

Was the School of Salamanca proto-Austrian?

Claudia Jefferies & Andy Denis

Department of Economics, City University London

(claudia.jefferies.1@city.ac.uk; a.m.p.denis@city.ac.uk)

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Abstract

In this paper we challenge Murray Rothbard's interpretation of the School of Salamanca as proto-Austrian. We argue that Scholasticism is in goals and methods profoundly different from any modern school of economics, and that it is mistaken to use the Austrian school as a standard against which the Salamancans are to be appraised. Further, Rothbard's interpretation is vitiated by a misconception of the specificity of the Austrian School: while the Salamancans bequeath a lasting heritage for 21st century economists, it is a broad contribution, one for many schools, and not at all one specific to the Austrian standpoint. Finally, the natural law tradition, which has been correctly identified as a continuity between early modern, classical and Austrian thought, far from an anticipation of scientific thinking in the Salamancans, constitutes a residue of religious thinking in the Austrians.

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1 Introduction

Murray Rothbard argued in several publications, in particular his unfinished history of economic thought (2006a, b), and an earlier essay on the on the “prehistory” of the Austrian School (1976), that Austrian economics was a continuation of the Scholastic tradition, with the School of Salamanca at its heart. The Classical School of Adam Smith and Ricardo, he thought, subsequently shunted the discipline onto a wrong track and it was left to the Austrians and other marginalists to restore Scholastic insights. Rothbard’s view has stirred considerable interest and controversy. See, for example, the Symposium (1998) on Rothbard’s stance on Adam Smith, in the *Quarterly Journal of Austrian Economics*, and Jesús Huerta de Soto’s homage entitled “New light on the prehistory of the theory of banking and the School of Salamanca” (Huerta de Soto, 1996). Despite the fact that Hayek, for one, clearly believed that he was operating within a Smithian paradigm (see the many approving references to Smith in Hayek, 1979, for example), many modern Austrians have agreed with Rothbard:

I do not understand how anyone who has read Rothbard’s two volumes can continue to uphold the thesis that Adam Smith was a forerunner of the Austrian School. Furthermore, if Rothbard is right, there would be important arguments to defend the thesis that, at its roots, the Austrian school was a Spanish school. (Huerta de Soto, 2009: 284 n 39)

Matthews & Ortmann (2002) have persuasively argued that Rothbard’s characterisation of Adam Smith within the narrative he sets up is highly flawed. The purpose of the present paper is to appraise Rothbard’s treatment of the late scholastics, and especially of the School of Salamanca, as “proto-Austrian”. This thesis is particularly highlighted in Rothbard (1976) and Chapter 4, “The late Spanish scholastics”, of Rothbard (2006a).

We find Rothbard’s interpretation to be flawed: on our reading, the School of Salamanca cannot be considered to be proto-Austrian. Firstly, it is inappropriate to approach the Salamancans with any modern school in mind as a standard against which they are to be measured – and the attempt to do so, reading 16th century writers through 20th century spectacles, tells us more about the latter than the former. Further, Rothbard’s interpretation is vitiated by a misconception of the specificity of the Austrian School; to the extent that the Salamancans leave a heritage for 21st century economists, it is a broad contribution, one for many schools, and not at all one specific to the Austrian standpoint. Finally, we find that his account of the tradition of natural law, is quite unpersuasive. We agree that this core component of late Scholasticism is today an important aspect of Austrian theory, but contrary to Rothbard’s judgement, far from an anticipation of scientific thinking in the Salamancans, natural law constitutes a residue of religious thinking in the Austrians.

The remainder of the paper is structured as follows. In the next section we attempt to place the School of Salamanca in its context as an Indian summer of Scholasticism, and the immediately following two sections outlines the treatment of this topic in the history of economic thought literature. Section 5 shows the gulf between the aims and methods of Scholasticism, and those of modern economics, highlighting the question of usury. Section 6 appraises Rothbard’s claim that the Salamancans were on the brink of the discovery of marginalism, and Section 7 discusses our overall contention that Rothbard’s approach is vitiated by lack of context. Section 8 notes, by means of a consideration of the doctrine of just price, some of the advances of the School of Salamanca, suggesting that these constitute steps forward in understanding for the majority of present-day economists, and not merely the Austrians. The final substantive section considers the transmission of the natural law tradition from the Thomist Aristotelians of Salamanca, via Grotius, Pufendorf, and Smith, to Hayek and the modern Austrians. A final section summarises our findings.

2 The School of Salamanca

The School of Salamanca was an Iberian renaissance school of thought based at the University of Salamanca, in Castile and León, north west Spain, approximately 200 km to the west of Madrid, and somewhat closer to the present-day border with Portugal. The inception of the School can be dated to the work of Francisco de Vitoria in the early sixteenth century, and the bulk of its most important publications had appeared by the end of the century, although the very important writer Francisco Suarez was publishing early in the seventeenth century, and Juan de Lugo, perhaps the last Salamancan, was still active as late as the 1640s.

In order to understand the School of Salamanca, we have to place it in its intellectual context, in particular in relation to the Reformation and Counter-Reformation. This context is well set out in Copenhaver & Schmitt (1992). European Catholicism, facing revolt from a range of Protestantisms on multiple intellectual and geographical fronts, was concerned to preserve ecclesiastical hierarchy. Hostility to Protestantism “led them [the Counter-Reformation intellectuals] to adopt constitutional theories of secular government that challenged the absolutist tendencies of the early reformers” (Copenhaver & Schmitt, 1992: 48). “The absolutist tendencies of the early reformers” may sound a strange and even paradoxical statement. But a central tenet of the reformers – that is, the protestants, not necessarily, or even normally, political reformers in any modern sense – was the direct link from the individual to God, and the denial of the role of clergy in mediating between the two. At the national level this implies the doctrine of the divine right of kings: only God stood above the king, not the Church, or the Pope, or anyone else – and hence this immediately underpinned a tendency to absolutism. “[I]t remains true that the genealogy of absolutist government in early modern and modern Europe can be traced through early Protestant interpretations of such texts as the thirteenth chapter of Paul’s letter to the Romans” (Copenhaver & Schmitt, 1992: 48). Rothbard agrees. Speaking of the commercial expansion of western Europe during the sixteenth century, he says “The doctrines of the absolute state ... now spread to all the nation-states of Europe. Absolutism eventually triumphed throughout Europe by the early seventeenth century. The victory was fuelled ... by the rise of Protestantism” (Rothbard, 2006a: 99).

The challenge to Catholicism was met by the Scholastics with arguments that deployed Augustine’s distinction between the City of God and the City of Man:

Protestant theorists connected the ruler’s political authority with godliness or some other divine disposition, but in response their Counter-Reformation opponents emphasised the Thomist Aristotelian view of the state as a purely human construct whose legitimacy depended not on divine mandate but on contractual arrangements among mortal creatures. (Copenhaver & Schmitt, 1992: 48)

The Thomist Aristotelian programme was one which sought to unite faith (the Church Fathers) and reason (the classical Greek philosophers): unlike the main lines of Protestantism, which tended to place all its eggs in the basket labelled faith, the Catholic counter-reformers wanted a reconciliation between faith and reason, albeit of course in the service of faith:

Unlike Protestants, who denied mankind any innate capacity to improve its moral condition, Catholic thinkers trusted human reason to discover a better moral order and allowed that the individual moral agent, of whatever religious condition, can search within for the primary precepts of a natural morality. Thus it was the scholastics of Spain and Italy rather than the pastors of Geneva and Germany who resurrected medieval natural law theories and, *avant la lettre*, elaborated ideas of the social contract and state of nature that were to

inform the more aggressively secularist and popularist political philosophies of the seventeenth and eighteenth centuries. (Copenhaver & Schmitt, 1992: 48-9)

When we consider the Salamancans, therefore, it is important to keep in mind their objectives as well as their intellectual roots. Speaking of Francisco Suarez, who, along with Francisco de Vitoria, was one of the two Salamancans that Copenhaver & Schmitt discuss, they stress that he led philosophy “through the portals of theology to higher enquiries about the world of divinity. Thus, like many medieval doctors, Suarez kept philosophy subservient to theology” (Copenhaver & Schmitt, 1992: 73-4), and “one should note that the *Disputationes metaphysicae* [*Metaphysical Disputations* (1597)] were the work of a priest [Francisco Suarez] who needed to arm a proselytizing religion against the incursions of philosophical naturalism, rationalism, and scepticism.” (Copenhaver & Schmitt, 1992: 248). For Suarez “Metaphysics is first of all a kind of theology or divine science ... First philosophy and ontology are thus secondary to theology. By underwriting all other rational inquiry, metaphysics supports a Christian philosophy” (Copenhaver & Schmitt, 1992: 347).

Both the reformers and the counter-reformers were able to draw on Aristotelian arguments. It would be erroneous, therefore, to see either the reformers or the counter-reformers having a monopoly on Aristotle, or indeed even as homogeneous. There was a range of Renaissance Aristotelianisms with much variety within the tradition (Copenhaver & Schmitt, 1992: 61-2):

neither the tension between religious and secular aims nor the hostility between Catholic and Protestant factions prevented Keckerman, Suarez, Cremonini, and their many colleagues from using Aristotle, along with other pagan thinkers, for a multitude of philosophical ends, and each religious party or ideological disposition produced its share of prominent Peripatetics ... After the Reformation, the Aristotelianism that survived and then prospered in Protestant lands was as strong [as] or perhaps stronger than the Peripatetic tradition sustained in some Catholic regions. (Copenhaver & Schmitt, 1992: 74)

And the universities, of whatever denomination, “all kept Aristotle at the centre of philosophical studies” (Copenhaver & Schmitt, 1992: 74).

The Scholastic response to the Reformation began in the early sixteenth century “with revival of the Thomist *via antiqua* in Paris, where the enormously influential Francisco de Vitoria studied from 1509 to 1522” (Copenhaver & Schmitt, 1992: 48). (The *via antiqua* and *via moderna* were two approaches to arts and theology – the realists (*reales* or *antiqui*) and the nominalists (*nominales* or *moderni*), two different curricula and methods of teaching (Asztalos, 1992: 438-9). Examples of the realists include Albertus Magnus, Thomas Aquinas and Duns Scotus. Important nominalists were William of Ockham, Jean Buridan and Marsilius of Inghen. It was possible for a single university to teach both curricula and have chairs in both *via antiqua* and *via moderna*, or even different varieties of either.) From Paris, de Vitoria went to Valladolid in 1522, and then, four years later, to Salamanca, where he founded the School of Salamanca. In the Copenhaver & Schmitt (1992: 75) account two strongholds of Aristotelianism arose in this period: the *Collegio Romano*, the Roman headquarters of the Jesuits, and “[i]n the struggle against heresy another Peripatetic headquarters was the School of Salamanca, which nurtured Suarez and other heroes of the counter-Reformation”. Both the *Collegio Romano* and Salamanca “grew in the long shadow [of Paris] ... the great bulwark of Aristotelianism”.

This account of its origins gives us a firm basis for evaluating the School of Salamanca: any discussion of the School must start from its role as a “headquarters” of the revival of the Aristotle-Augustine-

Aquinas tradition with the specific and wholly theological goal of combatting the protestant rebellion which threatened the spiritual and temporal status of the Church across Europe.

3 Approaches to Scholastic economics in the history of economic thought

The inclusion of the Scholastics in the history of economic thought has been welcomed by students of early and late Scholasticism since the 1950s. Schumpeter (1994: 73-142) featured the Scholastics as forerunners of the subjective theory of value. His treatment of Scholastic sources has subsequently been scrutinised, and a number of streams of approaches have emerged, some supporting and some contesting Schumpeter's stance.

Schumpeter's approach (Marjorie Grice-Hutchinson shares Schumpeter's approach) the elements of economic analysis in Scholastic economic thought were considered apart from their historical, ethical and social context. Thus he attempted to integrate the early and late Scholastics into the history of economic thought, seeking continuity from Ancient Greece, primarily Aristotle, all the way to the economic thought of Adam Smith, whom Schumpeter regarded as Aristotelian. Scholastic economic thought fitted into Schumpeter's continuum given that Scholastics showed insight in addressing general economic issues and, in particular, because they were in favour of a subjective theory of value.

Reactions to Schumpeter's thesis can be divided into two main groups. The first group was led by Odd Langholm (1979, 1982, 1987, 1992), who is against any approach that separates Scholastic economic thought from its moral, social and historical context. Langholm is against a "retrospective" view of history. And in the particular case of the history of economic thought, he thinks that trying to separate the economic aspects of Scholastic thought from their moral, social and historical contexts would result in a distorted picture, as it would be seen through the lens of values and methods which only emerged later, during the enlightenment, when the scientific economics itself emerged. The stress on placing Scholastic thought within a context, and not attempting to place them within a continuum abstracted from their intellectual and material environment, is shared by such specialists in late Scholastic economic thought as Gomez Camacho (1998), Rodrigo Muñoz de Juana (1998, 2001), and Fabio Monsalve (2010, 2014).

The second group representing a reaction to Schumpeter's view of the Scholastics will be discussed in more detail, as it is where Rothbard can be placed. Rothbard (1976; 2006a) draws extensively on de Roover's research on Scholastic economics for his facts, and on Kauder for his argument and approach. Kauder (1953) develops a simplistic narrative based on an erroneous version of Max Weber's ideal type, as it will be argued later.

As far as de Roover (1955, 1958) is concerned, his analysis of Scholastic sources comes across as narrow, focusing only on aspects related to the subjective theory of value and what he considers liberal aspects of Scholastic thought. An explanation to his narrow view might be his enthusiasm in seconding Schumpeter's new approach to Scholastic authors bearing views beyond Heinrich von Langenstein's and Max Weber's concept of *Nahrungsprinzip*. Although perhaps tainted by a hint of ideology, de Roover's work could be regarded as serious and he does hold a level-headed opinion as to "liberal" attitudes of the Scholastics and as far as the influence of Aristotle beyond the Scholastics and the Austrian School.

Rothbard (1976; 2006a) follows de Roover's tendency to focus on those statements in Scholastic authors which may seem to support subjective value theory and commercial liberalism in general. Rothbard calls de Roover and Kauder "revisionist historians", an approach with which he declares

himself in sympathy. Rothbard characterises the Spanish late Scholastics as proto-Austrian and, following Schumpeter's example, he tries to find continuity between the School of Salamanca and the Austrian School.

4 Rothbard's method and sources: Kauder and de Roover

The structure and Leitmotif of Rothbard's discourse can be identified as the scheme developed by Emil Kauder, which is an attempt to explain two different versions of value theory: subjective and labour, in different groups of economic thinkers.

Kauder blames the classical economists for "delaying" the development of economics:

Our science might have developed much faster if the British classicists had given up their fruitless search for an objective value and had paid attention to the other school, which was exploring utility theory (Kauder, 1953:564).

The principles of marginal utility were, according to him, discovered much earlier than Turgot, to whom the concept of marginal utility is attributed. Kauder establishes similarities between Turgot's, Wicksell's and Bernoulli's analysis of marginal utility. He then refers to the utility theory developed by F. Lloyd, and continues his chronological account with John Stuart Mill, who according to Kauder presents "a weak mixture of objective and subjective elements in his theory of value" (Kauder, 1953: 564). Mill figures as the first economic thinker reprimanded by Kauder. Also William Petty, John Locke, Adam Smith, David Ricardo and Karl Marx "bypassed the utility approach or paid scant attention to it" (Kauder, 1953: 565).

The reason for such "bypass" is found by Kauder in the "rejection" of Scholasticism by Samuel Pufendorf. This argument is based on Kauder's belief in a dichotomy between "Aristotelian-Thomistic" and "Protestant" schools: Representatives of the Italo-French subjective value school were Catholics (Davanzatti, Montanari, Galiani, and Turgot, amongst others), and representatives of the cost of production school were Protestants (Petty, Locke, and Adam Smith).

Kauder refers to Max Weber's *The Protestant Ethic and the Spirit of Capitalism*, where Calvin is seen as placing his work in the centre of his social theology, and Kauder concludes that "any social philosopher or economist exposed to Calvinism "would be tempted to give labour an exalted position in its social or economic treatise". So, a Protestant economic theorist would use a combination of work and value theory as a basis of an economic system. Then, value becomes labour value, by combining "divine will with economic everyday life" (Kauder, 1953: 566).

Kauder finds quotes by Calvin in Locke's writings and mentions Smith's "deep sympathy for Presbyterianism"(1953: 566), despite being a Deist. According to Kauder, Adam Smith combines the Calvinistic "glorification of labour" with the Aristotelian-Scholastic theory of fair price. He acknowledges Locke's and Smith's familiarity with Aristotle, and states that they combined Puritan social philosophy with the traditional Christian theory of value. This happened because Aristotle's concept of value contains a subjective utility aspect and an objective or intrinsic value aspect, the former was explored by the Italo-French theorists and the latter by the Puritans. Business, according to the Puritans is "divinely commanded", so economic value and just price are identical, and just price equals the amount of labour in commodities. Free competition will allow the achievement of just price.

The authors of the Italo-French schools were often trained by priests and monks, who were carriers of Aristotelianism and Thomism. In lieu of a glorification of labour, the Catholic authors were in favour of “the Aristotelian good life” and finalism (Kauder, 1953: 568).

The difference mentioned above is, according to Kauder, the origin of two different theories of value, and the fact that John Locke and Adam Smith were not interested in the work of Italian and French economists and vice-versa.

Kauder seemed aware of the conjectural character of his explanation, notwithstanding, he thought it accounted for the opposing attitudes of the two groups of economists. Rothbard does not follow Kauder in this respect, and uses Kauder’s scheme of analysis without any reservation.

One major limitation in Kauder’s scheme, of which he is aware, is the fact that the belated acceptance of the concept of marginal utility in the 19th-century cannot be explained by his proposed “dichotomy”, given the higher degree of secularity amongst economists in the 19th century. Moreover, Kauder acknowledges that most of the outstanding analysis of subjective value cannot be linked to the Aristotelian-Thomistic stream. Other philosophical trends such as Hedonism and neo-Kantianism were linked to the analysis of marginal utility.

As mentioned previously, the overall outline of Rothbard’s narrative is inspired in Emil Kauder. The facts Rothbard needed to integrate the early and late Scholastics into a Kauderian outline, were to be found in the work on medieval and early modern Scholastic economic theory by Raymond de Roover. This fitted Rothbard’s approach, as de Roover’s stance is based on his perception of the Scholastics developing a theory of value based on utility and scarcity, which is more in line with “modern” economics than Adam Smith, who “because of his influence and prestige, he created a century of confusion on this topic by throwing out utility and becoming entangled in the antithesis of value in use and value in exchange” (de Roover, 1955: 186).

De Roover’s thesis departs from his critique of Werner Sombart’s focus on Heinrich von Langenstein (1325-1397), according to whom producers can set prices in the absence of price regulation by authorities. The producer should charge enough to maintain his status, as charging more would be considered as avarice. Given Sombart’s and Weber’s reputation, this idea became widespread, contributing towards the image of the middle ages as a period characterised by market regulation (de Roover, 1958: 419).

In a similar way, Max Weber’s treatment of medieval guilds as originally founded on the principle of subsistence (*Nahrungsprinzip*) (de Roover, 1958: 418), and a high level of output and quality regulation, reinforce such image. As a consequence, followers of the German Historical School tended to portray the middle ages as a time of curbing competition.

De Roover believes there was a tradition originating from Thomism, which upheld market valuation against cost of production as a definition of value. Based on Albert’s comments on Peter Lombard’s *Sentences*, Albert issues a definition of just price as “what is determined by the market” (de Roover, 1958: 421). As far as Thomas is concerned, de Roover mentions a passage in the *Summa Theologica*, where Thomas accepts the merchandise as being sold at the market price, even if he knows that more wheat is on his way and that the price is likely to drop. Thomas does state that it would be more virtuous to let people know about the wheat arriving soon.

De Roover continues his tracing with Thomas de Vio, Cajetan (1468-1534), who in his commentaries on Thomas’s *Summa Theologica*, states that Thomas holds that the just price is “the one, which at a

given time, can be gotten from the buyers, assuming common knowledge and the absence of fraud or coercion" (de Roover, 1958: 423).

De Roover finds statements in line with a subjective theory of value also in the early Scholastics: Bernardino de Siena (1380-1444), a follower of John Duns Scotus (1265-1308) defines price as a social phenomenon *communiter*. Bernardino follows Henricus Hortensis (d. 1271), who claimed that market price had to be accepted by the producer and is fair, whatever its relationship with the cost of production.

John Duns Scotus and his followers continued supporting the theory of value determined by costs of production and the founder of the School of Salamanca, Francisco de Vitoria (1480-1546) opposed this view (refers to Grice Hutchinson, p 48). Mentions that Luis de Molina (1535-1601) states that competition determines the level of prices (de Roover, 1958: 425-426). He also mentions the opposition of the Spanish Scholastics to monopoly.

De Roover is more cautious than Rothbard when making statements about Scholastics. He does focus on statements in Scholastic authors which he interprets as in line with a subjective theory of value and in favour of free markets. However, he does acknowledge the approval by Scholastic authors of price regulation, when this seemed necessary (de Roover, 1958: 421-425).

De Roover acknowledges the difficulties in finding statements by Albertus Magnus (1193-1280) and Thomas Aquinas (1226-1274) on prices, due to the fact that passages on that topic are "scattered and conflicting" (de Roover, 1958: 422). This is to his view the reason which led Karl Marx (1818-1883) to conclude that they were supporters of a labour theory of value. De Roover thinks that Albert and Thomas are clearer in works not directly related to Aristotle. Based on Albert's comments on Peter Lombard's Sentences, Albert issues a definition of just price based on Lombard rather than Aristotle.

Further, de Roover acknowledges that the Scholastic writers regarded trade as endangering the salvation of the soul, referring to words of Giovanni Bonaventura (1221-1274) (de Roover, 1955:179).

De Roover's approach is limited, as he has a biased approach to Scholastic sources, focusing only on statements against the labour theory of value and in favour of subjectivism. The absence of context for the analysis of his sources poses further problems. All those problems are inherited by Rothbard, as he draws heavily on de Roover for furnishing his argument with facts. Moreover, Rothbard does not take de Roover's cautions into consideration, over-interpreting and exaggerating de Roover's findings.

5 Salamanca, Azpilcueta, and the "vexed question of usury"

Rothbard's aim, expressed in the title of his 1976 paper, *New Light On The Prehistory Of The Austrian School*, therefore, is to pursue and complete what he takes to be a complete revision of the pre-history of the Austrian school begun by Schumpeter in his posthumous 1954 *History of Economic Analysis*:

The most notable development in the historiography of the Austrian school in the post-World War II era has been the drastic reevaluation of what might be called its prehistory ... The remarkably contrasting new view of the history of economic thought burst upon the scene in 1954 in the monumental, though unfinished, work of Joseph Schumpeter. (1976: 36)

The purpose of his paper, Rothbard says, is “to assess the contributions of writers who carried the Schumpeterian vision still further and who remain neglected by most economists ... One of the most important, and probably the most neglected, was *The School of Salamanca* by Marjorie Grice-Hutchinson” (Rothbard, 1976: 36-37). “The outstanding revisionist work on the economic thought of the medieval and later Scholastics is that of Raymond de Roover.” (Rothbard, 1976: 40) “At about the same time as Schumpeter, Grice-Hutchinson, and de Roover published their researches, Emil Kauder set forth a similar revisionist viewpoint” (Rothbard, 1976: 45). What follows in Rothbard’s paper, however, does not assess the contribution of these writers; rather, Rothbard draws on what they say in order to develop a particular interpretation of the School of Salamanca as anticipating the Austrian School of economic thought. Grice-Hutchinson’s book

was a brilliant discovery of the pre-Austrian subjective-value-and-utility views of the late sixteenth-century Spanish Scholastics ... it was the sixteenth-century Spanish Scholastics who developed the purely subjective and profree-market theory of value. (Rothbard, 1976: 37)

The Spanish Scholastics also anticipated the Austrian school in applying value theory to money, thus beginning the integration of money into general value theory. (Rothbard, 1976: 38)

Furthermore, the Spanish Scholastics went on to anticipate the classical-Mises-Cassel purchasing-power parity theory of exchange rates by proceeding logically to apply the supply-and-demand theory to foreign exchanges. (Rothbard, 1976: 39)

The later work, the chapter on Salamanca in Rothbard’s *Economic Thought Before Adam Smith* (Rothbard, 2006a), then presumes this theme, and treats it as a standard against which he can measure the contributions of a sequence of Salamancan thinkers, applauding them for aspects of their work which support his interpretation, and censuring them for those that don’t. Some, such as Azpilcueta, are awarded the laurels – “splendid”, “distinguished”, “clear”, “bold”, “outstanding contribution”, “most important contributions”, “Azpilcueta struck a blow for economic liberalism” (Rothbard, 2006a: 105-107). Others, such as de Soto, are reprimanded for their backsliding and conservatism: “Unfortunately, on economics de Soto was a reactionary thinker, and set back some of the liberal gains of the previous scholastics ... de Soto, more than any other scholastic thinker, called for statism rather than market determination of price” (Rothbard, 2006a: 103). This is not to say that the Salamancans are unambiguously divided into the good guys and the bad guys: each is given credit for their statements of doctrine which align with those of the Austrians and debit for those that don’t.

We find Rothbard’s approach to be flawed: the Salamancans cannot be considered proto-Austrian. It is simply not appropriate to approach the Salamancans with any modern school in mind as a standard against which they are to be measured – and the attempt to do so, reading 16th century writers through 20th century spectacles, tells us more about the latter than the former. We take Azpilcueta as an example. Martín de Azpilcueta (1491-1586), Doctor Navarrus, or Navarro, taught canon and civil law for 14 years at Salamanca, and was one of the most eminent scholars of his time. For Rothbard

Azpilcueta ... advance[d] economic liberalism farther than it had ever gone before, among the scholastics or anywhere else ... Azpilcueta was the first economic thinker to state clearly and boldly that government price-fixing was imprudent and unwise. When goods are abundant ... there is no need for maximum price control, and when goods are scarce, controls would do the community more harm than good ... Azpilcueta’s outstanding

contribution to economics was his theory of money, published in his *Comentario resolutorio de usuras* (1556) as an appendix to a manual on moral theology. (Rothbard, 2006a: 105)

The *Comentario resolutorio de usuras* was published in 1556 as the first appendix to his *Manual de confesores y penitentes*. But Rothbard has made mistake here, as also did Marjorie Grice-Hutchinson (1952: 4, 89). Azpilcueta's theory of money is set out in the *second* appendix to the *Manual*, the *Comentario resolutorio de cambios*, not the *Comentario resolutorio de usuras*. Typically the five appendices are bound together and the name of the first *Comentario* applied to all of them. It is an easy slip to make. An English translation the *Comentario resolutorio de cambios* (Azpilcueta, 2004) has been published as *Commentary on the Resolution of Money*, translated by Jeannine Emery, although the same translation has also been published as *On Exchange: An Adjudicative Commentary* (Azpilcueta, 2014). It is worth noting here that *Comentario resolutorio* just means analysis, so a better translation of the title would have been "On the analysis of exchange (or money)", or just "On money". Fragments of the *Comentario* coming to seven pages have also been published in translation by Marjorie Grice-Hutchinson (1952: 89-96) – although, as noted above, she wrongly attributes the extracts to the *Comentario* on usury.

The fact that Azpilcueta's main work on money was published as an annex to a handbook for confessors and penitents sets the context for Azpilcueta's discussion. In the Catholic faith one is required to confess one's sins to a priest in order to be absolved, and hence to enter a state of grace, in which one can take holy communion. The manual is a guide for priests fulfilling this function and for the sinful parishioner seeking absolution. Spain at this time is at the centre of the world economy, with a vast empire and lucrative trading activities. The question, for confessors and penitents alike, is: What is sinful, and what is not sinful, in the various activities comprising this enormous network of conquest and trade?

The principal issues for confessors and penitents were usury, prices and money (Backhouse, 2002:60). The goal for the Salamancans thus was partly to reconcile Aristotelian Thomism with contemporary business practices, and partly to explain contemporary economic events, in particular the consequences of the importation of treasure from the Americas. In the confrontation between doctrine and practice, it is inevitable that the line is drawn in different ways by different scholars. But their goal is the same: to find a way to reconcile theology with trade. The Scholastics, including the Salamancans, are casuists. This is remote from modern economics, whether Austrian or not, and whatever the insights, indeed in some cases profound insights, that the Salamancans, with their background in Thomist Aristotelianism and their practical experience of the world of trade, are able to achieve.

Azpilcueta begins his *Commentary* with an examination of a short passage of three lines from Gregory IX's decretal "de usuris". The passage concerns whether it is to be thought usury if one lends to a merchant in specific circumstances regarding the allocation of risk between the borrower and the lender. The first chapter of the *Commentary* is an exegesis of this passage, and the bulk of the remainder of the *Commentary* also deals with what is and what is not usury in various contexts. We do not need to penetrate into the detail of this textual analysis because the overriding point for us is that it is taken for granted throughout that usury is wrong, and this is in fact the case for all the Salamancans without exception. Discussing *exchange* (*cambios*), for example – often used to mean the exchange of one currency for another – Azpilcueta says that

Whenever more than the principal is given or taken for reason of the time elapsed, or for waiting, or for advancing the payment, it becomes a veiled loan and contains a veiled usury ... Just as the person who gives a mule today so that another that is worth much more is given to him in three, four, or six months, is a usurer, so also the person who gives some

money today so that in three, four, or six months a larger sum is bestowed on him, is a usurer. (Azpilcueta, 2004: 223)

This alone places the Salamancans in a completely different paradigm from the Austrians. Repeatedly, Rothbard censures them for their failing to get it right on “the vexed usury question” (Rothbard, 2006a: 101), as if it were a point that could be appraised in isolation, divorced from their overall *Weltanschauung*:

De Soto backslid on usury to such an extent that he advocated banning the foreign exchange market as usurious ... de Soto exercised a reactionary influence on the usury ban. (Rothbard, 2006a: 104).

[I]f a future good is naturally less valuable than a present good on the market, then this insight should automatically justify ‘usury’ as the charging of interest not on ‘time’ but on the exchange of present goods (money) for a future claim on that money (an IOU). And yet, this seemingly simple deduction (simple to us who come after) was not made by Azpilcueta Navarrus. (Rothbard, 2006a: 107)

On most other aspects of the usury question, however, Azpilcueta Navarrus was surprisingly conservative, and a big step backward ... Azpilcueta Navarrus was conservative on most aspects of usury” (Rothbard, 2006a: 107-8).

Other writers receive comments in a similar vein, since, although none of the Salamancans actually wanted to repeal the ban on usury, they varied in the degree of permissiveness they advocated:

On usury, Molina, while still not going as far as the radical acceptance of interest by Conrad Summenhart a century earlier, took important steps in widening the accepted bounds of the charging of interest (Rothbard, 2006a: 114).

With *caerentia pecuniae*, therefore, Leonard Lessius delivered the final blow to smash the usury prohibition, while unfortunately still retaining the prohibition in a formal sense (Rothbard, 2006a: 126).

On usury, de Lugo ... draws back from the clear implications of Lessius and others that the usury ban should become a hollow shell (Rothbard, 2006a: 127).

For Rothbard, this doctrinal proscription of usury was not only an irrational prejudice on the part of the Salamancans, and the Scholastics more generally, but a cause of the decline of Scholastic thinking:

Sixteenth century Spain has well been called the Indian Summer of scholasticism. After that, its decline, not only in Spain but throughout Europe, was rapid. Part of the reason was a stubborn clinging to the form of the prohibition of usury. A ban which had made little sense, either by natural or divine law, and which entered Christian thought quite late in the day, was clung to and strengthened in an almost perpetual, irrational frenzy. (127)

It is clear that with the growth of capitalism throughout Europe and the world, the Catholic Church found ever-greater difficulty in reconciling the proscription of usury with the necessities of finance. The Doctors experimented with a number of loopholes such as

- implicit intention – a loan is not sinful if the lender’s intention was not usurious;

- *census* –an annuity contract or guaranteed investment contract, where a loan was seen as participating in an investment, but with a guarantee, or insurance, could be argued to be licit;
- *lucrum cessans* – this is the doctrine that a lender may justly charge interest on a loan as compensation for profit foregone on other investments.

And it is also clear that the accumulation of these loopholes threatened to empty the ban of content, leaving only the formal shell of usury. Nevertheless it is equally clear that the Doctors of Salamanca, perfectly conscious of this threat to a core belief, systematically withdrew from taking steps which would require its abandonment. The sin of usury thus marks a doctrinal iron curtain between the Salamancan and Austrian standpoints, and between the scholastic and modern outlooks in general. Rothbard's rejection of this proscription as "irrational frenzy" is diagnostic. It may be that the ban on usury was irrational and it may not. Rothbard does not attempt to make the case. For him, as an Austrian economist, individual freedom is beyond question. Rothbard blames the Scholastics for "back-sliding" without any examination of the possible reasons for the proscription.

But there is another way of looking at the matter, and it was incumbent on Rothbard to discuss it, even if he ended up disagreeing. This alternative perspective was set out by Keynes in the *General Theory*. For Keynes

as a contribution to statecraft, which is concerned with the economic system as whole and with securing the optimum employment of the system's entire resources, the methods of the early pioneers of economic thinking in the sixteenth and seventeenth centuries may have attained to fragments of practical wisdom which the unrealistic abstractions of Ricardo first forgot and then obliterated. There was wisdom in their intense preoccupation with keeping down the rate of interest by means of usury laws (1973: 340)

I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment were merely Jesuitical attempts to find a practical escape from a foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of the schoolmen were directed towards the elucidation of a formula which should allow the schedule of the marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest. (1973: 351-2)

We take no view here of the correctness or otherwise of Keynes's view, merely noting that it is evidence that there is a possible rationale to the Scholastics' attitude, and that it is incumbent on Rothbard to support his claim the Doctors' views were irrational.

Rothbard writes

De Roover ... pointed to the great deficiency in Scholastic analysis of the market: the belief that any interest on a pure loan (a *mutuum*) constituted the sin of usury. The reason is that while the Scholastic[s] understood the economic functions of risk and opportunity cost, they never arrived at the concept of time preference. (1976: 142 n 23)

But a failure to conceive of time preference was not at all the *reason* for Scholastic opposition to usury. Indeed, as Rothbard elsewhere argues, the Salamancans *did* raise the issue of time preference: “One of Azpilcueta’s most important contributions was to revive the vital concept of time-preference” (2006a: 106). The *reason* for Scholastic opposition to usury need not even be known to the Scholastics themselves. Hayek says, speaking here specifically of the rules of conduct in primitive human societies – but the point is a much more general one – that “the ‘functions’ which these rules serve we shall be able to discover only after we have reconstructed the overall order which is produced by actions in accordance with them” (Hayek, 1967: 70). We cannot *assume* that rules are functional – that would be Panglossian – or on the contrary that they are dysfunctional. We have to understand, firstly, that they *may be* functional, by attempting mentally to reconstruct the order they form part of, and secondly that, if they are functional, the purpose which they serve is not necessarily understood by the participants themselves.

6 The Salamancans and the principle of diminishing marginal utility

Rothbard’s view on Spanish Scholastics of the 16th and 17th centuries is that “virtually, the only missing ingredient in their value theory was the marginal concept” (Rothbard, 1976: 36). However, he offers insufficient explanations regarding what constitutes a quasi-concept of marginal utility in Scholastic writings. Rothbard bases this claim on statements that as more of a good is brought to market, it will command a lower price. The same point is made about money: the greater the quantity of money in circulation, the lower its purchasing power will be.

A good example of this weakness in Rothbard’s argument is his analysis of Francisco García (?-1649):

The valuation of goods, García pointed out, depends on several factors. One is the abundance or scarcity of the supply of goods, the former causing a lower estimation and the latter an increase. A second is whether buyers or sellers are few or many. Another is whether “money is scarce or plentiful,” the former causing a lower estimation of goods and the latter a higher. Another is whether “vendors are eager to sell their goods.” The influence of the abundance or the scarcity of a good brought García almost to the brink, but not over it, of a marginal utility analysis of valuation. (Rothbard, 1976: 38)

Rothbard considers that García describing the effect on prices of (i) abundance or scarcity of product, (ii) number of buyers and sellers, (iii) quantity of money, and (iv) eagerness of sellers to sell their product, constitute a quasi-concept of marginal utility. He does not explain why. He then presents the following citation by Domingo de Soto:

The more plentiful money is in Medina the more unfavourable are the terms of exchange, and the higher the price that must be paid by whoever wishes to send money from Spain to Flanders, since the demand for money is smaller in Spain than in Flanders. And the scarcer money is in Medina the less he need pay there, because more people want money in Medina than are sending it to Flanders. (Rothbard, 1976: 39).

Soto is referring to the effects of money supply on exchange rates. This statement by Soto still needs to be put within context, as it is unclear whether or not he is integrating transfer fees to his definition of “unfavourable terms of exchange”. In addition to this, the accuracy of the translation from the Spanish original needs to be ascertained. At this point, focus will be placed exclusively on Rothbard interpretation of the previous passage:

What Soto was saying is that as the stock of money increases, the utility of each unit of money to the population declines and vice versa, in short, only the great stumbling block of

failing to specify the concept of marginal utility prevented him from arriving at a doctrine of the diminishing marginal utility of money. (Rothbard, 1976: 39)

There is no evidence of Soto arguing about “the utility of each unit of money”. Rothbard is over- and mis-interpreting Soto’s words outside any suitable context. The insights of the late Salamancans quoted above are indeed consistent with the principle of diminishing marginal utility. But they do not embody or approximate that principle. The notion that increasing quantity is correlated with a decline in exchange value is a commonplace of economic thought from at least Thomas Aquinas’s time on. Indeed, Aquinas clearly understands the principles of supply and demand, which both depend on this relationship. But this does not mean that the mercantilists or the classical political economists, let alone the scholastics, are marginalists. The principle of diminishing marginal utility says that the first derivative of utility with respect to the quantity of a good consumed is positive and the second derivative is negative. This principle simply cannot be expressed prior to the discovery of the calculus by Newton and Leibniz in the 17th century, and the articulation of the concepts of first and second derivative. Indeed, *antecedents* of marginalism may be observed, as is true of most revolutionary ideas – for example, in Ricardo’s theory of rent. But this is not remotely true of the Salamancans, and to attempt to appraise them from this Whiggish perspective is to obscure and misunderstand their contribution.

It is also unclear as to why Rothbard places emphasis on the School of Salamanca as “proto Austrian”, if similar arguments about the quasi-concept of marginal utility are made by Rothbard in his analysis of other authors along the “Aristotelian” line. An example is his treatment of Bernardino of Siena. Rothbard expands on Bernardino’s analysis of the determining factors of prices, which Bernardino defines as: scarcity (*raritas*), usefulness (*utilitas*) and desirability (*complacibilitas*). Rothbard elaborates:

Greater abundance of a good will cause a drop in its value and greater scarcity a rise. To have value, furthermore, a good must have usefulness, or what we may call “objective utility”, but within that framework, the value is determined by the *complacibilitas*, or “subjective utility”, that it has to individual consumers. Again, only the marginal element is lacking for a full-scale pre-Austrian theory of value. Coming to the brink of the later Austrian solution to the classical economists’ “paradox of value”, San Bernardino noted that a glass of water to a man dying of thirst would be so valuable as to be almost priceless, but fortunately water, though absolutely necessary to human life, is ordinarily so abundant that it commands either a low price or even no price at all. (Rothbard, 1976: 43)

Rothbard does not try to elucidate what Bernardino meant by “*complacibilitas*”, a concept that needs to be placed within an adequate historical context. Instead, Rothbard defines it as “subjective utility”, and adds, with no further explanation, that only the marginal element is missing. Similar statements can be found in Rothbard’s treatment of Galiani:

not only did Galiani comprehensively set forth the familiar theory of utility and scarcity as determinants of price – which lacked only the marginal principle to arrive at the Austrian theory – but he also went on to apply the utility theory to the value of labor and other factors of production. For the value of labor is, in turn, determined by utility and scarcity of the particular kind of labor being considered. (Rothbard, 1976: 45)

Rothbard also describes Galiani’s writings on interest as the “pre-Böhm-Bawerk theory of interest”. Rothbard fails to explain the link between the statements by the Scholastic authors discussed above, Galiani’s statements and the Austrian concept of marginal utility.

7 Rothbard and the Spanish late Scholastics: the missing context

Protestant Natural Law philosopher Hugo de Groot (Latinised as Grotius, 1583-1645), who cited Azpilcueta and Covarrubias in his works, was according to Kauder and Rothbard the last “link” between Protestant first real pundit in Rothbard’s story is the Saxon (and not Swedish, as stated by Rothbard) Samuel Pufendorf (1632-1694). Pufendorf was influenced by Grotius and followed a subjectivist theory of value, he is however guilty, according to Rothbard, of not citing the Spanish Scholastics deliberately, as he was a critic of Scholasticism. Gresham Carmichael (1672-1729) translated Pufendorf’s oeuvre into English in Glasgow, the references to Scholastic sources were lost. Carmichael’s student, Francis Hutcheson (1694-1746) and his student, Adam Smith (1723-1790) were not aware of the late Scholastic authors for this reason, and so, the “pre-Austrian Scholastic influence had dropped out altogether” (Rothbard, 1976: 44). This is why, according to Rothbard, de Roover, Schumpeter “and others” think that “Smith shunted economics into a wrong track, which the later marginalists (including the Austrians) had to correct” (Rothbard, 1976:44).

The idea of an Aristotelian continuity which was terminated by Pufendorf’s stance toward the Scholastics and Aristotelianism is weak. Rothbard, Kauder and de Roover under-estimate the importance the work of Francisco Suarez (1548-1617) *Disputationes Metafisicae* (1597), which widespread in Protestant universities during the 17th century. Although not containing Suárez’s economic ideas, its acceptance contradicts the attitude problem suggested by Kauder and Rothbard between Protestants and Catholics. Scholars of the two religions did not reject each other’s scholarship on the basis of religion only.

Suárez’s work was first published in Salamanca in 1597 and a total of 16 editions in 39 years. It is interesting that many of these editions were published during the Thirty Years’ War (1618-1648). Suarez’s work was published even in Geneva (home of Calvin) amongst other cities and his philosophy was taught in Protestant universities such as Wittenberg, Jena, Leipzig, Giessen, Tübingen, Rostock and Helmstedt (Weber, 1962: 19). The protestant scholar B. Heerberd (+1659), professor of metaphysics at Leyden (Netherlands) called him “Pope and prince of all metaphysicists” and in 1672, Protestant scholars in Lund (Sweden) united against Samuel Pufendorf’s critique of the Scholastics, defending Suárez, Molina and Gregorio de Valencia, amongst others (Weber, 1962: 19). 1663, Gottfried Wilhelm Leibniz (1646-1716) wrote his dissertation at Leipzig University in the individuation principle in Suarez. Hugo de Groot (1583-1645) was a great admirer of the Spanish Scholastics, in particular Suarez. This is acknowledged by both Kauder and Rothbard and make him seem like the last Protestant link to Spanish late Scholasticism and Aristotelianism. This is not accurate. There were Aristotelian streams in Protestantism. Spanish late Scholasticism was widespread in early modern Europe and influence schools of thought regardless of their religion.

When referring to the influence of Aristotle on the Salamancans, one of the topics Rothbard focuses on is the concept of just price and he does this without any reference to context. The concept of just price must be accompanied by context.

Rothbard’s stress on Aristotle as the most important influence on the Late Scholastics undermines other very important streams of thought which composed late Scholastic moral philosophy.

On the issue of just price, Gómez Camacho (1998) identifies three main influences shaping the concept:

1. Aristotle’s Politics, Nicomachean Ethics, Rhetoric and Topics, transmitted through Aquinas. The economic thought to be found in Aristotle cannot be detached from his juridical contractual

thought, as transactions are contractual relationships, hence the importance of virtues: honouring promises, justice and non-coercion (Gómez Camacho, 1998:20).

2. Roman Law, and in particular the Corpus Iuris Civilis (ca. 1100)
3. Canon legislation added to the Corpus Iuris Civilis by pope Gregory IX and completed by Boniface VIII.

This moral doctrine was widespread through treatises on transactions and manuals for confessors, product of a synthesis between Roman Law and Greek philosophy. Roman law was based on three maxims, which referred directly to the way in which goods should be valued (Gómez Camacho, 1998: 28)

i) "*res tantum valet quantum vendim potest*" (a thing's value is as much as it can be obtained through its sale).

ii) "*in re sua, unusquisque est moderator et arbiter*" (in one's affairs, one is judge and arbiter).

iii) "*volenti ac consentienti non fit iniuria*" (there's no injury where there's willingness and consent).

The maxims above were interpreted by late Scholastics through the point of view of Thomistic philosophy. Economic phenomena were seen not as determined by universal laws, but by "individual personal relationships", which was the basis of the Scholastic concept of "natural law" and "right reason" (Gómez Camacho, 2011:30).

In addition to Thomism, other philosophical streams such as Platonism and Nominalism, which were opposed to Thomism, influenced the Spanish late Scholastics. A good example is Vitoria, founder of the "School of Salamanca". Despite introducing Aquinas's *Summa* as a textbook and being frequently labelled as a "via antiqua" scholar, Vitoria himself was influenced by humanism and nominalism.

It is difficult to label Spanish late Scholastic authors as to belonging to a particular doctrinal school, as they were recipients of multiple influences. Moreover, dealing with them as influenced by Aristotle and Thomas only, is wrong. As far as focusing on their statements in line with a subjective theory of value without referring to its moral context is also wrong. It is however not only the moral-philosophical context that is missing from Rothbard's approach. Some of his statements reveal the absence of a proper economic-historical context in his treatment of late Scholastic sources. Good examples are his critiques of Domingo de Soto (1494-1560) and Tomás de Mercado.

De Soto considers labour, trouble involved in procurement of goods and the risk entailed in their transport and handling as determining factors of the price, which is in line with a "labour theory of value". Rothbard criticises de Soto's view and his support of price regulation, which he describes as a "set back" of some of the "liberal gains" that he had achieved. (Rothbard, 1995: 103). Rothbard's failure to place de Soto within an economic-historical context prevents him from understanding the particular situation de Soto may have been referring to. In 1545, during his time as professor in Salamanca, Domingo de Soto witnessed serious wheat shortages, which were driving students away from the town (Gómez Camacho, 1998:37). Price regulation was sometimes necessary in the early modern period, given the level of imperfect competition that characterised markets, especially in localities, where the numbers of buyers and sellers were low. De Soto was in charge of negotiating deliveries of wheat from Toledo to Salamanca. His writings on prices were based on his experiences trying to solve "short run" problems, as Gomez Camacho observes (Gómez Camacho, 1998: 37-38).

Another example of lack of context can be found in Rothbard's critique of Tomas de Mercado being in favour of bans on exports of precious metals:

But wouldn't the "esteem" for the remaining metals be higher, and wouldn't this check and offset the outward flow of metals? (Rothbard, 1995: 111)

His statement reveals the assumption of an elastic demand for precious metals, markets that clear easily and flow of information, which cannot be taken for granted in the early modern period.

A correct interpretation of Spanish late Scholastic sources requires an awareness about the type of markets the authors are referring to. Market structures in the early modern period varied according to geographical location and were seasonal in most cases. Economies of towns where wool fairs took place were different from those of trading centres, and different from local markets in agrarian towns.

The stance of School of Salamanca authors regarding prices, and the just price varied according to the markets they were observing.

8 The doctrine of *just price*

Azpilcueta says at one point "I doubt whether it is really so today [that money is a necessary invention], for it destroys souls through avarice, bodies by war and great dangers upon the seas, and even whole fleets" (In Grice-Hutchinson, 1952: 89). While we need not take seriously his affected doubt as to the necessity of money, we certainly can take seriously his concern with the destruction of souls through avarice. Indeed, it is the destruction of souls through avarice which is at the root of the Scholastic opposition to usury and their wariness of trade.

Much of Azpilcueta's writing on money is implicitly about the concept of a just price, as is that of all the Salamancans. We therefore need to explore the idea of a *just price* – that is, a price which avoids the destruction of souls through avarice. Scholastic writers were concerned about what actions should be considered sinful and what should be considered licit for the purposes of confession and the absolution of sins. Moreover they were concerned to make these distinctions in the context of participation in thin and scattered markets – what we would now call imperfect competition. When a trader comes to confession, and describes his activity in the market, what should the confessor reply?

Medieval writers on economic subjects seem to have been very much concerned with what we would describe as imperfect competition. Markets with many buyers and sellers certainly existed in the Middle Ages, but only at particular places and times. Transport costs were sufficiently high ... to force many buyers and sellers to limit their transactions to those living near them. (Friedman, 1987: 5378)

In a society where many markets are thin ... [t]he typical transaction is a bilateral monopoly and may have a considerable bargaining range ... Medieval discussions of the just price, such as Aquinas's, describe its applications to two-party transactions ... the doctrine [of just price] can be understood as (among other things) a device to promote economic efficiency. It provided, in effect, an arbitrated solution to what would otherwise be costly bilateral monopoly bargaining. (Friedman, 1987: 5377-8)

Alongside the moral standpoint of the Church – a powerful one as it involves the sacrament of confession, with traders, officials and princes amongst the penitents – is the legal standpoint of the civil and canon law which this moral standpoint influenced. "The normal rule of both canon and Roman law was, with some exceptions, freedom of contract; a transaction was legitimate as long as

both parties agreed to it” (Friedman, 1987: 5377). Where there was a market, and the potential for monopoly power less, Scholastics were content to accept the market price as the just price, and where regulation existed to counter monopoly power, then the regulated price could normally be assumed to be the just price:

for many, including Aquinas, the just price of a good was normally its market price or, where price control existed, its legal price ... for many, although not all, of the scholastics the just price was normally defined as the market price, and ... the doctrine that individuals should buy and sell at the just price was a moral rule applied within a legal framework in which the usual rule was freedom of contract. (Friedman, 1987: 5377)

It was when markets worked imperfectly, when there was market power, and the possibility of exploitation arose, that it became necessary to consider what price might be just in the circumstances. Hence

The schoolmen envisaged no conflict between the cost and market estimates of the just price. That conflict is of a much more recent date. The two estimates were used interchangeably and are perhaps best understood as complementary and mutually supportive criteria when the market did not function properly. When it did, cost had to adapt to the market anyhow. Does the fact that these estimates were thus associated mean that the medieval schoolmen anticipated modern value theory? Certainly not. (Langholm, 2008: 2)

Rather,

A price obtained when the market did not function properly owing to monopoly or other market irregularities was held to be unjust because it involved economic coercion. Free consent to the price on the part of both the seller and the buyer was a fundamental requirement of justice in exchange. (Langholm, 2008: 2)

Hence it was necessary to think about the formation of licit or just prices in circumstances both where the market price was and was not reliable. Two aspects emerged, objective and subjective. The objective aspects concerned the costs to the supplier. It would be just of the supplier to set a price where he covered his costs. Since most costs could be resolved into labour costs this tended to issue in something approaching a labour theory of value. The subjective side concerned the utility which the consumer experienced. It would be illicit to use market power to extract payment beyond the buyer’s utility from consuming the good. But then, since such buyers were presumably free to walk away, this leads us back to the market price as the just price. Hence, in Aquinas, for example, “the just price of a good appears to be its market value or its value to the seller, whichever is higher” (Friedman, 1987: 5377).

This is exactly the context in which Azpilcueta is writing:

the merchant’s trade is lawful so long as he undertakes it for a moderate profit in order to maintain himself and his family. After all, the art of exchange benefits the republic to some extent. I myself hold it to be lawful, provided it is conducted as it should be, in order to earn a moderate living. (Azpilcueta, in Grice-Hutchinson, 1952: 90)

So a trade is without sin if it yields a moderate living, and sinful if it yields an immoderate one: maintenance but not luxury.

The development of the objective and the subjective sides of value by the Salamancans is a contribution to modern economics. Modern scholars from Marx to Marshall to Mises have benefited from the insights they developed. But development does not occur in a straight line, and it often took the form of isolating one side or the other and developing it apart from the other. That is, elements were taken out of context and exaggerated. So Luís Saravia de la Calle writes:

the just price arises from the abundance or scarcity of goods, merchants, and money, as has been said, and not from costs, labour, and risk. If we had to consider labour and risk in order to assess the just price, no merchant would ever suffer loss, nor would abundance or scarcity of goods and money enter into the question. Prices are not commonly fixed on the basis of costs. Why should a bale of linen brought overland from Brittany at great expense be worth more than one which is transported cheaply by sea? (Saravia de la Calle, in Grice-Hutchinson, 1952: 82)

Here Saravia separates the elements of costs, the objective side, and argues against considering “costs, labour and risk” when deciding what the just price should be. But he doesn’t notice that he has already included them by speaking of “the abundance or scarcity of goods”. The abundance or scarcity of goods is determined by costs incurred by the supplier in bringing them to market – including the labour costs, and the risks undertaken. It would indeed be double-counting to include them again in their own right. Nevertheless, the Salamancans largely avoid the hypostatization of the objective or subjective sides by taking either out of context of the other and exaggerating its importance. It is worth considering the range of modern thought that combines the two sides in various ways.

Marx brings together the objective and subjective sides by asserting that the value of a commodity corresponds to the socially necessary labour time expended in their production. If twice as many hours of labour are expended on producing the commodity than would be required using the most efficient techniques, then the value embodied in the commodity only corresponds to half the hours expended. That deals with the objective side. But, on the subjective side, what is socially necessary is what society, acting via its markets, has decided it wants. If so many hours of labour are expended, using the most efficient techniques available, but the output is twice what is demanded, then only half that many *socially necessary* labour hours are embodied in the product (Marx, 1959: 187).

Marshall regarded his theoretical apparatus, embodied in the partial-equilibrium supply and demand diagrams, as a reconciliation of classical and marginalist modes of thought. The demand curve captured the subjective side in consumer preferences, and the supply curve the objective side in costs of production. “We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or costs of production” (Marshall, 1961: 348).

For Mises, “In an exchange economy, the objective exchange value of commodities becomes the unit of calculation ... The subjective valuation of one individual is not directly comparable with the subjective valuation of others. It only becomes so as an exchange value arising from the interplay of subjective valuations” (Mises, 1951: 115). Later in the same work he refers to the necessity, for economic calculation, of “an objective recognizable unit of value which would enable economic calculations to be made” (Mises, 1951: 135). It seems that much subsequent Austrian thought, including that of Mises himself, has drifted away from this articulation of objective and subjective, towards a hypostatization of the subjective.

It is thus erroneous to argue that the steps forward taken by the Salamancans on the subjective determinants of value constitute a legacy for the Austrians alone, rather than for modern economics as a whole. Only to a very limited extent were these steps accompanied by a hypostatisation of the subjective, a hypostatisation in which they were followed by much Austrian thought four centuries later.

Azpilcueta constitutes a particularly interesting case, given the high status he is accorded in Rothbard's pantheon of the Salamancan Doctors. Throughout the *Comentario resolutorio de cambios* Azpilcueta's goal is to distinguish between what is illicit and what is licit, what is and what is not sinful. He therefore spends the bulk of his time considering activities which could border on or constitute usury. What decides whether an activity is licit is two (in some cases three) criteria. The activity must exclude usury and it must command a just price (and sometimes it must be licensed by the state). But what is to constitute a just price? Clearly Azpilcueta cannot refer to the spontaneous market price, as that would include the remuneration of usury, but he is perfectly comfortable invoking a cost-of-production view of what the just price must be.

Chapter 6 of the *Comentario* is about "Exchange for small coin". Azpilcueta argues (Azpilcueta, 2004: 236) that it is licit for the state to set up an official whose job is to convert between large- and small-denomination coins, for example, accepting a ducat in exchange for 375 *maravedis*. According to Azpilcueta this is agreed by everyone, on account of its usefulness to the community (*la republica* – it doesn't mean a republic, but a polity or community). But it is not agreed by all that it is licit, by extension, for a private individual, unlicensed by the state, to set up in business exchanging large and small coins. Cajetan is given as an authority who denies this (Azpilcueta, 2004: 237). However, Medina and Soto are said to disagree with Cajetan on this, because of the labour required in attending the premises, opening the safe, giving and receiving money, counting and re-counting, and keeping the money safe. It is these labours which must to be compensated. What this has to do with the legitimacy of conducting the business as a private entrepreneur is not explained, but it is clear that Azpilcueta, Soto and Medina think that the just wage for this business is that which will compensate the various labours exerted in its pursuit. Hence in principle this kind of money changing is licit, but, Azpilcueta warns, "this exchange, which in itself is the most natural of all, may turn illicit if the exchanger takes more for himself than what [according to] just law or custom is owed to him" (Azpilcueta, 2004: 239).

Further evidence that Azpilcueta's theory of value does not dispense with the objective side, as Austrians would do, is contained in his continual invocation of *equality* in exchange. This is a strong pointer towards the objective side: objective theories of value highlight the exchange of commodities of equal value. For Smith, Ricardo and Marx, commodities were exchanged at their values in free markets – see the emphasis on equality in exchange in the first chapters of Marx's *Capital* (1954: 43-144), for example, and for neoclassical writers, such as Walras (1954: 164), exchange of equal values is an equilibrium condition as in its absence there would be arbitrage opportunities. Austrians, on the contrary, tend to emphasise *inequality* – from the subjective standpoint each party gains as what is alienated is of less value to that individual than what is acquired. According to Mises, "An inveterate fallacy asserted that things and services exchanged are of equal value. Value was considered as objective, as an intrinsic quality inherent in things and not merely as the expression of various people's eagerness to acquire them" (Mises, 1949: 203). Both objective and subjective perspectives are correct and valuable, but to isolate and hypostatise either side is erroneous. As noted above, the Salamancans largely avoid this hypostatisation. Azpilcueta is perfectly comfortable – unsurprisingly, drawing as he does on a very long-standing central tenet of scholastic doctrine – to invoke equality: "in order to make buying and selling just activities, it is necessary that what is bought is worth an equal price to what is being paid for it, and, conversely,

that the price paid for it is equal to the goods' worth ... the inequality of bartered things makes illicit the exchange". (Azpilcueta, 2004: 222). Again, "According to Scotus's [sc Duns Scotus's] solemn rule: In every contract ... there must be equality between what one party gives or does and what the other gives or does ... All contracts that are unequal are unjust" (Azpilcueta, 2004: 244-5). The evidence here is Azpilcueta's standpoint is more consistent with modern non-Austrian schools of thought than it is with Austrianism itself.

9 The natural law tradition in Rothbard

In his writings on the School of Salamanca, Rothbard draws attention to the tradition of natural law, interpreting this as something desirable, as something associated with reason and contrary to the absolutism of the time. The School of Salamanca was an important transmission route for the natural law tradition and this tradition later flowered in the form of the Austrian School of economics. While the fourteenth and fifteenth centuries, he says, "saw the emergence of nominalism and at least the weakening of the idea of a rational, objective natural law – including a natural law ethics – discoverable by man's reason[, t]he sixteenth century witnessed a renascent Thomism" (2006a: 100). This renascent Thomism was able to re-establish natural law, laying the basis for later, more secular and libertarian, political and economic thought. "In an age when thinkers in France and Italy were preaching secular absolutism and the power of the state, Vitoria and his followers revived the idea that natural law is morally superior to the mere might of the state." (2006a: 102). So while others held the state, and secular values, to be sovereign, Vitoria taught that natural law was superior to the state. The tradition was then taken over by Grotius, Pufendorf and Francis Hutcheson (1976: 44), and by the Enlightenment *philosophes* of the 18th century: the Physiocrats were "heavily influenced by the Scholastics ... in their natural law theory" and "Scholastic doctrine even appears in the ... *Encyclopédie*, including the doctrine of natural law" (1976: 45). The story Rothbard tells here is by and large correct, and he deserves credit for telling it, even though we cannot agree with his verdict that "by the time Hutcheson's student Adam Smith (1723–90) wrote *The Wealth of Nations*, pre-Austrian Scholastic influence had unfortunately dropped out altogether" (1976: 44). On the contrary, Smith's thought was structured by natural law theory, as one of us has written on a previous occasion (Denis, 2005). We need to look at this question more closely. The purpose of this section is to show that while it is correct that natural law was an important component of the world view both of the Salamancans and of at least some Austrians, this does not mean that Salamancan natural law anticipated modern scientific thinking about the economy, but that natural law constitutes a residue of religious thinking in the Austrians.

Rothbard makes frequent reference to natural law throughout his history of economic thought (2006a, b), starting with section 1 of chapter 1 of volume 1 (2006a: 3-6), "The Natural Law" as understood by the ancient Greek philosophers. This section sets out a timeless definition of natural law according to which the correct way to study something is according to its nature. Natural law is presented as a methodological principle for the positive study of phenomena, including human behaviour, with normative considerations

set aside: “The concept of ‘good’ (and therefore of ‘bad’) is only relevant to living entities. Since stones or molecules have no goals or purposes, any idea of what might be ‘good’ for a molecule or stone would properly be considered bizarre.” (2006a: 4). From here on, the notion of natural law remains the same throughout his study, with the writers considered awarded credit according to how faithfully they transmitted this unvarying doctrine to future generations. There is no development and no consideration of the meaning of the doctrine in different historical circumstances. Rather, each generation is successful to the extent that it strips away mistaken notions and expresses the core ideas in an ever more clear and adequate form. At the end stands the Austrian School, and all others are to be appraised in terms of their success or failure in preparing the way for Austrian thought. This whiggish approach to history – the past is interpreted as steps on the road to today’s knowledge – is itself a concomitant of the natural law tradition. Natural law, contrary to Rothbard’s anachronistic interpretation, and whether of the Stoic or Catholic or Calvinistic variety, was a fundamentally *religious* doctrine in which positive and normative ideas were united. While most religion places great weight on its divine texts, on the interpretation of revelation supposedly vouchsafed to its founders, natural law points out that the world, as created by the deity, must exhibit his works. The study of the world, as well as of the sacred texts, is thus a legitimate path towards knowledge of the deity. When we study the world, because the universe is informed by a ubiquitous, omniscient, omnipotent, and beneficent deity, what we see is the working out via spontaneous processes of divine providence. These spontaneous processes thus embody both positive and normative aspects. To act in accordance with these processes is therefore good, and vice versa. Dugald Stewart, eminent Smithian and Adam Smith’s biographer, puts it thus:

A firm conviction that the general laws of the moral, as well as of the material world, are wisely and beneficently ordered for the welfare of our species, inspires the pleasing and animating persuasion, that by studying these laws, and accommodating to them our political institutions, we may ... [consider] ourselves ... as *fellow-workers with God* in forwarding the gracious purposes of his government. It represents to us the order of society as much more the result of Divine than of human wisdom. (Stewart, 2007: 248)

Volney expresses the idea well:

What is natural law? It is the regular and constant order of facts by which God rules the universe; the order which his wisdom presents to the sense and reason of men, to serve them as an equal and common rule of conduct, and to guide them ... towards perfection and happiness. (cited in Becker, 1932: 45).

The natural law approach thus has the attractive consequence that it is legitimate to study the world and not just divine texts. But it has the less attractive consequence that the world is construed as embodying divine reason and divine purpose – erecting an apology for the status quo. If the world presents the appearance of imperfection, of sin and suffering, this is because we are only able to grasp it with the finite mind of man, rather than the infinite mind of God, who can see all the ultimate ramifications of things. Pope expresses this in his poem *An Essay on Man*:

All are but parts of one stupendous whole,
Whose body Nature is, and God the soul ...
All discord, harmony not understood;
All partial evil, universal good:
And, in spite of pride, in erring reason's spite,
One truth is clear, Whatever is, is right. (cited in Becker, 1932: 66)

Adopting this standpoint immediately leads to a whiggish interpretation of history: the goal of history is what we see today, so the past is to be appraised as a process of approximation to today's conditions.

Angner (2007) has ably argued that Hayek is a proponent of a twentieth century version of natural law. It is interesting to note here the very favourable view that Hayek takes of the natural law tradition. Hayek (1967a: 131ff) details how the idea of spontaneous order was maintained by theorists of 'the law of nature' – ie, natural law – from Greek times up to the present. He postulates a connection between freedom, natural law, and a belief in the agency of a benign deity: "There appears to have existed in all free countries a belief that a special providence watched over their affairs which turned their unsystematic efforts to their benefit" (Hayek, 1967a: 130). Adam Smith himself partook fully of that belief, as Roll shows:

The social philosophy which underlies it [*The Wealth of Nations*] was widely held at the time, and Smith's teacher, Francis Hutcheson, was one of its chief exponents. It was from him that Adam Smith derived his faith in the natural order. The naturalist school of philosophy to which he belonged had had an unbroken tradition from the later Greek Stoics and Epicureans onwards ... and came to full flower in the writings of Smith, the physiocrats, and the later radicals ... these schools can be regarded as representative of a single trend of thought. Its essence is a reliance on what is natural as against what is contrived. (Roll, 1938: 143-4).

As indicated above, the reliance on what is natural against the products of human reason derives from a belief in the beneficence of the deity whose body nature is, and leads to an apologetic standpoint in which "partial ills" are interpreted as "universal goods". It is certainly true that the Salamancans endorsed, developed and transmitted natural law ideas, and it is also true that the Austrian school embodies those ideas, perhaps in the most pure and extreme form of any school of thought today. But far from exemplifying a proto-scientific standpoint on the part of the Salamancans, this rather underlines a hangover of religious ideas within Austrian thought.

10 Conclusion

We find Rothbard's interpretation to be flawed: on our reading, the School of Salamanca cannot be considered to be proto-Austrian. Firstly, it is inappropriate to approach the Salamancans with any modern school in mind as a standard against which they are to be measured – and the attempt to do so, reading 16th century writers through 20th century spectacles, tells us more about the latter than the former. Further, Rothbard's interpretation is vitiated by a misconception of the specificity of the Austrian School; the immense Salamancan legacy for subsequent economists is a broad contribution, one for many schools, and not at all one specific to the Austrian standpoint. Finally, we find that Rothbard's account of the one element of late Scholasticism which *can* be claimed as feeding into Austrianism, the tradition of natural law, is quite unpersuasive: contrary to Rothbard's judgement, the natural law tradition, which was indeed a core component of Salamancan theory, and is today an important aspect of Austrian theory, represents, not an anticipation of the scientific outlook in the Salamancan writings, but a residue of religious thinking in the Austrian theorising.

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