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PRACTICAL VIRTUES, FORGIVENESS, AND BANKRUPTCY

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Since Aristotle, four virtues -- justice, courage, moderation, and prudence -- have been looked upon as centrally important to the development of the honorable person. Justice is rendering to others that which is owed. Courage is firmness in the face of difficulty and constancy in the pursuit of the good. Moderation restricts the attractiveness of pleasures and provides balance in the use of created goods. Prudence prompts one to select the best means to achieve a good end. The four are commonly referred to as cardinal virtues. Our concern in the following is with the role of these virtues in economic affairs.

Justice is the mid-ground between rendering too much to others and rendering too little, between favoritism and ripping off. Courage is the golden mean between the vices of cowardice (too little) and rashness or recklessness (too much). Moderation is the mean between gluttony and extreme self-denial, between workaholism and sloth. Prudence helps us discern excess and deficiency in other areas, enabling us to locate the mean though not activating us toward that mean. Thus, prudence is fundamental to the other virtues (Rickaby, pp. 5-8; Kraut, pp. 5-7).

We refer to the four as *practical* virtues because as Schall states (pp. 414-415) they relate not to thought or truth but to practical human action. Moderation and courage are always inward-directed, toward self; justice is outward-directed, toward others (Schall, p. 410). Following Aquinas, prudence is not rational self-interest unless it is tempered by justice and friendship or love (Finnis, p. 20). It involves both the end sought and the means to attain that end, calls for reason rather than impulse, and takes counsel from others in the selection process (Elmendorf, p. 4). Prudence, therefore, is both inward- and outward-directed.

Justice is, to quote Schall (pp. 419, 409), "a very cold virtue," "the most terrible of the virtues." Strictly speaking, justice results in a condition wherein no one *owes* anything to anyone else. Schall (p. 412) describes this condition as an "isolated hell." The remedy, he states, is found in the virtues of gratitude, benevolence, and charity.

... relationships of justice, by themselves, are quintessentially impersonal. We get what is due -- no more, no less. This indifference to the person to whom we are just or who is unjust to us is what I meant earlier in suggesting that gratitude, benevolence, and charity are needed in addition to justice. We must be just even to our enemies, to those who hate us, to those we do not know or care to know (Schall, p. 419).

The virtue of forgiveness is another remedy for what is lacking in the virtue of justice. Forgiveness is the golden mean between enabling irresponsible financial behavior and crushing the human spirit under an unbearable load of debt. Forgiveness by definition must be given

freely by the one who holds the debt claim. The physician who does not charge an impoverished patient for care that is rendered, the landlord who allows a single mother who has lost her job and cannot pay the rent to remain in her apartment with her children, the neighbor who does not accept reimbursement for school uniforms purchased for the children next door living with their grandmother who survives on a small monthly pension check exemplify the true meaning of forgiveness. In every instance, forgiveness involves a need that otherwise would not be met.

Bankruptcy reform¹ in 2005 strikes a new balance between the extremes of too much and too little, moving clearly away from wiping out too much debt. While it provides relief for persons, families, or organizations that are unable to meet their obligations under justice, bankruptcy is relief that is legally coerced. In a bankruptcy judgment, creditors are forced to give up all or part of any claim to what is rightfully theirs. Bankruptcy is not forgiveness, it is cancellation. Writing off debt that is uncollectible, including debt that has been assigned to a collection agency which has not been able to get the debtor to make payment, is not forgiveness. It is acquiescence because, even though there is no legal coercion, writing off forces the creditor to concede that the underlying claim will not be honored. Debt that has been legally cancelled or written off may reflect expenditures for things which were truly needed such as hospital care or auto repair or for things that were wanted at the time of purchase but not strictly needed such as designer clothes or high-definition television. To repeat, the true measure of forgiveness in economic affairs is relief for what is owed that is given freely.

Debt that is cancelled through bankruptcy or written off as uncollectible impacts the firm's cost of doing business, its profitability which is troubling to the owners/shareholders, and may lead to higher prices which would be harmful to its paying customers. In the extreme cancelled and written-off debt could force the firm out of business which is harmful to all of its stakeholders. Similar consequences may follow from debt that is forgiven though such outcomes are less likely because the creditor is not being coerced to cancel or write off debt.

In economic affairs, justice, courage, moderation, and prudence operate in the limiting mode. Justice limits ill-gotten gain (in a routine exchange one agent gets too little because the other agent takes too much). Courage limits evil from occurring when a person such as a whistleblower knows what to do in a difficult situation and is willing to confront that difficulty. Moderation limits excess in work, consumption, and leisure. Prudence limits recklessness in allocating resources toward some given good. All four virtues are learned (from others, on one's own) and therefore can be taught (to others). Children become aware of and learn justice first in large measure because family controversies often swirl around questions of justice (Schall, p. 410). "She messed with my drawing." "He broke my watch."

We conclude with some extended remarks on the virtue of justice because justice is so fundamental to economic affairs. Every exchange between economic agents – buyer and seller, producer and supplier, employer and employee, borrower and creditor – necessarily involves economic gain for both parties. What is gotten must be greater than what is given up. Otherwise, exchange collapses. However, limits on the amount of economic gain are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of equivalence, distributive justice, and contributive justice.

¹ Bankruptcy Abuse Prevention and Consumer Protection Act.

The principle of equivalence limits ill-gotten or excessive gain because what is gotten and what is given up in the exchange are what were freely and openly agreed to before the exchange took place. For example, the ill-gotten gain for the employer who operates a sweatshop is the added profits from denying his/her workers their due. The ill-gotten gain for the employee who embezzles is money that rightfully belongs to the employer.

The principle of distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly.

The principle of contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

Justice, courage, moderation, and prudence are essential to an efficient, orderly, and peaceful economy. Mainstream economics asserts that these matters are addressed through the “invisible hand of the market.” Personalist economics argues that the “invisible hand” fails whenever economic agents have not learned and acquired the practical human virtues or do not practice them faithfully.

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