keeps his workers employed, keeps the surplus expansion going, and continues to reap the pure surplus income that Lonergan maintains should be a social dividend. MM keeps using the pure surplus income to enhance his own wealth and status. He wants to be a successful man along the lines of the accustomed Western model. Lonergan describes it thus:

. . . [T]he 'successful man' is a man who, of course, enjoys a very high standard of living, but who measures his success in quite other terms, namely, in the industrial power of ownership which he wields, in the financial power of possession of large blocks of readily negotiable securities, and in the social prestige that may be buttressed by the purchase of the most conspicuous products of human art and ingenuity in the past history of man. For there to be successful men of this type and for them to attain their success through industry and commerce, it must be possible to derive from the circuits a rate of income that can be moved, without conflicting with circuit requirements, from the circuits to the redistributive function where alone industrial stocks, negotiable securities, and the products of the process in the remote past are now on sale.<sup>81</sup>

The continued stream of pure surplus income has the potential to fuel a basic expansion in the domestic economy, as well as to continue to raise MM's standard of living. But to the extent that MM keeps hoarding wealth, a basic expansion cannot occur and the general standard of living for the laboring masses with lower incomes cannot improve. Indeed, to the extent that MM keeps

expanding, there is a corresponding temporary contraction in the basic sector until the stream of income from the foreign market allows MM to repay the redistributive function. The influx of receipts from the foreign markets, will, of course, enable MM to expand his domestic operations. This will create new jobs but not necessarily at a rate of pay sufficiently substantial to increase the general standard of living in the domestic economy. Lonergan maintains that this device generalized across many different industries is, in fact, the way developed nations keep their own economies thriving at the expense of less developed nations. The standard of living does rise in the developed country because of the new jobs created through the artificially prolonged surplus expansion, although not as dramatically or as quickly as it would rise if the domestic surplus expansion had simply been permitted to contract. So there is a basic expansion of sorts controlled by the machinations of people like MM. This kind of phenomenon perhaps accounts for Lonergan's observation about the lag between the time the industrial revolution took off in England in the late 1790's and the time it began to bear fruit in increased wages in the 1870's.

If MM had allowed the domestic surplus market to contract instead of expand, according to Lonergan, the surplus supplier's repayment of RF would make credit available to the basic circuit to fuel an expansion that would increase the general standard of living. Further the surplus made by MM could go both to increase MM's standard of living and to investments in the domestic economy that would supply the means to create new domestic enterprises that would, in turn, employ more people, allowing for a rise in the standard of living. When MM does not let the surplus market contract, he therefore delays the basic expansion, but it is perhaps bigger once it does come. The problem in a global economy is whether it ever comes or is simply staved off at the expense of less developed economies indefinitely. When MM allows the surplus market to contract will be a function of his standard of living, satiation level, as well as his thirst for power.

It is time to say a bit more on the effect of MM's export procedure on the foreign market into which he expands. This gets to the heart of the favorable balance of trade problem. Lonergan notes that the notion driving the quest for a favorable balance of trade is that it is better for a country to export more than it imports. The reason is that money received from the exports enters the domestic economy and comprises a fund of money to service a basic expansion as a substitute for the fund of money that would otherwise have had to derive from the contraction of the surplus circuit in the domestic economy.

Two different sets of consequences result for the markets into which MM expands, depending upon whether the host country is a commercially developed or commercially underdeveloped nation. From this point on in the discussion, consider that the MM phenomenon has been generalized across many different industries with respect to both producer and consumer goods. In that case, one might characterize an entire national economy as an MM economy. Let us consider the case of the underdeveloped economy.

Colonization occurs in the case of the underdeveloped nation.<sup>82</sup> In this case, MM knows what is needed to sell his product in the country and its natives know little or nothing. There need to be widget manufacturers among other things. So he buys land for widget factories that can utilize his equipment and he enters the local economy, selling the land back to putative entrepreneurs who are in no position to afford it in its improved condition. MM finances the sale of the widget factory, as well as the sale of the widget machines. And having embarked on this project of financing, involving the collection of interest, he generates new streams of pure surplus income for himself that were not in the mix before. This new form of surplus expansion is very good for

the home economy MM represents. It generates an increasing flow of income to be invested abroad similarly, returning profits to the home economy through loan repayments and amortizations. The home economy's banking system does a booming business and the home economy becomes a banking capital of the world.<sup>83</sup> Many new jobs in the financial sector and associated professions arise in the domestic economy.

The arrangement is not so good for the underdeveloped host economy. The interest payments it pays MM drain the host economy of financial resources it could be devoting to building new schools, homes, etc. and to developing its own capacities to acquire income producing capital. The host economy eventually becomes a slave economy to MM.<sup>84</sup> Developed countries, on the other hand, have the sophistication to protect themselves against becoming slave economies to MM economies by putting a limitation on the number of imports they will receive and requiring a foreign economy to take a proportionate volume of their exports. Rivalries develop among these nations, however, with the resulting formation of armies and alliances. Diplomacy emerges to maintain a balance of power; but it works, according to Lonergan, only if it favors those with much to lose and little to gain. As soon as those with much to lose can seriously be threatened, those with much to gain will opt for war, rather than diplomacy.<sup>85</sup> War, Lonergan notes, then becomes the source of yet another kind of surplus production and surplus income. Governments sell war bonds, develop unbalanced budgets, and then recoup the costs by taxing the people. In the meantime the wartime business produces wartime profits and wartime jobs that stimulate the domestic economy.<sup>86</sup>

The scenario of colonization represents most accurately the 19th century situation. And MM stands for all of the developed nations of the world *vis-à-vis* the undeveloped ones. Certainly, the same scenario is operative in some aspects today. But today's picture is vastly more complicated. Because this is the era of multinational corporations having no one national base and a very broad base of activities within an all-encompassing holding company structure, any national economy can potentially be made a slave economy to the internal economy of one of these giants. Globalization is the tag name for the latter game. And consumer credit is one of its tools. It serves ever smaller elite groups in the positions to make executive decisions for such corporations; and it has the potential to bind the great masses of humanity more thoroughly than any other game ever devised. Lonergan refers to the phenomenon of the multinational corporation but confines his consideration largely to the scenario of the creditor nation. The same logic of colonization would seem to apply, however.

The colonization game eventually backfires, according to Lonergan, with the potential of "colonizing" the colonizer.<sup>87</sup> Once the colonized economy is so strapped for cash by interest payments that only an elite class of importers have the financial wherewithal to keep up with them both to purchase the imported goods and incorporate them within their standard of living, while the great majority of people can no longer meet their basic needs because there is so little money available to pay them for their labor, then the captive economy must either default on its loans or repay them not in money but in kind, i.e., in goods produced in the native economy. It does not necessarily better itself in this way; its entire production is still enslaved to the economy of the creditor nation. But this paying in kind introduces a negative change for the creditor economy; it converts it from creditor to rentier.<sup>88</sup> Receiving no value back for amounts loaned would cause wholesale collapse of the creditor economy. So, the creditor takes the goods in kind and tries to recoup the monies lent through their sale. A great magnitude of cheap goods invades the former creditor economy to compete with more expensive domestically produced goods. The

latter cannot compete, people are forced out of work, and the general standard of living begins to decline in the former creditor economy.

In the alternative scenario proposed above, in which the creditor economy is a holding company and not a nation, the choice will be between consumer default on the loan or bargaining for a certain amount per dollar owed, a lesser return. The lesser return will allow the creditor to remain in business but his revenues will shrink and he will be less prosperous. The company's stock will lose value and stockholders will become impoverished. The above considerations suggest that the attempt to avoid the contraction of a surplus expansion according to the natural rhythm of the productive process leads eventually to mass poverty instead of prosperity. People never get beyond the level of concern with subsistence needs. Whether such effects actually follow can only be discerned by attempting to assess Lonergan's theory against particular, real, concrete scenarios.

Lonergan notes certain stopgap measures that arise in the economy of the rentier nation to avoid the eventual decline in the standard of living that a rentier economy entails. One of these stopgaps is governmental deficit spending and associated taxation strategies.<sup>89</sup> One of the forms it takes is an extension of the war principle. The war principle, Lonergan notes, can be extended to figurative wars as well as actual wars, e.g., wars on alcohol, cigarettes, pollution, poverty, ignorance, homelessness, etc.<sup>90</sup> When the government elects to conduct such wars it guarantees a larger stream of income for itself, since higher taxes are necessary to conduct the wars, and it becomes one of the biggest employers in the economy. In the rentier economy, the tax will be directed primarily at the rich, as a technique of income redistribution diverting the benefits of the surplus expansion to the basic level.<sup>91</sup> Public welfare is developed to distribute benefits of this taxation to the beneficiaries of the figurative wars; and the welfare state is born.<sup>92</sup> A war on poverty, deemed necessary due to the scarcity of jobs as cheap import goods edge out domestic products, is exactly within the spirit of the phenomenon both because it employs people who otherwise would be poor and because it distributes funds to those who, in fact, are poor. Such deficit spending staves off the inevitable as long as the national debt can be serviced. But increasingly heavy government taxation of personal income and capital income is required to meet that burden. The phenomenon of reverse colonization thus comes home to the rich among the former creditor economy's own population. The only possible condition under which the increased burden of taxation in a rentier economy can indefinitely be sustained to stave off a depression that becomes potentially more catastrophic in size the longer contraction of a surplus expansion is postponed is a continued condition of surplus expansion. Since forms of colonization seem to provide the only scenario under which this is possible, however, the cycle is a vicious one that seems to point, in the end, to cataclysmic depression -- unless, of course, the Western ideal of the successful man is abandoned, pure surplus income is recognized as a social dividend to be invested, and a theory of investment is designed for a smooth transition between the end of a surplus expansion and the beginning of a basic expansion in a given economy.

A theory of investment within the contemplation of Lonergan's model would, I think, have to encourage effective local chartering and control of corporations, restrictions on the capacity of corporations to become multinational, and the investment of local business in local economy. Companies wanting to expand their businesses into foreign markets would have ensure that most of the profits from the enterprise remained in the foreign market, so that the economy could not be made a slave. There would have to be opportunities for local ownership and control under

conditions that allowed for improving the standard of living in the economy as a whole. The theory would run counter, in other words, to trends toward globalization and colonization. It would explicitly recognize that the true stakeholders in a business are those whose lives its activities affect. They, in the end, pay the price of the colonization and rentier scenarios; so they should be able to prevent others from forcing their emergence in the first place. If properly educated concerning how the rentier and colonization schemes arise, they would be equipped to avoid the temptations of the West's "successful man" syndrome and make the choices that lead to a surer and more stable prosperity. It is fair to say that the prospects for the human good in the man's economic future are not good, from Lonergan's standpoint, given the state of human blindness about the true rhythm of the productive process. In my view, the theoretical integrity of the true rhythm remains to be tested.

In closing this section of my paper on Lonergan's economics, it is well to note that Lonergan realized only an extremely enlightened capitalist would ever observe the distinction between constant normal profit and pure surplus income and, then, with an eye to producing a higher standard of living in the economy as a whole, reinvest the surplus in the economy, rather than appropriate the social dividend toward achieving the Western ideal of the successful man. So he did not claim that his pure cycle of the productive process has ever, in fact, existed anywhere, although he would claim it has always been possible since the emergence of the exchange economy. It is what would exist if entrepreneurs, workers, and government officials were cognizant of the true nature of the productive process and not subject to other biases. But such cognizance would require a massive economic reeducation and social awakening. So from the present standpoint, Lonergan's pure cycle of the productive process is a kind of eschatological reality requiring both an intellectual and moral conversion for its actual realization.<sup>93</sup> Its value economically and its claim to legitimacy does not, therefore, lie in its constituting a description of a present state of affairs but, rather, in its providing a criterion against which economies can be measured to the extent that contemporary problems in exchange economies can be successfully accounted for as distortions within its parameters. I have done my best to sketch out how such problems appear within the Lonerganian framework.

It is perhaps the weakest part of Lonergan's economic theory that an intellectual and, perhaps, moral conversion, as well, is required to effect the ideal scenario of the pure cycle. On the other hand, the most persuasive argument in favor of a business ethics attuned to Lonergan's theory would be its diagnostic adequacy. The latter awaits assessment by economic experts. Accepting the validity of the theory and its predictions *arguendo*, however, including the gap between rich and poor ostensibly produced by the colonization coincident upon indefinitely postponing the contraction of a surplus expansion, a gap that one can certainly observe today, let us return to consideration of the reasons such a gap bodes ill for human freedom and human culture.

#### *(B) Impact of the Wealth and Opportunity Gap on Human Freedom and the Development of Human Culture*

The gap between rich and poor that capitalist practice in modern exchange economies tends to produce, from Lonergan's standpoint, and then conceals by a redistribution of income through deficit spending and taxation that staves off poverty at home, while perpetuating it abroad consigns the vast majority of human beings to economic insecurity (even in the United States those who appear comfortable have no savings and live from hand to mouth). It thus concentrates all of their energy and attention on subsistence, rather than directs them to the

higher activities of human culture. Education is increasingly education for subsistence and not education for culture; and, in such a scenario, people develop no idea of the constructive use of leisure time for the human good but understand such "free" time increasingly as time for play, recreation, and frivolous pursuits. Louis Kelso and Patricia Hetter describe the educational dilemma well:

Young people sense that the mission of technology is to deliver man from toil, from poverty, from economic servitude. Those living in advanced industrial countries, particularly the United States, sense that technology is preparing a new soil and climate for mankind; that for the first time in history material conditions hospitable to the development of a rich, humanistic culture are almost at hand. They sense that human clay up to now has been shaped on the wheel of economic necessity, and that this may be why the results are so frankly disappointing. . .

But the elders strange to behold, seem to have received the message of technology backwards. Instead of preparing to open the gates of leisure, they are grimly determined to fortify the bastions of toil. From their elders, the young hear that their first concern must be to train themselves for employment, that full employment is society's highest goal and most sacred moral duty; that the great corporations are social benefactors not because they produce useful goods and services, but because they create toil; that those who own the corporations are human benefactors because their self-expanding investments create toil. The young even hear their elders assuring each other that the very function of technology itself is to "create employment," and that as technology shifts more and more of the burden of production onto machines, people must toil harder than ever to keep the wolf of poverty away from their own and society's door.<sup>94</sup>

.....  
.....  
When young people properly turn to the schools and universities for enlightenment and moral and intellectual protection against a state of affairs their instincts tell them is barbaric, they find themselves being mass-processed through intellectual factories to fit the specifications of the total work state. When they seek the liberal education that would help them to understand the world, that would encourage them to develop into the highly differentiated individuals, capable of leading intelligent, interested, appreciative lives, they find themselves receiving the sterile training of functionaries. Liberal education, the "knowledge of gentlemen," in Cardinal Newman's phrase, while still defended by a majority of educators, is increasingly unable to withstand the totalitarian demands of the world of toil, and its insistence on vocational education designed to "fill society's needs." The attempt of the educational establishment to substitute training for education, and to justify and explain the perversion, can only mystify and disgust young idealists.<sup>95</sup>

The above-described developments concentrating human attention so thoroughly on subsistence that they are inimical to "the knowledge of gentlemen," that knowledge so necessary for the leisure work essential to the human good, are necessarily also inimical to the human freedom proper to a democratic state in the sense of "freedom" discussed at the outset of this paper. A more thorough consideration of the idea of "leisure work," as outlined by Louis Kelso and Mortimer Adler, may elucidate the reasons.

Kelso and Adler carefully distinguish between "leisure," on the one hand, and "play, recreation, idleness, vacationing, relaxation, diversion, and amusement," on the other hand. Leisure work, as opposed to these others, work for which considerable time apart from the needs of subsistence is required, alone constitutes the proper object of the life of a free, rather than servile person according to them.<sup>96</sup> Leisure work is the "expression of moral and intellectual virtue;" it comprises the things a good person does because they are inherently good for himself and his society. They make him a better man by empowering him to make even greater contributions, and they advance the civilization in which he lives. Leisure work consists in the development of all the liberal arts and sciences and in all the institutions of state and religion with an eye to the good of all humanity. It constitutes the work of lawyers, philosophers, clergy, statesmen, scientists, artists, teachers, and physicians. It has to do with the goods of the soul and the human spirit. It is creative in quality and rewarding in its very nature.<sup>97</sup> Civilization, as

opposed to mere subsistence, Kelso and Adler insist, is produced by people with the free time for such pursuits. Because such endeavors require much thought, they require much time. Free societies cannot flourish without such work. It is the proper work of free persons because it most properly fulfills their highest capacities as persons, rather than leaves them on the level of mere survival proper to beasts. Accordingly, human conditions that consign people to the level of mere concern for subsistence deprive them of their proper freedom.<sup>98</sup>

Kelso and Adler lament the modern confusion between leisure and idleness in the conviction that subsistence work is properly ordered to freeing persons for the leisure work that betters humanity, rather than for selfish amusements that hold no such promise.<sup>99</sup> Lonergan had a similar appreciation of leisure work;<sup>100</sup> and all three thinkers were concerned to develop an economics ordered to higher human interests, rather than an economics that subordinates the vast majority of human beings to concern with subsistence and to the agendas and interests of a few. From their perspective, however, the gap between the poor and rich that consigns human beings to subsistence concerns is a gap deriving from a misconception concerning the relationship between the productivity of labor and the productivity of capital. I will address this view at further length in the last segment of this paper.

*(C) Bridging the Gap Before the Eschaton: A Reflection on Minimum Conditions in Light of Lonergan's Macroeconomic Dynamics*

Lonergan's economic theory, while perhaps helping one to diagnose the flaws of capitalism as it is has been practiced within modern memory, does little to help one understand how, even if the pure cycle of the productive process could be realized, the guarantee of a secure high standard of living would ensure the use of human leisure in a constructive sense or, indeed, concentrate human attention any less thoroughgoingly on subsistence. To the extent that one's time was still tied up primarily in labor for subsistence, there would be little time for human leisure, as that concept has been delineated above. Further, education would still be education for subsistence, ensuring that no idea of the constructive use of leisure could emerge. Lonergan's indications that a theory of investment is needed for capitalists to prevent the kind of desperate concern about subsistence that haunts many perhaps moves one a step forward; but it seems designed only to ensure the material betterment of the domestic economy. Perhaps he believed that a stable high standard of living determined by continued technological progress would free human minds from preoccupation with subsistence for the constructive activities of leisure essential to democratic freedom; for he certainly was concerned with the connection among technology, economics, leisure, and freedom. He writes, for example, in his *For a New Political Economy*:

. . . [T]he stagecoach disappeared before the train, the clipper ships gave way to steamers, domestic spinning wheels and looms were concentrated in power-driven factories, money changers yielded place to bill brokers, brokers to banks and financiers. Nor is it impossible that further developments in science should make small units self-sufficient on an ultramodern standard of living to eliminate commerce and industry, to transform agriculture into a superchemistry, to clear away finance and even money, to make economic solidarity a memory, and power over nature the only difference between high civilization and primitive gardening.

But we are not there yet. And for society to progress towards that or any other goal it must fulfil one condition. It cannot be a titanothore, a beast with a three-ton body and a ten-ounce brain. It must not direct its main effort to the ordinary final product of standard of living but to the overhead final product of cultural implements. It must not glory in its widening, in adding industry to industry, and feeding the soul of man with an abundant demand for labor. It must glory in its deepening, in the pure deepening that adds to aggregate leisure, to liberate many entirely and all increasingly to the field of cultural activities. It must not boast of science on the ground that science fills its belly. It must not glue its nose to the single track of this or that department. It must lift its eyes more and ever more to the more

general and more difficult fields of speculation, for it is from them that it has to derive the delicate compound of unity and freedom in which alone progress can be born, struggle, and win through. Unity without freedom is easy: set up a dictator and give him a secret police. Freedom without unity is easy: let every weed glory in the sunshine of stupid adulation. But unity and freedom together, that is the problem. It demands discipline of mind and will; a keenness of apprehension that is not tied down to this or that provincial routine of familiar ideas nor yet has sunk to the jellyfish amorphism of scepticism; a vitality of response to situations that can acknowledge when the old game is done for, that can sacrifice the perquisites of past achievement, that can begin anew without bitterness, that can contribute without anticipating dividends to self-love and self-aggrandizement. The point is evident: a bureaucracy can imitate but it cannot create, for the spirit bloweth where it listeth, and all new ideas are ridiculous until the contrary is demonstrated by individual initiative, adapted by creative imagination, carried through by personal risk. Chaos can create, but it creates anything at all; it thinks of poison gas as well as anesthetics, and it uses both; it devises financial mechanisms that float brilliant booms and suffer incomprehensible slumps; it builds the wealth of cities and their slums; it inveighs against evil but it has to throw all civilization into the pot of experiment before it can discover whether another novelty will merit a blessing or a curse; it debauches the mind with a Babel of contradictions and leaves the will a prey to fantasy and fanaticism.

To conclude: all the functions of the primary and secondary rhythms are integral to the universal process. That consists not merely in widening, in deepening for more widening, and both for more cheap pleasures and amusements. The cultural overhead and the deepening that releases man to leisure and culture are also essential parts --parts too easily overlooked --in the world rhythm of economic transformations. . . .<sup>101</sup>

Nonetheless, it simply is not clear, in Lonergan's work, how technological developments would ever produce the leisure for cultural activities requisite to freedom, in the face of a capitalist system in which most people have access to the benefits of such developments only by means of the work they do for subsistence.

The other difficulty with Lonergan's theory is that the pure cycle of the productive process is virtually an eschatological reality. Intellectual and moral conversion must occur before it can happen; yet that would require an educational system already converted from concern for subsistence to concern for culture. The theory lacks resources for directing those who admire its diagnostic capacities to its practical implementation given the unconverted state of most human beings, not to mention most successful capitalists. It is in this regard that the work of Louis Kelso and Mortimer Adler may be helpful. They work within a philosophical framework different from Lonergan's; but it is one that complements and supplements, rather than undermines. For example, they have no concept similar to Lonergan's concept of the social dividend; but they do have notions about the just practice of capitalism emphasizing that the benefits of capital ownership should be widely available to all men. They recognize, as does Lonergan, that the great income producing capacity of capital should not be restricted to the control of a few.

While Lonergan would require benevolence on the part of capital owners to invest when they ought for the sake of the human good, Kelso and Adler do not wish to rely on the intellectual and moral conversion that would require. They are, instead, great advocates of establishing a right to capital ownership sufficient, with a mix of labor, to take care of subsistence needs for all men. In their own way, then, they do recognize that the capacities of capital belong to all men and not to just a few. Surely, in this, there is a vocation for business: to organize itself in such a way that it effects this more widespread capital ownership in the interests of promoting the highest general standard of living. Kelso and Adler establish a theory of investment to this end, based upon a carefully worked out idea of justice, that really could be effective to free human time for the pursuits of leisure work. They recognize, however, that without a change in the educational system, the constructive use of leisure is unlikely. Education is, therefore, integrally on their horizon, although they lay out no map for revising the educational system.

While the Kelso/Adler perspective contributes a much needed theory of investment for consideration by Lonerganians, Lonergan's framework has something to offer in return. Kelso and Adler are not, of course, in dialogue with Lonergan's concept of the surplus expansion; but the viewpoint from which they write, from Lonergan's perspective, appears to assume that the crest of what he calls the surplus expansion of the industrial and scientific revolutions could be ridden forever. They do not consider the interrelationships among the five phenomena of capitalism, colonization, the rentier economy, deficit spending, and redistributive taxation. So they do not see that capitalism, as it has been practiced within modern memory, could lead to impoverishment in spite of their plan to make capital ownership more widespread. Instead, they see deficit spending and redistributive taxation simply as functions of a mistaken assumption by most economists that productivity issues primarily from human labor. From Lonergan's standpoint, such a view would be short-sighted. Their central insight, a valuable one, has to do with the productivity of capital and its capacity to free human beings from concerns confined to the level of subsistence. That insight, coupled with Lonergan's concerns about practicing capitalism so that it does not issue in the colonization and rentier syndromes, has great potential to lead to positive developments. If, for example, more widespread capital ownership were enabled by legislation or legal instruments along the lines of the Kelso and Adler model (such as Kelso's invention, the ESOP plan), concern for what they owned would encourage people to good husbandry. This concern would lay the groundwork for broad and deep understanding of the ways in which capitalism currently works and has worked in the past and would provide an opening in the educational system for education along such lines. A concern for the best possible outcome for themselves and their posterity would, in the end, steer properly educated people away from the rentier and colonization scenarios.

It is unlikely that education along Lonerganian lines has any real chance absent the reality of a more widespread capital ownership among common men. Accordingly, initiatives along the lines proposed by Kelso and Adler are needed as a first step toward a human good that could accommodate human freedom for leisure work. With the foregoing preface on the relationships relevant, for my purposes, among the works of the thinkers mentioned above I pass to consider the Kelso/Adler scenario in greater detail.

*(D) Louis Kelso and the Deepening of Insight Concerning the Minimum Conditions for Freedom and Culture in the Modern Capitalist Exchange Economy.*

Kelso and Adler begin from a foundational insight that the progressive technological developments inaugurated by the industrial and scientific revolutions have resulted in capital equipment that both generates enormous wealth and has the intrinsic capacity not to increase the productivity of human labor but to eliminate the need for it.<sup>102</sup> The idea that capital increases labor's productivity is, from their standpoint, a myth. Marx was not wrong, in their view, in his critique of the *laissez faire* capitalism of the nineteenth century but in his misconception that capital productivity was but an extension of the productivity of labor.<sup>103</sup> The productivity of capital, they insist, is responsible for the greatest proportion of wealth creation today -- not human labor.<sup>104</sup> Given this circumstance, leaving people to depend for their subsistence on the productivity of their labor, instituting government policies to ensure full employment, redistributing wealth from capital owners to laborers *via* the strong arm of labor unions and creative taxation, and concentrating the proceeds of capital in the hands of a corporate few, not to pay dividends to stockholders but to feed the demand of labor for wages, are phenomena that

distort the true economic picture, unjustly deprive capital owners of the productivity of their capital, and unnecessarily enslave all others, the vast majority, to subsistence work with deleterious effects for human freedom.<sup>105</sup> They believe the productivity of capital to be so great that returns upon it can cover most of the subsistence needs of the vast majority of people, allowing them more freedom for leisure work and less concern with labor for subsistence.<sup>106</sup> So they recommend a plan of universal investment.<sup>107</sup> Surely, Kelso and Adler's claim is not incredible, given that some people living today possess personal wealth greater than the gross national product of certain small countries. In Lonerganian terms their plan amounts, in essence, to making the benefits of the basic expansion properly concomitant to the industrial and scientific revolutions universally available.

Kelso and Adler analyze what they consider to be minimum conditions of human freedom, making clear that such freedom is the prerogative of all persons. Then they develop a notion of just capitalism having the potential to render human persons free by ensuring the satisfaction of their subsistence needs, while properly reflecting the true relation between labor and capital. They are devoted, in this regard, to the goal of economic democracy, a condition in which all persons would be economically free and equal, even as in a political democracy all persons enjoy political freedom and equality.<sup>108</sup> Economic democracy is essential to preserving political democracy, in their view, because only it ensures both the independence from others and the leisure for cultural development requisite to a responsible exercise of political freedom. They viewed as absolutely antithetical to goals of political liberty the conditions of working solely for the good or profit of another, being dependent upon the arbitrary will of another for one's subsistence, and being bound to spend most of one's time and energy in toil for subsistence.<sup>109</sup> And so they write:

Before the rise of industrial production and organized labor, the members of the ruling class were for the most part identical with the members of the leisure class. This is true of colonial America and of the first decades of our republic as well as of the republics of ancient Greece and Rome. The men of property were economically free men. Because they had through property a freedom which they wished to protect, they strove to safeguard it with the rights and privileges of political status and power. Their economic freedom was the basis of their claim to political liberty.

But their economic freedom was also the basis of their opportunity to lead a human as opposed to a subhuman life. In all the pre-industrial societies of the past, this opportunity was open only to those who could engage in the liberal activities of leisure because they obtained all they needed for subsistence and comfort from income-bearing property other than their own labor power.

To understand this, let us contrast the condition of the slave with that of the economically free man. We shall see that there are three elements in economic freedom, the most significant of which is freedom from toil or freedom for leisure. This is indispensable to leading a free as opposed to a servile life. The slave not only lacked such freedom, but also the economic independence and security without which political liberty cannot be effectively employed or enjoyed.<sup>110</sup>

To the end of political liberty for all men, then, they propose practical steps for achieving economic democracy, claiming that it can become a practical reality to the extent that a community is able to minimize human toil through automation, universally diffuse private ownership in the capital instruments of production, and educate its constituents not only to husband the productive use of their capital properly but also to engage in the leisure work that allows civilization to flower.<sup>111</sup>

The economic democracy for which Kelso and Adler strive depends upon certain general precepts of justice, in general, and then upon an understanding of what justice demands of the

relations between labor and capital in the face of the universal need for subsistence. For them, justice in the widest sense entails (a) acting for the common good of all and not just for one's own private good; (b) avoiding injury to others; (c) rendering to each what is properly his due; and (d) dealing fairly with others.<sup>112</sup> In the arena of economics these precepts dictate three principles of justice: a principle of distribution, a principle of participation, and a principle of limitation. Kelso and Adler articulate these principles as follows:

1. The Principle of Distribution

Among those who participate in the production of wealth, each should receive a share that is proportionate to the value of the contribution each has made to the production of wealth.<sup>113</sup>

2. The Principle of Participation

Every man has a natural right to life, in consequence whereof he has the right to maintain and preserve his life by all rightful means, including the right to obtain his subsistence by producing wealth or by participating in the production of it.<sup>114</sup>

3. The Principle of Limitation

Since everyone has a right to property in the means of production sufficient for earning a living, no one has a right to so extensive an ownership of the means of production that it excludes others from the opportunity to participate in production to an extent capable of earning for themselves a viable income; and, consequently, the ownership of productive property by an individual or household must not be allowed to increase to the point where it can injure others by excluding them from the opportunity to earn a viable income.<sup>115</sup>

According to them, all efforts to divert to labor the proceeds properly due to the productivity of capital violate the principle of distribution. However, the ownership of the means of production by a small elite in any enterprise is a violation of the principle of participation; furthermore, too much participation in capital ownership by one household edges out participation by another and so, violates the principle of limitation.<sup>116</sup> There is, after all, only so much capital available for capital ownership. One might relate these principles to Lonergan's scheme.

Lonergan proposed that pure surplus income is a social dividend precisely because he observed that there was something skewed about the way in which the proceeds of capital were distributed and participated in the capitalistic practice of his time. Under the conditions with which he was concerned, distribution avoided the basic expansion and worked to concentrate wealth more and more in the hands of those in a position to engineer surplus expansions. Against Kelso and Adler's scheme, Lonergan might well argue that the failure of capitalists to invest pure surplus income in the domestic economy, in anticipation of the eventual end of a surplus expansion, violates the principle of distribution, since the surplus is actually a social dividend no more attributable to the activity of the capital owner than it is to the activity of others in the community creating a demand for it. In addition, such failure to invest violates the principle of participation because it robs the society generally of the benefits of the basic expansion that should follow upon a surplus expansion. The principle of limitation is violated by whole societies when the engineers of a surplus expansion intent upon keeping it going compensate for the consequent loss of domestic benefits properly accruing at the end of a surplus expansion by raping another economy through colonization. As noted, Kelso and Adler do not consider the related phenomena of colonization, rentier economies, redistributive taxation, and deficit spending that can ride the crest of a surplus expansion which avoids closure. However, it is worth noting from the standpoint of the complementarity of their scheme with Lonergan's that their principles of economic justice can extend to cover the economic events Lonergan noted. They might disagree with him concerning distribution and the social dividend, since they believe capital owners are entitled to the proceeds constituting the productivity of their capital. However,

if confronted by Lonergan's concerns and his theoretical framework, they would agree that the principle of participation is in some way violated in the avoidance of a basic expansion.

Kelso and Adler make certain practical recommendations for satisfying the principles of economic justice for which one could argue persuasively in legislative and other public policy contexts. For example, they propose certain general policies, such as broadening the ownership of existing enterprises, encouraging the formation of new capital and the organization of new enterprises by new capitalists, and discouraging the concentration of capital ownership beyond a maximum determined to be consistent with the just organization of a completely capitalistic society.<sup>117</sup> They spend much time proposing specific measures to implement such policies. These include increasing the number of equity-sharing plans in industry; modifying death and gift taxes to allow the inheritance and creation of "viable capital estates;" eventually eliminating the corporate income tax, as people increasingly become owners of capital (Kelso and Adler see this tax basically as a device for redistributing wealth) and shifting the burden of supplying necessary revenues for government to the personal income tax; eliminating governmental practices that encourage the concentration of capital ownership; instituting government regulation to ensure free competition in all markets; investing government with the primary responsibility of ensuring that all households in the economy have a reasonable opportunity to participate in the production of wealth through capital ownership to an extent that allows them to earn a viable income; adopting legislation that would require established corporations to pay one hundred percent of their net earnings to stockholders, rather than hold back a substantial portion for wage payments to labor; developing investment preferences for households that do not possess a viable capital estate; encouraging the acquisition of capital holdings by all households in the economy through tax and credit devices that preclude misuse for speculation or monopoly; and using the credit system primarily to promote new capital formation and to diminish the availability of credit for consumption.<sup>118</sup> The point of the reforms proposed is to create a situation in which the needs requisite to a comfortable standard of living are met by streams of income deriving from capital ownership.

Kelso and Adler flesh out their specific measures in detail, as well as explain the differences between the pure capitalist economy they envision and the mixed capitalist economy still regnant. Unfortunately, time and space do not permit further exploration here. It is sufficient simply to note that the steps Kelso and Adler suggest constitute a good beginning toward accomplishing their ultimate goal of freeing human persons from subsistence concerns, so that they might devote more of their time to leisure work. And certainly, in the sophisticated first world economies of the twenty-first century, significant progress has been made in the kind of diffusion of capital ownership Kelso and Adler advocate. Clearly, not all of the measures they suggest are in place, including but not limited to the use of credit primarily to promote new capital formation, rather than finance consumer purchases, and governmental measures to encourage capital ownership by all households. Regarding the Kelso program, then, one would have to ask how effective current measures for diffusing the ownership of capital (401 K plans, employee stock ownership and profit-sharing plans) have been and whether they, in fact, have the potential to deliver on the promise Kelso and Adler envisioned of freeing human beings from the bonds of subsistence concerns.

Pursuing a program along Kelsonian lines could eventually lead to consideration of wider concerns involving the relations between economies, such as the ones Lonergan voices, since such concerns can be accommodated within the framework of justice Kelso and Adler establish.

First, however, one would have to evaluate the extent to which the economic scenario Lonergan addressed exists today. Does he, for example, speak primarily to the situation of an expanding industrial economy? How does the picture change when a service economy, such as the present U.S. economy, is the object of consideration? Would the entire development of service economies be classified within Lonergan's framework as a negative consequence of the manner of capitalist expansion following upon the industrial and scientific revolutions to which he objects? Is a service economy simply the compensatory fall-out that characterizes the late stages of a rentier economy whose own industry has been displaced by cheaper manufactures elsewhere? Is it a kind of subsistence economy devoted to the liberal work normally characteristic of leisure? If so, what kind of economic animal is that kind of economy and what are the problems intrinsic to it? Regardless of how one answers the questions posited, the work of the thinkers considered in this paper suggests that business, in fact, does have a vocation. Business people must conduct themselves in a manner that is fully cognizant of questions of political economy and conducive to promoting the greatest possible human freedom, substantially in the sense that Lonergan, Kelso, and Adler understand human freedom. It seems difficult to question the idea that such freedom is intrinsic to political liberty or that political liberty is a proper end befitting the dignity of being human. But this mission requires education appropriate to the task and a willingness to see the function of business as something loftier than the generation of profits for the purpose of promoting the isolated interests of the enterprise or the individuals who run it.

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### Endnotes

<sup>1</sup>Fred G. Lawrence, Patrick H. Byrne, and Charles C. Hefling, Jr., "Introduction," in Macroeconomic Dynamics, An Essay in Circulation Analysis, Edited by Fred G. Lawrence, Patrick H. Byrne, and Charles C. Hefling, Jr., Vol. 15, Collected Works of Bernard Lonergan (Toronto: University of Toronto Press, 1988), xxxviii-xxxii.

<sup>2</sup>Bernard Lonergan, For a New Political Economy, edited by Philip J. McShane, Vol. 21, Collected Works of Bernard Lonergan (Toronto: University of Toronto Press, 1998), 12.

<sup>3</sup>Bernard Lonergan, Macroeconomic Dynamics, An Essay in Circulation Analysis, Edited by Fred G. Lawrence, Patrick H. Byrne, and Charles C. Hefling, Jr., Vol. 15, Collected Works of Bernard Lonergan (Toronto: University of Toronto Press, 1988), 82. Lawrence, et. al, "Introduction," xxx; see also, William Matthews, "Lonergan's Economics," Method Journal of Lonergan Studies 3 (1985): 11.

<sup>4</sup>Lonergan, Macroeconomic Dynamics, 3,144-147; 152-154; 165, and 166 (note 221); see also, Matthews, "Lonergan's Economics," 11; Paul Hoyt-O'Connor, "Macroeconomic Dynamics and the Work of Nations: Lonergan and Reich on the Global Economy," Method, Journal of

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Lonergan Studies 17 (1999), 122; Philip McShane, Economics for Everyone, Das Jus Kapital (Halifax: Axial Press, Inc., 1998), 101-105. The conditions under which pure surplus income arises, namely, those characterizing the "surplus expansion," will be covered below to nuance this concept in Lonergan's thought appropriately.

<sup>5</sup>The example is my own, not Lonergan's; I offer it in the spirit of his thinking.

<sup>6</sup>For the dynamic reciprocal relation between economics and culture, see Lonergan, For a New Political Economy, 18-20, 22, and 23-25.

<sup>7</sup>Lonergan, Macroeconomic Dynamics, 81-82, 133 (note 186), 145; Hoyt-O'Connor, "Macroeconomic Dynamics," 122.

<sup>8</sup>Lawrence, et al., "Introduction," xxxi -- xxxii.

<sup>9</sup>*Ibid.*, xxxii -- xxxvii.

<sup>10</sup>Lonergan, Macroeconomic Dynamics, 165--175.

<sup>11</sup>Lawrence, et al., "Introduction," xxxii-xxxix; Lonergan, For a New Political Economy, 3-5.

<sup>12</sup>*Ibid.*, xiv-xxi, and xxvi (for an accounting of the different versions of the *Essay*).

<sup>13</sup>Lonergan, Macroeconomic Dynamics, 83.

<sup>14</sup>*Ibid.*, 119.

<sup>15</sup>Lonergan, For a New Political Economy, 34.

<sup>16</sup>*Ibid.*, 34.

<sup>17</sup>Michael Gibbons, "Economic Theorizing in Lonergan and Keynes," in Religion and Culture, Essays in Honor of Bernard Lonergan, edited by Timothy P. Fallon and Philip Boo Riley (Albany: State University of New York Press, 1987), 321.

<sup>18</sup>Lonergan, For a New Political Economy, 247.

<sup>19</sup>Lonergan represents these dynamic flows of money *via* a diagram resembling a baseball diamond. See Lonergan, Macroeconomic Dynamics, 55.

<sup>20</sup>Lonergan, For a New Political Economy, 247.

<sup>21</sup>*Ibid.*

<sup>22</sup>Lonergan, Macroeconomic Dynamics, 129.

<sup>23</sup>*Ibid.*, 131.

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<sup>24</sup>Matthews, "Lonerger's Economics," 25-26.

<sup>25</sup>Lonerger, Macroeconomic Dynamics, 129.

<sup>26</sup>Ibid., 129.

<sup>27</sup>Ibid., 32.

<sup>28</sup>Hoyt-O'Connor, "Macroeconomic Dynamics," 121-22; Lonerger, Macroeconomic Dynamics, 56-68 and 78.

<sup>29</sup>Lonerger, Macroeconomic Dynamics, 33 and 117.

<sup>30</sup>Ibid., 117.

<sup>31</sup>Ibid.

<sup>32</sup>Ibid., 118.

<sup>33</sup>Ibid. 117.

<sup>34</sup>Ibid., 119.

<sup>35</sup>Ibid., 33.

<sup>36</sup>Ibid., 34.

<sup>37</sup>Ibid.

<sup>38</sup>Ibid., 126.

<sup>39</sup>Ibid., 126 (for the claim that there is first a more efficient use of capital equipment that already exists).

<sup>40</sup>Ibid., (for the claims that the long-term acceleration only really becomes apparent once the new capital equipment is produced).

<sup>41</sup>Ibid.

<sup>42</sup>Ibid., 127.

<sup>43</sup>Ibid.

<sup>44</sup>Ibid.

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<sup>45</sup>Ibid. (for the observation that there is no lag between long-term and short-term acceleration at the surplus level of production).

<sup>46</sup>Ibid.

<sup>47</sup>Ibid. (for Lonergan's position that the short-term acceleration on the basic stage cannot sustain itself).

<sup>48</sup>Ibid., 121-125 (see charts and graphs indicating that the long-term expansion on the basic stage is a geometric progression).

<sup>49</sup>Ibid., 127.

<sup>50</sup>Ibid.

<sup>51</sup>Ibid., 128.

<sup>52</sup>Ibid., 35.

<sup>53</sup>Ibid., 119.

<sup>54</sup>Ibid., 129,

<sup>55</sup>Ibid., 131.

<sup>56</sup>Ibid., 133.

<sup>57</sup>Ibid., 137

<sup>58</sup>Ibid.

<sup>59</sup>Ibid.

<sup>60</sup>Ibid., 136-37.

<sup>61</sup>Ibid., 138-39.

<sup>62</sup>Ibid., 137.

<sup>63</sup>Ibid., 138.

<sup>64</sup>Ibid., 139.

<sup>65</sup>Ibid., 139-140.

<sup>66</sup>Ibid., 140.

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<sup>67</sup>Ibid., 141-44.

<sup>68</sup>Ibid., 141-42.

<sup>69</sup>Ibid., 142.

<sup>70</sup>Ibid.

<sup>71</sup>Ibid., 142-43.

<sup>72</sup>Ibid., 81-82

<sup>73</sup>Ibid., 81-82.

<sup>74</sup>Ibid., 152-53.

<sup>75</sup>Ibid., 153-54.

<sup>76</sup>Ibid., 154.

<sup>77</sup>Ibid., 155.

<sup>78</sup>Ibid., 129.

<sup>79</sup>Ibid.

<sup>80</sup>Note for our later discussion that Louis Kelso and Mortimer Adler might not agree. They believe that new technology actually objectively eliminates jobs; so they have arrived at whole new paradigm for achieving a stable, comfortable standard of living in a modern exchange economy.

<sup>81</sup>Ibid., 147.

<sup>82</sup>Ibid., 165-173 (for a discussion of colonization in connection with a favorable balance of trade).

<sup>83</sup>Ibid., 84 - 85 and 165-173.

<sup>84</sup>Ibid., 165-173.

<sup>85</sup>Ibid., 84-85.

<sup>86</sup>Ibid.

<sup>87</sup>Ibid., 171- 172.

<sup>88</sup>Ibid.

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<sup>89</sup>Ibid., 173-176.

<sup>90</sup>Ibid., 85.

<sup>91</sup>Ibid., 175.

<sup>92</sup>Ibid. 85-86.

<sup>93</sup>On the necessity of conversion to realizing Lonergan's pure process, see Philip McShane, "Generalized Empirical Method and the Actual Context of Economics," in Creativity and Method, Essays in Honor of Bernard Lonergan, edited by Matthew Lamb (Milwaukee: Marquette University Press, 1981), 566; Matthews, "Lonergan's Economics," 12; and Patrick Byrne, "Economic Transformations: The Role of Conversions and Culture in the Transformation of Economies," in Religion and Culture, Essays in Honor of Bernard Lonergan (Albany: State University of New York Press, 1987), 327 - 348.

<sup>94</sup>Louis O. Kelso and Patricia Hetter, How to Turn Eighty Million Workers into Capitalists on Borrowed Money (New York: Random House, 1967), 157-58.

<sup>95</sup>Ibid., 159.

<sup>96</sup>Louis O. Kelso and Mortimer J. Adler, The Capitalist Manifesto (Westport Connecticut: Greenwood Press, 1958), 16.

<sup>97</sup>Ibid., 16-20

<sup>98</sup>Ibid., 16-20.

<sup>99</sup>Ibid., 18-19.

<sup>100</sup>Lonergan, For a New Political Economy, 19-20, 22, 25 (observation that agriculture, mechanical arts, and commerce created leisure for the development of science; statement that the role of economy is not to direct its main attention to the ordinary final product of the standard of living but to the liberation of men from toil to the field of cultural activities)

<sup>101</sup>Ibid., 20-21.

<sup>102</sup>Kelso and Adler, Capitalist Manifesto, 40-42, 56-60, 63-65.

<sup>103</sup>Ibid., 56-60, 97-103, 114-129.

<sup>104</sup>Ibid., 64-65.

<sup>105</sup>Ibid., 124-125, 129-147, 185, and 205-206.

<sup>106</sup>Ibid., 147-151, 177-178, and 192.

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<sup>107</sup>Ibid., 169-170.

<sup>108</sup>Ibid., 29.

<sup>109</sup>Ibid., 15.

<sup>110</sup>Ibid., 14.

<sup>111</sup>Ibid., 29.

<sup>112</sup>Ibid., 66.

<sup>113</sup>Ibid., 68.

<sup>114</sup>Ibid., 68.

<sup>115</sup>Ibid., 68.

<sup>116</sup>Ibid., 67-68.

<sup>117</sup>Ibid., 169.

<sup>118</sup>Ibid., 169-170.

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