



City Research Online

City, University of London Institutional Repository

Citation: Denis, A. (2015). Was the School of Salamanca proto-Austrian?. Paper presented at the The Scottish Economic Society annual conference, 13-15 Apr 2015, Perth, Scotland.

This is the accepted version of the paper.

This version of the publication may differ from the final published version.

Permanent repository link: <https://openaccess.city.ac.uk/id/eprint/16631/>

Link to published version:

Copyright: City Research Online aims to make research outputs of City, University of London available to a wider audience. Copyright and Moral Rights remain with the author(s) and/or copyright holders. URLs from City Research Online may be freely distributed and linked to.

Reuse: Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge. Provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.

City Research Online:

<http://openaccess.city.ac.uk/>

publications@city.ac.uk

Was the School of Salamanca proto-Austrian?¹

Andy Denis

Department of Economics, City University London

a.m.p.denis@city.ac.uk

Abstract

In this paper I challenge Murray Rothbard's interpretation of the School of Salamanca as proto-Austrian. I 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 Rothbard correctly identifies 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 amongst at least some Austrians.

JEL Code: B110.

Keywords: School of Salamanca, Austrian School, natural law, Scholasticism, Murray Rothbard

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).

I 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, I find that his account of the tradition of natural law to be superficial and misleading. I agree that this core component of late Scholasticism is today important for many Austrian writers, 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 those Austrians.

The next section examines a key aspect of the writings of the Salamancans, the question of usury. The section argues that the Salamancan attitude to usury constitutes a gulf separating them from modern schools of thought, such as the Austrian school. Section 3 addresses the doctrine of just price, arguing that Rothbard misunderstands and

misrepresents Salamanca contributions. Contrary to his interpretation, the Salamanca and Scholastic approach to just price constitutes a contribution to modern non-Austrian economics as much as, or more than, to Austrianism. The topic of the final substantive section is Rothbard's treatment of natural law. I argue that Rothbard's characterisation of natural law is completely false, and that once natural law is properly understood, it becomes apparent that, far from an anticipation of the scientific method amongst the Salamancans, the natural law framework constitutes a residue of religious thinking amongst those who adopt it today. A final section concludes.

2 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 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.

I 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. I 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 of 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 state one is fit to take holy communion. The manual is a guide for the priest 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 - the philosophy of Aristotle, as interpreted by St Thomas Aquinas, OP, in the thirteenth century - 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 - a term 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 *carentia 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)

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

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.

3 The doctrine of *just price*

Azpilcueta speculates at one point as to whether money is a necessary invention, and says that “I doubt whether it is really so today, 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 ... 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: 5377-8)

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 hypostatisation 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. The examples of Marx, Marshall and Mises all show how the subjective and objective sides of value have been understood without hypostatizing either.

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, the costs incurred in producing something. But, on the subjective side, the utility or use-value attained by consuming the article, 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 hypostatization of the subjective, a hypostatization in which they were indeed 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 it is to convert between large- and small-denomination coins, for example, accepting a *ducat* in exchange for 375 *maravedís*. According to Azpilcueta this is agreed by everyone, on account of its usefulness to the 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 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, since 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 Scoto'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 that Azpilcueta's standpoint is more consistent with modern non-Austrian schools of thought than it is with Austrianism itself.

4 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).

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 I 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 entirely structured by natural law theory, as I have 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 rather that natural law today constitutes a residue of religious thinking.

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 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 doctrine to future generations. 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 fused. While religion, of course, 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 – not just the Book, but the Book of Nature, too – 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 limited attractive consequence that it is legitimate to study the world and not just divine texts. But this is offset by the assumption that not just reason, but *right* reason (*recta ratio*) – reason profoundly educated in the Christian faith – must be employed to interpret what we may observe in the world. And it has the less attractive and more important consequence that the world is construed as embodying divine reason and divine purpose, thus 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 very nicely 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 arguable, as Rothbard claims, 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.

A major source for the study of Salamancan natural law thought is Fernández-Santamaría’s 2005 study entitled *Natural Law, Constitutionalism, Reason of State, and War*, forming Volume I of his *Counter-Reformation Spanish Political Thought*. Fernández-Santamaría begins his account by referring to the words of an anonymous referee, that sixteenth-century Spanish thinkers “sought to arrive at a coherent justification, consistent with Christian teaching, of the patterns of action of the emerging modern state.” In Fernández-Santamaría’s view, “As an explanation of what Spanish intellectuals ... strove to accomplish during the second half of the sixteenth century, this short statement can hardly be improved upon” (Fernández-Santamaría, 2005: 1). The very first sentences of Fernández-Santamaría’s book thus go to the heart of the matter: the attempt to understand the Spanish imperial state by interpreting it in the light of Christian doctrine. That inevitably means recourse to natural law conceptions:

the tradition of Dominican and Jesuit Thomism that since the days of Francisco de Vitoria sought to find answers to the questions raised by the rise of the modern state, the discovery of America, and the Reformation ... is a tradition that culminates in the thought of Francisco Suárez. For these Spanish Neoscholastics natural law is the key to everything. The political universe of orthodox Catholicism as the Spanish theologians and jurists see it lies firmly set on a foundation of natural law itself understood in Stoic and Aristotelian-Thomist terms. (Fernández-Santamaría, 2005: 4)

Writing of the Stoics, Fernández-Santamaría identifies the heart of natural law as a morality rooted in an understanding of the divine purpose of the world:

the reason (right reason) exercised by man is essentially the same quality as the reason governing the cosmos ... Endowed with reason, then, man becomes acquainted with the rational principles that rule the universe, the laws of nature, and consciously complies with them. By virtue of his rationality, therefore, man recognizes himself as part of the universe and thereby pledges to work for the whole it represents ... Stoic happiness (*eudemonia*) or virtue ... is... life lived in accordance with nature... to live in accordance with nature means ... the concordance of human

actions with the law of nature, the concordance of the human will with the Divine Will. (Fernández-Santamaría, 2005: 18-9)

For the Salamancans, following Thomas Aquinas, there are four notions or levels of law. The top level is eternal law, which we mortals may participate in via its two species, “natural law engraved by God in the minds of men as the norm corresponding to their collective nature, that is, the principles that man knows through his natural reason alone”, and “divine law, both Old and New” (ie the Old and New Testaments of the Christian Bible) (Fernández-Santamaría, 2005: 93-4). Finally, at the lowest level, are the laws which “God authorized men to establish”, “the laws that he judged necessary in accordance with time, place and circumstances” (Soto cited by Fernández-Santamaría, 2005: 94); “those human laws must, at all times, be in conformity with natural law”.

Ultimately, then, all the Salamancans find that the state power of the emerging Spanish empire – its *potestas*, *potestas civile*, *publica potestas*, *regia potestas*, *suprema potestas*, *auctoritas*, *dominium*, or *imperium* – is of divine origin, though the manner in which it is wielded and the organisational forms adopted are human. For Vitoria, “[a]ll *potestas*, regardless of whether it is public or private, is not only just and legitimate but, inasmuch as it has God as its author, cannot be abrogated even with the consent of the whole world” (41). Vitoria argues that the efficient cause of *potestas* is God, “for, after all, inasmuch as the *publica potestas* has been mandated by natural law whose author, in turn, is God alone, it necessarily follows that the public power is of God alone” (42). According to Vitoria, “[r]egia *potestas* is not only just and legitimate but kings have it by divine and natural law” (Vitoria, cited by Fernández-Santamaría, 2005: 44). For Vitoria “kings derive their authority from God” (Fernández-Santamaría, 2005: 166). For Soto “*potestas civile* ... was ordained by God by means of natural law” (Soto, cited in Fernández-Santamaría, 2005: 166). Soto regards *dominium* as “a right clearly deduced from the principles of nature” (Fernández-Santamaría, 2005: 166). According to Suárez, “That power [*potestas*] is given immediately by God in his role as the author of nature ... God is both the principal and exclusive author of that power” (Suárez, cited by Fernández-Santamaría, 2005: 192). Suárez believed that “Political power is something in nature and as such it is, *simpliciter*, good and necessary for man and his relations with his fellows; obviously, given these circumstances only the Creator of man could possibly be the source of that power” (Fernández-Santamaría, 2005: 193). For Suárez,

the political prince gets his power from God Himself ... all things that are of the law of nature are from God as the Author of nature; but political principality is of the law of nature; therefore it is from God as the Author of nature. ... since this principality is just and lawful, it cannot fail to be consonant with the natural law; and since it is necessary for the conservation of human society, which human nature itself seeks, it is also by this title from the natural law, which demands such power; therefore as God, who is the Author of nature, is also the Author of the natural law, so also he is the Author of this primacy and power. (Suárez, 2012: 281)

This is a conception of natural law utterly at odds with Rothbard's simplistic presentation, according to which natural law is the positive study of the nature of a thing with normative views set aside.

5 Conclusion

I 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, I find that his 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, natural law, far from an anticipation of scientific thinking in the Salamancans, constitutes a residue of religious thinking in those later economists working in a natural law framework.

Bibliography

- Erik Angner (2007) *Hayek and Natural Law* Abingdon, Oxon, and New York, NY: Routledge.
- Martín de Azpilcueta Navarro (1556) *Comentario Resolutorio de Usuras, Comentario Resolutorio de Cambios* Salamanca: Andrea de Portinarijs (Reprinted by Kessinger Legacy Reprints).
- Martín de Azpilcueta (2004) *Commentary on the Resolution of Money*, translated by Jeannine Emery and with an Introduction by Rodrigo Muñoz, *Journal of Markets & Morality*, 7 (1): 171-312.
- Martín de Azpilcueta (2014) *On Exchange: An Adjudicative Commentary* (Sources in Early Modern Economics, Ethics, and Law), translated by Jeannine Emery and with an Introduction by Rodrigo Muñoz; Grand Rapids, Michigan: CLP Academic.
- Monika Asztalos (1992) "The Faculty of Theology", Chapter 13 of Walter Rüegg (ed) *A History of the University in Europe*, Volume I, H. de Ridder-Symoens (ed) *Universities in the Middle Ages* Cambridge: CUP: 409-441.
- Roger E. Backhouse (2002) *The Penguin History of Economics* London: Penguin.
- Carl Becker (1932) *The Heavenly City of the Eighteenth-Century Philosophers* New Haven and London: Yale University Press.
- Brian P. Copenhaver and Charles B. Schmitt (1992) *Renaissance Philosophy* Oxford: OUP.
- Andy Denis (2005) "The Invisible Hand of God in Adam Smith" *Research in the History of Economic Thought and Methodology* 23-A: 1-32.
- Raymond de Roover (1955) "Scholastic Economics: Survival and lasting influence from the sixteenth century to Adam Smith" *Quarterly Journal of Economics* 69 (2): 161-190.
- Raymond de Roover (1958) "The concept of "Just Price": Theory and economic policy" *The Journal of Economic History* 18 (4): 418-434.
- David D. Friedman (1987) "just price". In John Eatwell, Murray Milgate and Peter Newman (eds) *The New Palgrave: A Dictionary of Economics* (First Edition): 5377-9.
- Francisco Gómez Camacho (1998) *Economía y Filosofía Moral: La formación del pensamiento económico europeo en la Escolástica española* Madrid: Síntesis.
- Marjorie Grice-Hutchinson (1952) *The School of Salamanca. Readings in Spanish Monetary Theory 1544-1605* Oxford: Clarendon Press.
- F.A. Hayek (1967a) 'Dr Bernard Mandeville' *Proceedings of the British Academy* Volume LII: 125-141.
- F.A. Hayek (1967b) *Studies in Philosophy, Politics and Economics* London: Routledge & Kegan Paul.
- F.A. Hayek (1979) [1952] *The Counter-Revolution of Science* Indianapolis: LibertyPress.

Jesús Huerta de Soto (1996) "New light on the prehistory of the theory of banking and the School of Salamanca" *The Review of Austrian Economics* 9 (2): 59-81.

Jesús Huerta de Soto (2009) *The Theory of Dynamic Efficiency* Abingdon: Routledge.

Emil Kauder (1953) "The retarded acceptance of the marginal utility theory" *Quarterly Journal of Economics* 67(4): 564-575.

John Maynard Keynes (1973) *The General Theory of Employment, Interest and Money*, London: Macmillan for the Royal Economic society.

Odd Langholm (1982) "Economic freedom in Scholastic thought" *History of Political Economy* 14 (2): 260-283.

Odd Langholm (1987) "Scholastic Economics". In S. Todd Lowry (ed) *Pre-Classical Economic Thought* Boston: Kluwer: 115-135.

Odd Langholm (1992) *Economics in the medieval schools: wealth, exchange, money, value and usury according to the Paris Theological Tradition, 1200-1350* Leiden: Brill.

Odd Langholm (2008) "just price". In Steven N. Durlauf and Lawrence E. Blume (eds) *The New Palgrave Dictionary of Economics* (Second Edition): 1-3.

Alfred Marshall (1961) *Principles of Economics* (9th edition), London: Macmillan.

Karl Marx (1954) *Capital. A Critique of Political Economy*, Volume I, Moscow: Progress Publishers.

Karl Marx (1959) *Capital. A Critique of Political Economy*, Volume III, Moscow: Progress Publishers.

Peter Hans Matthews and Andreas Ortmann (2002) "An Austrian (Mis)Reads Adam Smith: A critique of Rothbard as intellectual historian" *Review of Political Economy* 14 (3): 379-392.

Fabio Monsalve (2010) "Economics and Ethics: Juan de Lugo's theory of the just price, or the responsibility of living in society" *History of Political Economy* 42 (3):495-519.

Rodrigo Muñoz de Juana (2001) "Scholastic morality and the birth of economics: The thought of Martin de Azpilcueta" *Journal of Markets and Morality* 4 (1): 14-42.

Rodrigo Muñoz de Juana (1998) *Moral y Economía en la obra de Martín de Azpilcueta* Pamplona: Eunsa.

Eric Roll (1938) *A History of Economic Thought* London: Faber & Faber.

Murray N. Rothbard (1976) "New Light On the Prehistory of the Austrian School". In Edwin G. Dolan (ed) *The Foundations of Modern Austrian Economics* Kansas City: Sheed and Ward, 36-48.

Murray N. Rothbard (2006a) [1995] *Economic Thought Before Adam Smith*. Volume I of *An Austrian Perspective on the History of Economic Thought* Auburn, Alabama: Ludwig von Mises Institute.

Murray N. Rothbard (2006b) [1995] *Classical Economics*. Volume II of *An Austrian Perspective on the History of Economic Thought* Auburn, Alabama: Ludwig von Mises Institute.

Joseph A. Schumpeter (1994) [1954] *History of Economic Analysis* London: Routledge.

Dugald Stewart (2007) *Dugald Stewart: Selected Philosophical Writings*, ed Emanuele Levi Mortera, Exeter: Imprint Academic.

Francisco Suarez S.J. (2012) [original Latin edition, 1613] *Defense of the Catholic and Apostolic Faith Against the Errors of Anglicanism*, Translated by Peter L.P. Simpson. Published online, on Professor Simpson's website, *Aristotelophile*, at <<http://www.aristotelophile.com/Books/Translations/Suarez%20Defense%20Whole.pdf>>. Last accessed 4 September 2016.

Symposium (1998), *The Quarterly Journal of Austrian Economics*, 1 (1), Spring
 "The Intertemporal Adam Smith" Roger W. Garrison, 51-60
 "Murray Rothbard Confronts Adam Smith" Paul B. Trescott, 61-72
 "Murray Rothbard's Adam Smith" Spencer J. Pack, 73-79.

Ludwig von Mises (1951) *Socialism. An Economic and Sociological Analysis* New Haven: Yale University Press.

Léon Walras (1954) *Elements of Pure Economics or The Theory of Social Wealth*, London and New York: Routledge.

¹ This paper has benefited from lengthy discussion with Claudia Jefferies.