

# THE ECONOMIC TEACHING OF THE SCHOLASTICS

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*Abstract:* This paper inquires into the economic teaching of the Scholastics. It reveals and brings into light some basic economic theories. It declares that there existed full understanding of many crucial economic questions and issues much more sooner than it is usually accepted among economic professionals as well as among people without economic background. It presents ideas of leading medieval school of economics – teaching of Scholastics. Its aim is to point out that Scholastics authors were the first one who set clear basis of liberal economics. It is trying to divert the attention from Classical Liberal teaching as a founding school of liberal teaching and turn it deeper back in time to period between 14<sup>th</sup>-17<sup>th</sup> centuries as a crucial period of liberal economic thinking. To do so, paper borrows many references and quotations of original texts of Scholastics authors.

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*Resumen:* Este artículo pone de manifiesto cómo los escolásticos lograron una comprensión plena de muchas cuestiones económicas importantes. Además, fueron los primeros en poner los fundamentos de la economía liberal, como se verá a partir de diversas citas tomadas de los textos originales.

*Códigos JEL:* B110, N010.

## I FOUNDATIONS OF LIBERAL ECONOMICS

It is believed that origins of liberal economic thinking came from teaching of Classical Liberal authors, founded by A. Smith. This may be true, but only in case we are focused on analytical

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or scientifically (in modern terms) essence of texts and elaborates of Classical Liberals. On the other hand we may certainly declare that origin of liberal economic thinking, the overall idea and concept lies in texts and writings of Scholastics authors. All of them were students and followers of Saint Thomas Aquinas. One may recognize him as even grater mind than A. Smith in the history of liberal economic thinking, who established the basis to what we today call free-market economy and the existence of Western civilization at all. Scholastics authors were the first who introduced questions of very fundamental problems of economics: questions of utility, value, price, private property, money, exchange, profit and entrepreneurship – all the backbones of today modern economics. One may say that the writings were simple and do not fit the requirements of modern analysis. This also may be true but instead of this very precise analysis the biggest contribution of these authors lies in defining the key problems of economics, which we face until now.

## II INTELLECTUAL BACKGROUND OF SCHOLASTIC THINKING

We recognize two branches of scholastic authors divided by time factor. Into the first branch belongs authors who represented Scholastic thinking from 1350 to 1500; to mention only the most influential: Saint Thomas Aquinas (founding and leading authority influenced by his teacher Albert the Great) together with Saint Bernardino of Sienna, Saint Antonino of Florence, Joanis Gerson and Sylvestre de Priero. When authors refer to second branch, 1500–1750, they usually use term the Hispanic Scholastics, authors who where in one way or another academically active on a leading Spanish university of that times, the University of Salamanca. Some of them taught on other universities in Paris (Sorbonne) and Coimbra (Portugal). Father of Hispanic Scholastics is being considered Franciesco de Vitoria. Other well known names are as follows: Domingo de Soto, Martin de Azpilcueta, Juan de Lugo, Juan de Mariana, Leonardo Lessio and many

more. All of them were members of religious orders, mainly Jesuits, Dominicans and Franciscans. For this reason some modern authors blame their writings to be religious rather than academic. They also proclaim that, because Scholastics authors were members of religious orders, they had only a limited chance to exercise free and independent thinking. This is not true and as Joseph A. Schumpeter puts it in his *History of Economic Analysis* they had even bigger independency than academics of that time who were not members of any order and as such did not receive the protection from pressure of kings and political power.

«I am far from wishing to belittle the independence of Christian ideals and precepts per se. But we need to invoke them in order to realize that monastic subordination to authority in matters of faith and discipline was compatible with extensive freedom of opinion in all other matters. We must go even further. Not only did the monks' sociological location —outside, as it were, of the class structure— make for an attitude of detached criticism of many things; there also was a power behind them that was in a position to protect that freedom. So for as a treatment of political and economic problems is concerned, the clerical intellectual of that age was not more but less exposed to interference from political authority and from pressure groups that was the laical intellectual of later ages.»<sup>1</sup>

We can also recognize three origins of scholastic thinking cumulated in their writings. First, it was Greek philosophy which focused their attention to economic questions proposed by Aristotle and Plato. Second, it was Roman law codified in the time of Justinian and Diocletian which gave them perfect insight to administration of society. Third, origin lies naturally in Old and New Testament and in the teaching of the Fathers of Church.

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<sup>1</sup> Schumpeter, J.A.: *History of Economic Analysis*, Oxford University Press, London, 1954, p. 76-77.

### III ELEMENT OF JUSTICE

Before I will present some exact economic problems elaborated by Scholastics I have to shortly point out the element of justice which occurs in Scholastic teaching. The question of justice was fundamental and principal in all the writings of Scholastics authors. Every economic analysis worked out by Scholastics is based on the relation to the question of justice. But rather than accusing them of being normative economics, we have to realize that they derived all the statements about justice from the natural law which they considered as superior to economics laws. From this point of view, their normative statements of just or unjust actions were not based on human consideration but they were backed up by higher – that means natural order. Natural law is thus every scientific law that is true statement. Natural law is something that human beings can understand but cannot alter. By revealing these unaltered statements they were able to deliver normative judgments on every human action and not only about economic one. The same observation can be founded in Schumpeter's *History of Economic Analysis*:

«For instance, the sociological and economic systems of the Scholastic doctors of the sixteenth century cannot be understood if we do not realize that they were primarily treaties on the political and economic law of the Catholic Church and that their technique was derived primarily from the Roman law as adapted to the conditions of the time. Second, the legal framework of the economic process, and the shaping influence of either upon the other, are, to say the least, of considerable importance for economic analysis. Third, the historical roots of the concept of "economic law" are in the purely legistic concept of "natural law."»<sup>2</sup>

References to natural law can be founded not only in writings of sixteenth century academics but also in texts of twentieth

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<sup>2</sup> Schumpeter, J.A.: *History of Economic Analysis*, Oxford University Press, London, 1954, p. 26.

century great liberal authors, among them for example in Ludwig von Mises's work *Theory and History*:

«From the bewildering diversity of doctrines presented under the rubric natural law there finally emerged a set of theorems, which no caviling can ever invalidate. There is first the idea that a nature – given order of things exists to which man must adjust his actions if he wants to succeed. Second, the only means available to man for the cognizance of this order is thinking and reasoning, and no existing social institution is exempt from being examined and appraised by discursive reasoning.»<sup>3</sup>

It seems to me that Mises by saying that «no caviling can ever invalidate it» (the natural law) is the same conclusion as statements that natural law is one which can be understood by reason but cannot be altered.

#### IV PARTICULAR THEORIES

Now I will present some striking ideas on basic problems and questions of economics analyzed in Scholastic writings. Before I will do so I have to state clearly that I will skip the question of interest and usury and I will do so purposely. The reason why I am taking this option is because I don't want to make the same mistake as many authors who dealt with Scholastic teaching before and gave up their endeavors after revealing this difficult part of the teaching. On the other hand I do not deny that the interest and usury question constitutes confusing point in Scholastic thinking, but rather than sticking on this particular point, one of many others, what is more not the most important one, I want to expose others which are presented by clear reasoning in writings of all Scholastics and represent the cornerstones of Scholastic teaching and also have been the most influential over the time in future development of economics.

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<sup>3</sup> Mises von, L: *Theory and History*, New Haven, Conn., Yale University Press, 1957, p. 44-45.

## 1. Value theory and price

Understanding the question of value of things and the process how people assign the value to different things is a crucial point in every economic school. There is no difference in thinking of Scholastic academics. All of them approve the same principle. A. A. Chafuen writes:

«value and price are essential concepts to economic science. In many ways, economic schools of thought are determined by their understanding of value and price. Strikingly, nearly all the elements of modern value and price theory figure in the writings of the Medieval Schoolmen. The Hispanic Scholastics analyzed price and value in order to understand the moral conditions for just prices and fair exchange.»<sup>4</sup>

Scholastic authors developed two approaches to value theory of things. They derived their analysis from the text of Saint Augustin stating that «thing have natural value (because they do exist) and one which is based on the use of the particular thing.»<sup>5</sup> Saint Bernardino puts the problem more precisely:

«things have two values: one is natural, and one is use based. Saleable good are valued in the latter. And this use value can be considered from three perspectives:

1. *raritas* – scarcity
2. *complicibilitas* – desirability
3. *virtuositas* – differentials in value based in variable quality of the similar product.»<sup>6</sup>

From this analysis we can derive the statement that scholastic authors understand that value which men place on a good depend

<sup>4</sup> Chafuen, A.A.: *Faith and Liberty*, Lexington Books, Maryland, 2003, p. 79.

<sup>5</sup> Augustin: *The City of God*, Penguin, London, 1972, bk. 11, p. 447.

<sup>6</sup> Bernardino, of Sienna: *Opera Omnia*, Venice, 1591, bk. 2, Sermon 35, chap. 1, p. 335.

on the use of that good and as such on utility people can derive from them. Since our needs and desires are subjective, utility is subjective as well.

Once the Scholastics authors resolved the question of utility they were able to use the knowledge to further analysis of price, precisely just price theory. The key definition of just price came from Saint Bernardino of Sienna, which remained valid and respected through all scholastic writings stating that:

«just price is the one determined or established by common estimation in the market»<sup>7</sup>

The same conclusion delivered De Roover, the most respected modern authority on field of Scholastic teaching:

«the just price was the one set by common estimation, that is by free valuation of buyers and sellers,..., by the interplay of the forces of demand and supply»<sup>8</sup>

It is interesting that the term «common estimation» vanished from nowadays economic language. The main reason for this disappearance is that it was replaced by terms coined in the first half of the 20<sup>th</sup> century, the most frequently used as perfect competition. If we consider just price we can recognize close relation to subjective value theory. Covarrubias declared that:

«what must prevail in the establishment of just price is not nature of the thing [the first concept of value] but human estimation alone, even if this estimation is insane»<sup>9</sup>

Juan de Medina in his explanation of relation between human estimation and the value of things stated:

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<sup>7</sup> *Ibid.*

<sup>8</sup> Roover de, R.: «Concept of the Just Price: Theory and Economic Policy», *The Journal of Economic History*, Vol. 18. N.º 4, Dec. 1958, p. 418-434.

<sup>9</sup> Covarrubias, Diego y Levia: *Opera Omnia*, Salamanca, 1577, bk. 11, p. 527.

«the higher the esteem, caeteris paribus, the higher the value of the thing and vice versa»<sup>10</sup>

It can be certainly stated that the Scholastic authors fully understood and left as a legacy two basic economic principles: subjective value theory and prices valid only if set by common estimation, which means market estimation. Common or market estimation was the only process which established just price and thus fair exchange. All of the modern liberal theories are based exactly on these principles, not taking into account the question of justice.

## 2. Money and price

While the relation between value and price and installment of price process is part of the microeconomic analysis, the relation between stock of money issued and prices (price level) belongs to macroeconomic field of observation. Here as the key law is being considered the Quantity Theory of Money. It is commonly believed that the first who formulated this theory was Frenchman J. Bodin. We may also find the same argument in the Schumpeter's *History of Economic Analysis*:

«nevertheless, though it is probably possible to find early arguments that more or less distinctly imply this obvious diagnosis, it seems to be the fact that no explicit, full, and —so far as it went— theoretically satisfactorily presentation of it appeared before 1568, when Bodin published his *Response to the Paredoxes sur le fait de Monnoyes* (1556) of M. de Mallstroict. On the strength of this, he is universally voted the “discover” of the Quantity Theory of Money.»<sup>11</sup>

The answer of A. A. Chafuen in his book is on the contrary clear, stating that there existed theoretically satisfactory, at least

<sup>10</sup> Medina de, J.: *De Contractibus*, p. 102.

<sup>11</sup> Schumpeter, J.A.: *History of Economic Analysis*, Oxford University Press, London, 1954.



in the sense in which J. Bodin formulated his theory, analysis of relation between quantity of money available to use and prices in economy before the year 1568, the year of publishing Bodin's work. Chafuen declare this statement by quoting one of the most important of the Scholastic authors Martin de Azpilcueta:

«other things being equal, in countries where there is a great scarcity of money, all other saleable goods and even the hands and labor of man, are given for less money than where it is abundant. Thus, we see by experience that in France, where money is scarcer than in Spain, bread, wine, cloth and labor are worth much less. And even in Spain, in times when money is scarce, saleable goods and labor were given for very much less than after the discovery of the Indies, which flooded the country with gold and silver. The reason for this is that money is worth more where and when it is scarce than where and when it is abundant. What some men say, that a scarcity of money brings down other things, arises from the fact that its excessive rise (in value) makes other things seem lower, just as a short man standing beside a very tall one looks shorter than when he is beside a man of his own height.»<sup>12</sup>

Work of Azpilcueta was published in 1556 in Salamanca, which means 12 years sooner than J. Bodin's work. I can't say whether Schumpeter had no chance to study this work when he was compiling the materials on the Quantitative Theory of Money, however, he mentioned Azpilcueta in his *History of Economic Analysis* three times, or if he did not consider Azpilcueta's text to be enough «explicit, full and theoretically satisfactory». It is true that in Azpilcueta's inquiry he did not state the proportionality of rise in stock on money and prices. On the other hand the paragraph from his work states clearly a basic relation between quantity of money available in economy and the price level and that this relation is positive. In this light Azpilcueta, one of the Scholastics, can be considered the first author who formulated the

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<sup>12</sup> Azpilcueta de, M.: *Manual de Confesores y Penitentes*, Salamanca, 1556.

Quantity Theory of Money instead of J. Bodin, which implies high intellectual qualities of Scholastics and existence of precise economic analysis much sooner than is commonly believed. Once the Scholastics elaborated more on the problem of quantity of money in economy they were able to recognize harmful effects of money debasement in relation to private property and to commerce. Juan de Mariana understood under currency debasement a theft by the person who has the power to either alter the quantity of money in the country or seal and design of coins. He observed that kings were able of such alternation. He states:

«the king has no domain over the goods of the people and he can not take them in whole or in part. We can see then: Would it be licit for the king to go into a private barn taking for himself half of the wheat and trying to satisfy the owner of the barn by saying that he can sell the rest at twice the price? I do not think we can find a person with such depraved judgment as to approve this, yet the same is done with copper coins.»<sup>13</sup>

Mariana applied the term «infamous systematic robbery»<sup>14</sup> to such manipulation of quantity of money. He also sees that commerce suffers under such fluctuations of value of money, he stated:

«as the foundations of building must be firm and stable, weights, measures and money should not change if one wants to avoid the confusion and the pendulum swing of commerce»<sup>15</sup>

### 3. Profit

Elaborates on profit go along with the just price concept. Only to recall, the just price was the market price, stated on the very beginning of Scholastic teaching by Saint Thomas Aquinas. Just

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<sup>13</sup> Mariana de, J.: *Tratado Sobre la Moneda de Vellón*, in Biblioteca de Autores Españoles, Rivadeneyra, Madrid, 1950, Vol. 31, p. 578.

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

<sup>15</sup> *Ibid.*

price in light of Scholastics, derived from market estimation stands on the opposite site to the cost of production price. Saint Bernardino of Sienna states:

«if it is legal to lose, it must be legal to win»<sup>16</sup>

As such, there is no space for cost of production price when the goods are traded on market. If the tradesmen are allowed to set prices based on cost calculation they would never suffer the threat of loss, because they would always set the price above the cost of production and thus make profit. In Scholastic teaching profits are justified when they are obtained through buying and selling at just prices. Saint Thomas Aquinas states the problem as follows, telling the story:

«merchant brings wheat to a country where there is dearth and knows that others are following with more. May this merchant, Aquinas asks, sell his wheat at the prevailing price or should he announce the arrival of fresh supplies and thus cause the price to fall? The answer is that he may sell his wheat at the current price without infringing the rules of justice.»<sup>17</sup>

Garcia obtained the same observation. He states that there is no reason for tradesman to always have the right to earn a profit:

«this is very big mistake and diabolic persuasion because the art of business and of those who make money by buying and selling must be equally open to profits and losses, depending on luck (fortune).»<sup>18</sup>

Scholastics also revealed the biggest threat to just price and profit. They considered monopoly as primary cause which violates the rules of just price and thus profit. We have chance to comprehend the concept of monopoly of the Scholastics,

<sup>16</sup> Bernardino, of Sienna: *Opera Omnia*, Venice, 1591.

<sup>17</sup> Aquinas, T.: *Summa Theologica*, II., ii., qn. 77, art. 3, ad. 4.

<sup>18</sup> García, F.: *Tratado Utilisimo de Todos los Contratos, Quantos en los Negocios Humanos se Pueden Ofrecer*, Valencia, 1593, p. 251.

because of numerous works they left on this topic. According to Molina, the term monopoly covers:

«all pacts by which merchants set a maximum price above which they refuse to buy or a minimum price below which they agree not to sell»<sup>19</sup>

Scholastics understood the term monopoly in different way as we understand the concept today as one primarily derived from neoclassical (static) teaching of monopoly as market structure with one or few sellers. Contrary to neoclassical ideals stands Scholastics' represented by thoughts of Leonardo Lessio who distinguishes four kinds of monopoly:

«(i) that in which sellers conspire to set a minimum price; (ii) that which is granted by privilege of the prince; (iii) that which consist in cornering the market by buying up the available supply and by refusing to sell until the price has risen; (iv) that which consist in impeding the importation of a commodity by others»<sup>20</sup>

Scholastics were fully aware that not only the sellers of goods and services, in modern terms the production market, but also sellers of labor, in modern terms factor market, are not allowed to «conspire to set minimum price» because these conspiracies were quite common in medieval guilds, today know as trade unions.

## V CONCLUSION

What we today understand under the term «liberal economic thinking» is believed to be developed from teaching and works of 18<sup>th</sup> and 19<sup>th</sup> century intellectuals known as Classical Liberals.

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<sup>19</sup> Molina de, J.: *Justia et jure*, tract. II., disp. 345, par. 2.

<sup>20</sup> Lessio, L.: *De justia et jure caeterisque virtutibus cardinalibus*, Paris, 1606, bk. 4, lib. 2, cap. 21, p. 270.

This paper shows on only few examples (thoughts on value, utility, price, money, profit) that liberal ideas were known long before in works and teaching of Scholastics. The liberal ideas, proposed by Scholastics, were not distinguished as one which stands on the opposite site of some others, the way we think about them today, but did stand alone as one which best fit nature of human being, though they were derived from natural law. The paper also shows that these ideas were developed in Catholic circles and thus ruins the common believe of Catholic backwardness and negative attitude toward market economy, profit and free human actions. In this light, the Scholastics can be considered as true fathers of liberal economic thinking whose thoughts set the foundations of future development of liberal thinking.

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