

that, Antonino was appointed vicar-general of the Dominican friaries of Lombardy in 1433, and four years later, also of all central and southern Italy. In addition to his vicariate, Antonino continued as prior of San Marco in Florence.

In 1445, Pope Eugene IV appointed Sant'Antonino to the archbishopric of Florence, possibly on the advice of the great Renaissance painter, Fra Angelico. A humble man, Antonino followed Bernardino in stubbornly refusing to accept the post. The pope issued stern commands for Antonino to accept, and the story of a contemporary asserts that he only took the office under penalty of excommunication. In any event, Sant'Antonino refused for the rest of his life to wear episcopal robes and continued to wear the white habit and black cloak of a simple Dominican friar. Ironically, upon his death in 1459, Antonino was buried in full pomp and ceremony.

Despite his reluctance, Antonino became a distinguished administrator and judge, daily making countless economic decisions. In Florence he became steeped in knowledge of the financial and economic practices of the most advanced capitalist centre of his day.

Sant'Antonino is habitually bracketed with Bernardino as two great scholastic thinkers and economists. But Antonino was merely a popularizer and casuist; in his analysis he simply repeated the views of the truly great and creative thinker, San Bernardino. Both men were thoroughly familiar with the economic practices of their day, and Antonino came from Florence, the great banking centre of Europe. Yet both men were humble ascetics, and the same tension and contradiction of worldly asceticism appeared in their works and lives.

Generally, Antonino simply repeated Bernardino's analysis. In his discussion of value theory, however, Antonino further stressed Aquinas's crucial point that any exchange on the market is for the mutual benefit of both parties, since each is better off than he was before. A voluntary sale is a just one. And yet, Antonino seems more sympathetic than his mentor to government price regulation which, where it exists, must be morally binding. Any black market price over a legal maximum is a sin.

On the just wage, Antonino echoes Bernardino and adds material based on his extensive knowledge of the great Florentine woollen industry. The wage of a labourer is properly determined by common market estimation, and any attempt to form a union of workers would be harmful interference. This view implicitly endorsed the Florentine practice of outlawing wool-worker unions as unlawful 'conspiracies'. The monopolistic Wool Guild of clothiers, however, was legal; not surprisingly, since it controlled the government of Florence. The word 'guild' does not appear in Antonino's work on labour conditions; perhaps he felt it more prudent to ignore this controversial issue.

Despite the discipleship, there were definite though subtle differences between the two worldly saints. Even though Antonino was more knowledge-

able of the business world, he was, paradoxically, considerably more moralistic. Thus, one of Antonino's numerous works was a pamphlet, *On Women's Fashions* (*De ornate mulierum*), in which he fulminated at great length against women's use of rouge, false hair, fancy hairdos, and other fripperies. His talent for moralism was of course reinforced by his pioneering work in casuistry. Likewise he sounded off on artists, condemning all except religious art, especially exempting the work of his friend, Fra Angelico. Antonino was particularly upset because paintings of non-religious subjects gave artists the opportunity to depict nude women, 'not for the sake of beauty but to arouse libidinous feelings'. (Antonino *did* make the intelligent observation, however, that the price of paintings is determined by the artist's skill rather than by the amount of labour involved.) Antonino's censorious views also reached into music, where he called for going back to the austere Gregorian chant and eliminating the sinful introduction of counterpoint and popular and even lewd ballads.

In more strictly economic concerns, Antonino's heightened moralism was also evident. In contrast to his master, Antonino largely fulminated against foreign exchange transactions as implicit usury. As Raymond de Roover wonderingly remarks: 'This advice, if followed, would have abolished banking altogether, a rather strange attitude on the part of the archbishop of the leading banking center in Western Europe. Most of the theologians were more lenient, although less consistent...'⁵

Antonino's ranting against usury was fully as exuberant as Bernardino's, and was heightened by the fact that he served as the Apostolic commissary for the repression of usury in Tuscany. Antonino is the all-out denouncer of usury, drawing together all possible arguments with their most severe interpretation. As Professor Noonan states,

...by being more systematic, Antonino is more severe than many of his predecessors...Antonino draws together all the strict rules of the early usury teaching into a tight set of rules. No later writer of note will be as severe, as uncompromising, as true to the logic of the earlier conceptions as he.⁶

Furthermore, Antonino took no back seat to Bernardino in his hysterical ranting against usury. Usury is 'diabolic'; it is the great harlot of Apocalypse 17, 'who sitteth upon many waters, with whom the kings of the earth have committed fornication'. Not only direct usurers but all who cooperate in usury are 'worthy of eternal death'. Usury, to Antonino, is a worse sin than adultery or murder because it continues on and on, whereas the former sins are only intermittent. The usurer is in a state of 'perpetual sin'. Not only that: usury damns the heirs of the sinner, since the sin is not wiped out until the usurer or his estate makes restitution by giving back the interest charge. Usury, to Antonino, is everywhere, all-pervasive.

And yet Antonino, too, admits *lucrum cessans* as a legitimate source of an interest charge. He is so worried about hint of usury, however, that he declares that in practice *lucrum cessans* must never be advised.

Tragically, the subjective theory of utility, developed by Pierre de Jean Olivi in the thirteenth century, rediscovered by San Bernardino two centuries later, and spread far and wide by his disciple Sant'Antonino, died with the worldly Florentine saint. With minor exceptions, even the late Spanish scholastics of the sixteenth century, so much in the Thomist and utility tradition, did not regain these heights. It was left to the Austrian School of the late nineteenth century to independently replicate and go beyond the subjective theory of value of Olivi, and it was left to the 1950s for this line of scholastic thought to be rediscovered.

3.8 The Swabian liberals and the assault on the prohibition of usury

At about the same time that San Bernardino was developing his great work, a relatively obscure German Dominican was independently setting forth a similar analysis. Johannes Nider (1380–1438) was a Swabian who taught theology at the University of Vienna, and led a reform of the Dominican Order in southern Germany. Nider's brief treatise, *On the Contracts of Merchants (De Contractibus Mercatorum)* was written about 1430, and published posthumously in Cologne about 1468; it was reprinted frequently for the rest of the fifteenth century.

Nider begins by justifying the profits of merchants. Recognizing the entrepreneurial role of the merchant, Nider stressed that trade requires market knowledge, and securing that knowledge requires industry, diligence and luck. Business incomes are justified by expenses, care and risks. In analysing market price, Nider emphasizes subjective utility as the determinant. Nider, like Olivi and Bernardino, distinguished between the objective utility inherent in a good, and subjective utility, the status of that good 'in the estimation of men'. Nider was clear that only the latter decisively determined the just market price. Anticipating Jevons four centuries later, Nider suggests that a change in supply will alter price by changing the utility assigned to it. That common market price determines the just price is clear in Nider: 'The proper value of a thing depends upon the ways buyers or sellers may think about prices'. Yet, where there is no common market, Nider joins previous scholastics in stating that sellers may adopt a cost-plus approach to find out the just price that they may ask for.

While only subjective utility is treated in determination of price, there are disquieting signs in Nider of Langensteinian 'status' arguments in justifying business income. For businessmen's incomes, in addition to being determined by the economic factors mentioned above, must also be decided 'in proportion to the nobility' of the effort – a prelude to Nider's making clear

that the work of the soldier is nobler than that of the merchant and therefore deserves a higher reward. This is a throwback not just to Langenstein but to ancient Greek veneration of the martial as against the productive arts.

In discussing money, Nider is firm in justifying the activities of money-changers. There is no nonsense about usury here. Nider points out that the exchange of currency is a 'kind of selling and buying', and demonstrates even more cogently that the value of money, like the value of other commodities, also varies in the common estimation of the market. While, following Aquinas, the value of money usually changes less radically than the value of a particular good, change it does nevertheless, merchants incurring legitimate profits or losses from such variation.

Nider writes trenchantly of 'the conversion, or exchange of money or of other things, which is, as it were a kind of selling and buying of one currency for another, and presents, so to speak, the same moral problems as does commerce in goods...'

Far more significant than Nider was the great fifteenth century scholastic and fellow Swabian Gabriel Biel (1430–95), professor of theology at the new University of Tübingen, in Southwest Germany. Biel was a distinguished nominalist and Ockhamite – in fact, the German Ockhamites of the fifteenth century were known as *Gabrielistae*. And yet, recent research has discovered that Biel was essentially a Thomist in his belief in a rational and objective natural law ethic. Indeed, he echoed the belief of his fellow 'Ockhamite' of the previous century, Gregory of Rimini, in the highly rationalistic belief that the natural law was eternal and would exist even if God did not. Furthermore, man by his unaided reason can discern this natural law and reach the right conclusions on his proper conduct.

One of Biel's contributions was to deliver a crystal-clear statement of the scholastic insight that each party to an exchange engaged in the action for mutual subjective benefit. Following Jean Buridan, his fellow nominalist of the previous century, Biel's analysis was cogent and concise: 'For the buyer who desires a good would not buy, unless he hoped for greater satisfaction from the good than from the money he paid over; nor would the seller sell, unless he hoped for a profit from the price'. There had been no clearer demonstration before Biel that every exchange involves an expected mutual benefit by each party to that transaction, and that the satisfaction of the buyer, at least, is purely subjective, though the seller's may be translated into a monetary profit. There would be no real improvement upon Biel until the advent of the Austrian School in the late nineteenth century.

A follower of his fellow Ockhamites Jean Buridan and Nicole Oresme, Biel, in his *Treatise on the Power and Utility of Moneys*, repeated their metallist insights about the value of money and their attack on governmental debasement. Biel also insists, with Buridan, that a sound money must be

composed of material with a use independent of its service as money. Biel regards debasement by a king as equivalent to theft: ‘if a prince should reject valid money, in order that he may buy it up more cheaply and melt it, and then issue another coinage of less value, attaching the value of the former currency to it, he would be guilty of stealing money and is required to make restitution’.

Furthermore, Biel provided a more sophisticated explanation and justification than previously available of the workings of the foreign exchange market. In his commentary on the *Sentences* (1484), Biel noted that a bank that accepts a bill of exchange permits the drawer of the bill to obtain cash in another city, and thereby provides the important service of ‘virtual transportation’ of the money. The drawer of the bill is relieved of the cost and the risk of moving the money himself. It is therefore licit for the banker, as lender, to profit on purchasing a foreign bill of exchange. In this way, Biel greatly widened the legitimacy of exchange transactions, for lender as well as borrower, thus strengthening the theoretical insight that the value of money varies as do particular goods.

But the great significance of Gabriel Biel in the history of economic thought was that he began the smashing of the usury prohibition that had held economic thought in thrall since the early centuries of the Christian era. In addition to completing the liberation of the foreign exchange market from the taint of usury, Biel launched the justification of insurance contracts. For if it was sinful and usurious to own property or a right without bearing risk (such as the grantor of a pure loan) then what of a man who had purchased an insurance contract, and therefore was able to transfer risk to the insurer? The defence of insurance Biel takes over from Angelus Carletus de Clavasio, vicar-general of the Observant Franciscans, who had defended riskless insurance contracts in his *Summa Angelica* at the same time that Biel was writing his treatise.

Biel’s main contribution in weakening the usury prohibition was his justification of the *census* contract – the purchase of an annuity – and justifying it in its widest possible form. Thus, purchase of an annuity was considered licit as a right to fruitful money as was an insured or guaranteed annuity. Also the buyer was allowed to redeem the annuity, a concession very close to permitting a lender to reclaim the principal of his loan after he has received a return in instalments.

Thus Biel came very close to justifying credit transactions charging interest. Explaining the fact that the seller of an annuity will often be willing to pay a high annual charge in order to get ready cash (i.e. pay interest on a loan) Biel points out with great cogency that both parties to this as any other transaction expect to benefit: ‘For a buyer desiring merchandise, unless he hoped for more advantage from the merchandise than from the money he

gave, would not buy; nor would a seller sell, unless he hoped for profit from the price'.

But the most comprehensive and systematic assault on the usury prohibition came from Gabriel Biel's most distinguished student and his successor in the theology chair at the University of Tübingen, Conrad Summenhart (1465–1511), who had also been a student at the University of Paris. The critique came in Summenhart's massive *Treatise on Contracts* (*Tractatus de Contractibus*) (1499).

Summenhart's contribution was twofold: first, in enormously widening all the possible exceptions to the usury prohibition, e.g. the *census* and *lucrum cessans*; and second, in launching a blistering direct assault on all the time-honoured arguments against whatever usury contracts remained. On the first, Summenhart developed the argument for insured or guaranteed partnerships far more subtly and extensively than before. He also widened the *lucrum cessans* exception far more than anyone had ever done. Money is fruitful, Summenhart declared boldly, it is the merchant's tool, which he can make fruitful by the use of his labour. Consequently, the merchant should be compensated for loss of the use of his money just as a farmer should be recompensed for the loss of his fields. Unfortunately, however, Summenhart's widening of *lucrum cessans* was still limited, as among the earlier scholars, to loans made out of charity.

The boldest loosening of the usury bonds by Summenhart was in his radical defence of the widest possible interpretation of *census* contracts. Here Summenhart justified many of the credit transactions then used in Germany. Coupled with his development of the idea of the changeable value of money, this meant 'the emptying of the usury prohibition of all practical significance'.⁷ Money, declared Summenhart, may licitly be trafficked in for profit. Furthermore, he asserted that a *census* is not a (sinful) loan because the *right* to money is a good of another kind than the money exchanged. But in that case, Summenhart asks himself, couldn't a usurer say the same thing, and simply state that the right to money he was demanding in exchange was a good of a different kind than the money loaned? Astonishingly, Summenhart replied, this was all right, provided that the lender did not *intend* this to be usury, and was himself really convinced that he was buying the right to money which was a different good than the money itself. But if usury was only subjective intention and *not* the objective fact of a loan charging interest, then there was no objective way of identifying or enforcing the prohibition against usury! In this way alone, Summenhart effectively destroyed the prohibition against usury.

But this was not all. For Summenhart explicitly declared that the purchase by someone of a discounted debt is not a usurious loan because it is only the purchase of a right to money. The purchase of a debt was licit in the same way as a *census*. Furthermore, the 'purchase of a debt' could be that of a

newly constituted debt, and not simply the purchase of a previous debt. This, too, effectively ended the usury prohibition.

Moreover, in approving ‘debt purchase’ contracts, Summenhart came close to understanding the primordial fact of time-preference, the preference of present over future money. When someone pays \$100 for the right to \$110 at a future date, both parties estimate present money more highly than money payable at a future date. The ‘buyer’ (lender), furthermore, doesn’t really profit usuriously from the loan because he values the future \$110 as worth \$100 at the present time, so that ‘the price and the merchandise are equal in fact and in the estimation of the buyer’.

Then, tackling the arguments for usury directly, Summenhart presents 23 standard natural law arguments against usury, and demolishes them all, leaving only two shaky formal arguments; while he also puts forth strong objections of his own against the usury ban. As Professor Noonan concludes, Summenhart’s ‘examination ends in a rejection of the past. Usury is left assailed in name alone. The early scholastic theory of usury is abandoned’.⁸ Summenhart’s argument for usury is comprehensive. Contrary to St Thomas, the usurer is charging not for the borrower’s use of his money, but for his *own* lack of use. If it is replied that the borrower’s restoring of the principal restores to the lender the power of use, Summenhart cogently replies, again sensing time-preference: ‘But he does not restore to him [the lender] the use of the intervening time, so that he will be able to use it [the money] for that intervening time...’. Thus interest on a loan becomes a legitimate charge for the foregone use of money during the time period of a loan. It is clear, at least implicitly, that Conrad Summenhart has magnificently demonstrated the justice of ‘usury’, of interest on a loan.

On the fixed value of money as an argument against usury, Summenhart repeats and develops the argument of earlier critics that the value of money varies over time. Furthermore, on the charge of risklessness of a money loan, Summenhart originates an argument potentially fatal to the usury ban. He points out correctly that the lender is never without risk; he always bears the risk of the borrower going bankrupt. The borrower also has the opportunity of earning more profits from the loan than the interest he has to pay the lender. Furthermore, Summenhart neatly smashed the Aristotelian argument that money by its nature was ‘meant’ to be used only as a medium of exchange and not to command interest. Summenhart boldly declares that the argument is simply absurd. Does one then commit sin by using wine to put out a fire, or by storing money in a shoe? There is nothing in the natural law that demonstrates that a material good must always be used for one particular purpose rather than for another.

We are left, after Summenhart, with only two very weak arguments against usury: the mere fact that Aristotle said it was unnatural (an ‘argument’ which

Summenhart could only have meant sardonically), and the divine prohibition. But since usury is really natural, Summenhart, as we have seen, is willing to construe the divine prohibition so narrowly that it virtually disappears; after Summenhart, the usury ban is finished.

Unfortunately for the credibility of scholastic economics, however, the sixteenth century scholastics, superb as they were in many areas of economics, did not accept the bold challenge of Conrad Summenhart to scrap the usury ban completely.

In some cases, particularly in his justification of the guaranteed partnership contract, Summenhart held back from full approval, counselling prudentially against contracts, though licit, which might scandalize the community. It was left to Summenhart's eminent student, Johann Eck, to carry the Summenhartian revolution through to its completion. Eck, professor of theology at the University of Ingolstadt near the financial centre of Augsburg in Bavaria, was soon to find his greatest fame in arguing the Catholic case against Martin Luther. Augsburg was then the leading financial centre of Germany and the home of the great bankers the Fuggers, who had captured the lucrative papal banking business from the city of Florence. In 1514, the 28-year-old Eck, a friend of the Fuggers, criticized his cautious fellow theologians for concealing the truth that the guaranteed partnership contract was fully licit, scandal or no scandal. Arguing his case before a favourable audience of canonists at the University of Bologna, Eck pointed out that merchants generally solicit the guaranteed investment contract and therefore profit by it. Furthermore, this contract had been in general use for 40 years, so that it should be assumed that the guaranteed contract is licit unless proven otherwise. Also, Eck added the modern sophisticated note that, after all, most capitalist investors in this contract are widows and orphans.

It should be noted that the eminent Scottish nominalist theologian, John Major (1478–1548), dean of the faculty of theology at the University of Paris, clearly assented to the controversial Eck–Summenhart defence of the guaranteed investment contract.

3.9 Nominalists and active natural rights

The Dominicans, as we have seen, triumphed over the Franciscans on the property rights question with Pope John XXII's great bull, *Quia vir reprobus* (1329). Individual property rights were now officially established as natural, stemming from God's granting man dominion over the earth. Despite William of Ockham's attempt to refute John XXII, his nominalist followers took the lead in developing this active natural property rights theory. Pierre d'Ailly (1350–1420), and particularly his student and successor as chancellor of the University of Paris, Jean Gerson (1363–1429), developed the theory. Thus, as Gerson put it trenchantly in his *De Vita Spirituali Anima* (1402):

There is a natural dominion as a gift from God, by which every creature has a *ius* (right) directly from God to take inferior things into its own use for its own preservation. Each has this *ius* as a result of a fair and irrevocable justice, maintained in its original purity, or a natural integrity. In this way Adam had dominion over the fowls of the air and the fish in the sea... To this dominion the dominion of liberty can also be assimilated, which is an unrestrained faculty given by God...⁹

It is odd that this nominalist and mystic, after setting forth the view of human rights as a dominion, should also hold, among a minority of scholastics, that any mercantile profit over and above costs and risk is immoral, and that the government should fix all prices to assure a just price.

The active rights theory was championed by the Gersonian Conrad Summenhart, and then advanced further by the nominalist John Major. In his commentary on the *Sentences* of Peter Lombard (1509), Major, a century after Gerson, drew the logical conclusion that not only man's right and dominion were natural but so too was *private* property. Major's student Jacques Almain put it clearly (*Aurea opuscula*, c.1525): 'Natural dominion is thus the dispositional power or faculty of using things which people can employ in their use of external objects, following the precepts of the law of nature – by which everyone can look after their own bodies and preserve themselves.'

Throughout the fifteenth century, and into the sixteenth the active theory of natural rights seemed to reign unchallenged.

3.10 Notes

1. The population decline was roughly uniform throughout western Europe, with the Italian population falling from 10 to 7.5 million, France and the Netherlands from 19 to 12 million, Germany and Scandinavia from 11.5 to 7.5 million, and Spain from 9 to 7 million. The largest percentage drop was in Great Britain, where the number of inhabitants fell from 5 to 3 million in this period.
2. Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (Princeton, NJ: Princeton University Press, 1965), p. 14.
3. On Buridan and modern indifference analysis, see Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 94n, 1064. For a critique, see Murray N. Rothbard, *Man, Economy and State* (1962, Los Angeles: Nash Publishing Co. 1970), I, pp. 267–8.
4. And more fully:

Oftentimes have we reflected on a similar abuse
 In the choice of men for office, and of coins for common use;
 For your old and standard pieces, valued and approved and tried,
 Here among the Grecian nations, and in all the world beside,
 Recognized in every realm for trusty stamp and pure assay,
 And rejected and abandoned for the trash of yesterday;
 For a vile, adulterate issue, drossy, counterfeit and base,
 Which the traffic of the city passes current in their place.

Aristophanes, *The Frogs*

- Quoted in J. Laurence Laughlin, *The Principles of Money* (New York: Charles Scribner's Sons, 1903), p. 420.
5. Raymond de Roover, *San Bernardino of Siena and Sant'Antonino of Florence* (Boston: Baker Library, 1967), p. 37.
 6. John T. Noonan, Jr., *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957), p. 77.
 7. *Ibid.*, p. 233.
 8. *Ibid.*, p. 340.
 9. Richard Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979), p. 27.

4 The late Spanish scholastics

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4.1 The commercial expansion of the sixteenth century

The great secular depression of the fourteenth and first half of the fifteenth century began to give way to economic recovery in the second half of the fifteenth. The overland trade from the Mediterranean to northern Europe, cut off by the French king's depredations against the fairs of Champagne, was increasingly replaced by sea trade off the Atlantic coast. Vessels now went through the Straits of Gibraltar and up the coast, increasingly sailing to Antwerp and making that city the big trading centre in northern Europe during the sixteenth century. Commerce moved away from the restrictions and high taxation of Flemish Bruges, and shifted to and expanded in free market Antwerp, where business and trade could flourish free of hampering legislation, privileges, and high taxes. In addition, Atlantic ships headed south and west, and the famous explorations and discoveries of the late fifteenth century changed the face of world history by making European countries world powers, and began to integrate Africa and the New World into the European economy. Spain and Portugal, the leading explorers of the new continents, became the dominant nation-states and empires of the sixteenth century. Slowly but surely, the Italian city-states which had been in the forefront of economic advance and the spearhead of Renaissance culture, began to be left behind in the advance of economic and political power.

Along with commercial expansion came inflation, fuelled by the immense increase of gold and silver brought to Europe by the Spaniards from the newly found mines of the western hemisphere. An approximate tripling of the stock of specie in Europe resulted in a century of inflation, with prices tripling during the sixteenth century. The new money flowed first into the main Spanish port of Seville, then into the rest of Spain, and finally into other countries of Europe, and the geography of price rises followed accordingly.

As Atlantic powers, England and France grew in strength along with the other Atlantic nations of western Europe. They were greatly aided by the end of the destructive Hundred Years' War between the two nations in 1453. The doctrines of the absolute state, previously limited largely to theorists and rulers of the Italian city-states, now spread to all the nation-states of Europe. Absolutism eventually triumphed throughout Europe by the early seventeenth century. The victory was fuelled, as we shall see below, by the rise of Protestantism and a bit later of secularism, beginning in the sixteenth century.

4.2 Cardinal Cajetan: liberal Thomist

Late scholasticism was the product of the sixteenth century, the century that ushered in the Protestant Reformation and the Catholic Counter-Reformation. If the thirteenth century was well described as the golden age of scholastic philosophy, then the sixteenth century was its silver age, the era of a shining renaissance of scholastic thought before the shades of night closed in

for good. As we have seen, the fourteenth and fifteenth centuries 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. The sixteenth century witnessed a renascent Thomism, spearheaded by one of the greatest churchmen of his age, Thomas De Vio, Cardinal Cajetan (1468–1534).

Cardinal Cajetan was not only the pre-eminent Thomist philosopher and theologian of his day; he was also an Italian Dominican who became general of the Dominican Order in 1508. A cardinal of the Church, he was the pope’s favourite upholder of the faith in debates with the great founder of Protestantism, Martin Luther. In his *Commentary* on Aquinas’s *Summa*, Cajetan of course endorsed the standard scholastic view that the just price is the common market price, reflecting the estimation of the buyers, and held that that price will fluctuate upon changing conditions of demand and supply. In attempting to purge scholastic economics of any trace of Langensteinian ‘station in life’ theory, however, Cajetan went further to criticize Aquinas for denouncing accumulation of wealth beyond one’s status as suffering from the sin of avarice. On the contrary, declared Cajetan, it is legitimate for highly able persons to move up the social ladder in a way that matches their attainments. This candid endorsement of upward mobility in a free market was the broadest attempt yet to rid scholasticism of all traces of the ancient contempt for trade and economic gain.

In his comprehensive treatise on foreign exchange, *De Cambiis* (1499), the great Cajetan set forth the fullest and most unqualified defence yet penned of the foreign exchange market. Sweeping aside the dithering indecisiveness of his fellow Dominican, Fra Santi Rucellai (1437–97), himself a former exchange banker and the son of a banker, the cardinal was firm and hard-hitting. Since the role of the merchant has long since been established as legitimate, then so should that of the exchange banker, who is simply engaging in a kind of commodity transaction. Besides, modern trade could not function without the foreign exchange market, and cities could not exist without trade. Hence it is needful and right that the exchange market exist. As in other markets, the customary market price is the just price.

In the course of his defence of the exchange market in *De Cambiis*, Cajetan proceeded to advance the state of the art in monetary theory. He showed trenchantly that money is a commodity, particularly when moving from one city to another, and is therefore subject to the demand and supply laws governing the prices of commodities. At this point, Cajetan made a great advance in monetary theory, indeed in economic theory generally. He pointed out that the value of money depends not only on existing demand and supply conditions, but also on present *expectations* of the future state of the market. Expectations of wars and famines, and of future changes in the supply of

money, will affect its current value. Thus, Cardinal Cajetan, a sixteenth century prince of the Church, can be considered the founder of expectations theory in economics.

Furthermore, Cajetan distinguished between the two kinds of ‘value of money’: its purchasing power in terms of goods, so that gold or silver are ‘equated’ with goods being bought and sold; and the value of one coin or currency in terms of another on the foreign exchange market. Here, each kind of coin tends to move to that region where its value is highest, and away from wherever its value is lowest.

On the vexed usury question, though Cajetan was not as radical as his German contemporary Summenhart in virtually eradicating the usury prohibition, he did join Summenhart on the doctrine of implicit intention, and was even more radical in the one area where Summenhart had hung back: *lucrum cessans*. Implicit intention meant that if someone really believed his contract not to be a loan, then it was not usurious, even though it might be a loan in practice. This of course paved the way for the practical elimination of the ban on usury. In addition, Cajetan also joined his fellow liberals in endorsing the guaranteed investment contract.

But Cardinal Cajetan’s great breakthrough on the usury front was his vindication of *lucrum cessans*. Wielding the mighty authority of being the greatest Thomist since Aquinas himself, Cajetan offered a point-by-point critique of his master’s rejection of this exception to the usury ban. He then vindicates, not indeed all of *lucrum cessans*, but any loan to businessmen. Thus a lender may charge interest on any loan as payment for profit foregone on other investments, provided that loan be to a businessman. This untenable split between loans to businessmen and to consumers was made for the first time – as a means of justifying all business loans. The rationale was that money retained its high profit-foregone value in the hands of business, but not of consumer borrowers. Thus for the very first time in the Christian era, Cardinal Cajetan justified the *business* of money lending, provided they were loans to business. Before him, all writers, even the most liberal, even Conrad Summenhart, had justified interest charges on *lucrum cessans* only for *ad hoc* charitable loans; now the great Cajetan was justifying the business of money-lending at interest.

4.3 The School of Salamanca: the first generation

If the newly burgeoning liberal Thomism began with Cardinal Cajetan in Italy, the torch was soon passed to a set of sixteenth century theologians who revived Thomism and scholasticism and kept them alive for over a century: the School of Salamanca in Spain.

It is no more than fitting that Spain should be the centre of scholastic learning in the sixteenth century. That century was pre-eminently the century

of Spain. Spain, the leader in the explorations and conquests in the New World; Spain, the nation that brought the treasures of gold and silver across the Atlantic to Europe; Spain, along with Italy and Portugal, the nation in Europe that remained resoundingly Catholic and proved immune to the spread of Protestantism.

The acknowledged founder of the School of Salamanca was the great legal theorist and pioneer in the discipline of international law, Francisco de Vitoria (c.1485–1546). A Basque raised in Burgos in northern Spain and born into a prosperous family, Vitoria became a Dominican and went to study and then teach in Paris. There, in one of the ironies of the history of thought, he became a disciple of a Fleming who had been a pupil of one of the last of the Ockhamites, John Major. This man, Pierre Crockaert (c.1450–1514), had become a student and then teacher of theology late in life. Turning away from his teacher Major, Crockaert abandoned nominalism and moved to Thomism, entering the Dominican Order and coming to teach at the Dominican College of Saint-Jacques in Paris. After spending over 17 years imbibing and then teaching Thomism in Paris, Vitoria returned to Spain to lecture in theology at Valladolid, finally coming to Salamanca – then the queen of Spanish universities – as prime professor of theology in 1526.

A brilliant and highly influential teacher and lecturer, Vitoria set the framework for the Salamanca School for the rest of the century. Even though he did not publish any writings, his lectures have come down to us as transcribed by his students – much as in the case of Aristotle. Much of the glory of the University of Salamanca was the result of reforms instituted by Vitoria himself. Consequently, the university soon had no less than 70 professorial chairs filled by the best scholars of the day, providing instruction not only in the traditional medieval curriculum, but also in such new-fangled disciplines as navigational science and the Chaldean language.

Vitoria's lectures were largely commentaries on Aquinas's moral theory. In the course of the lectures, Vitoria founded the great Spanish scholastic tradition of denouncing the conquest and particularly the enslavement by the Spanish of the Indians in the New World. 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.

Vitoria did not expound much on economic topics, but he was interested in commercial morality, and his views followed the mainstream scholastic tradition: the just price was the common market price, even though if there were a legally fixed price it would also be considered just. In short, legal price edicts are to be obeyed. However, for those goods without a common market – say with only one or two sellers – Vitoria advanced beyond his forbears. Instead of having cost of production determinate, Vitoria, while stating that cost

could well be considered, returned to the old, nearly forgotten *laissez-faire* Roman law tradition of free individual bargaining as providing the just price. For in this situation, Vitoria maintained, the price had to be settled by the exchanging parties themselves. Vitoria, however, then added a curious distinction between luxury and non-luxury goods. Luxuries could be sold for a 'fancy price', since the buyer pays the high price voluntarily and out of his free will. Why this 'free will' should disappear with non-luxury items Vitoria unfortunately does not explain.

Vitoria's most eminent student and fellow theologian at Salamanca was the Dominican Domingo de Soto (1494–1560). Born in Segovia of comfortable but not wealthy parents, de Soto studied at the University of Alcalá near Madrid and then went to Paris, where he studied under Vitoria, and later became a professor. Returning to Spain, de Soto became professor of metaphysics at Alcalá, and then entered the Dominican Order, joining his mentor as a theology professor at Salamanca in 1532. Though a shy personality, de Soto was repeatedly involved in university administration, and was several times prior of the college of Estabán in the University. De Soto's work in physics is also considered outstanding.

In 1545 the Emperor Charles V honoured de Soto by naming him as his representative at the great council of Trent, the mighty council of the Catholic Counter-Reformation. Soon de Soto became confessor to the emperor, but gave it up in a few years to return to his professorship at Salamanca. De Soto's fame rested on his treatise *De justitia et jure*, published in 1553 and based on lectures given originally at Salamanca in 1540–41. *De Justitia et jure* was reprinted no less than 27 times before the end of the century, and was read and quoted by jurists and moralists until the mid-eighteenth century.

Unfortunately, on economics de Soto was a reactionary thinker, and set back some of the liberal gains of the previous scholastics. Thus, while de Soto conceded that 'the price of goods is not determined by their nature but by the measure in which they serve the needs of mankind', this utility analysis was weakened by vague concessions to the 'labour, trouble, and risk' involved in a sale. Worse than that, de Soto was not content to concede the propriety of government fixing the price of goods and letting it go at that. Instead, he declared flatly that a fixed price is always superior to the market price, and that ideally all prices should be fixed by the state. And even lacking such control, prices, for de Soto, should be set 'by the opinion of prudent and fair-minded men' (whoever they might be!) who have nothing to do with any transactions. They should not be determined by the free bargaining of the buyers and sellers involved. Thus de Soto, more than any other scholastic thinker, called for statism rather than market determination of price.

On foreign exchange, de Soto's influence was confusing, cutting both for and against that market. In its favour, he contributed perhaps the first cogent

explanation of the movements of currencies and exchange rates on the foreign exchange market – what would later be called the ‘purchasing-power parity theory’ of exchange rates.

The economy of the sixteenth century was marked by an inflation which first hit Spain, in response to gold and silver discoveries in the New World and the consequent importation of specie into Spain. Inflation first struck in Spain, and then spread to the rest of Europe, as the Spaniards spent the increased supply of money. The result was the first large-scale secular inflation in history, price in Europe doubling over the first half of the sixteenth century.

De Soto was concerned to explain the curious fact that more abundant specie in Spain caused it to have an unfavourable balance of payment, with money flowing out of Spain and into the rest of Europe. As he put it:

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.

In short, more abundant money in one place causes money to flow out, and lowers the exchange rate relation to other currencies. A more abundant money supply means that money is ‘less wanted’ there – a primitive way of pointing to the supply increasing along a given falling demand curve for money, so that each unit or coin is less valued. Here is also a rudimentary purchasing-power parity analysis of exchange rates.

But despite this subtle advance in analysing the workings of the market, de Soto backslid on usury to such an extent that he advocated banning the foreign exchange market as usurious. In fact, de Soto managed to influence the court in 1552 to outlaw all internal currency exchange at anything other than the legal par.

As can be seen, de Soto exercised a reactionary influence on the usury ban, and managed to block any general acceptance of the revolutionary contributions of Summenhart and Cajetan on the usury issue. Attempting to turn back the tide, de Soto went so far as to declare the standard guaranteed or insured investment contract as sinful and usurious, on the old discredited medieval ground that risk and ownership must never be separated. He tried to roll back *lucrum cessans*, and in general was more rigorously anti-usury than almost any of the medieval scholastics, insisting anachronistically that money is sterile and bears no fruit, and therefore cannot lawfully command interest.

Ironically, however, while anxious to reverse the tide of liberalization of usury, de Soto himself contributed to the long-run demise of the usury ban. We remember that Pope Urban III, in his decretal *Consuluit* in the late twelfth