The Ancients and the Scholastics

The study of the economy in Western civilization began largely with the Greeks, particularly Aristotle and Xenophon, with minor contributions by other writers. We refer to these as the "Ancients". The "Scholastics" refer to the group of 13th and 14th Century theologians, notably the Dominican St. Thomas Aquinas, that set down the dogma of the Catholic Church in light of the resurrection of the Greek philosophy in the hands of 12th Century Islamic scholars.   In the economic sphere, we can discern roughly four themes the Scholastics were particularly concerned with: property, justice in economic exchange, money, and usury.

The coexistence of **private property** with Christian teachings was never comfortable.   In the 5th Century, the early Church fathers (the "Patricians", e.g. St. Augustine) had struck down "communistic" Christian movements and the Church itself went on to accumulate enormous amounts of property. In the 12th Century, St. Francis of Assisi began a movement (the "Franciscans"), which insisted on vows of poverty, "brotherhood" and deplored the accumulative tendencies of the Church. Against the Franciscans were arrayed St. Thomas and the Dominicans, who dug out of Aristotle and the Bible the necessary arguments to put down their challenge. The Thomists took a practical stance: they argued that private property was a "conventional" human arrangement with no moral implications, and furthermore, it had the nice side-effect of stimulating economic activity and thus general welfare. The Thomists cautioned that this did not mean they blankly endorsed all private enterprise: the "love of lucre", they noted, was a serious sin. They stressed the fact that man only has "stewardship" of God's property and should make property available for communal use. They also claimed that theft in times of need was justifiable.

Another question that arose was that of **entrepreneurship**. Should a merchant be allowed to profit from differentials in prices? The Scholastics replied with a qualified yes, provided the merchant is not motivated by pure gain and profit be only just enough to cover his labor expenses (sacrifices) of the merchant. They went on to argue that the trader, far from being a parasite, is performing a valuable service and increasing general welfare by meeting different needs. But why are needs different?   Perhaps, as the Salamanca School argued, God wanted men across the world to engage in exchange and therefore get to know each other, so as to increase their sense of "brotherhood" -- a universalistic perspective that contrasts starkly to the "warfare" notion of trade later employed by the Mercantilists.

The issue of "justice in exchange" was a more complicated issue. In his *Ethics*, Aristotle had discussed this as an application of commutative justice. The just exchange ratio of goods (i.e. their just price) should be in proportion to their "**intrinsic worth**" to men. It is notable that Roman law was much more flexible: it considered a price "just" simply if it was agreed to by the contracting parties -- the notion of intrinsic usefulness or worth was not a consideration.

The Thomists attempted to reconcile Aristotle's notion with the Bible. They originally interpreted this as the "intrinsic worth" of goods (*bonitas intrinseca*) in terms of the order of appearance of things in the book of Genesis. This led to some problems -- to take one popular example, rats are of higher Biblical order than wheat, but are they really worth more? As such, the Scholastics (esp. Jean Buridan) broached the alternative idea that the intrinsic value of a good is more loosely connected to "human needs" and thus related to their "usefulness" to man. However, this seemed to undermine the idea that goods have "intrinsic worth". "Usefulness" is not quite a characteristic of a good itself but rather lies in the relationship between goods and people. Aristotle had argued that people's needs were different and thus the degree of usefulness varied and many of the Scholastics adopted this. This might justify why goods should be allowed to exchange at different prices in different places and times. Also, it might explain why wheat should be worth less than flour, even though one is derived from the other.

Even if we hang the intrinsic value of a good on its "usefulness", how does one estimate what the price *should* be. What is the "**just price**" (*justum pretium*) of a good? Following the Golden Rule ("Do unto others as you would have them do unto you"), the Scholastics decided that a person should not charge more for a good than what he would be willing to pay for it himself. This not only to make ethical sense but also seemed like a good way to estimate the "usefulness" of a good. If a bearskin is so useful to you that you would be willing to pay two deerskins for it, then if you own a bearskin you must sell it for two deerskins.

Duns Scotus, the Franciscan theologian and Thomas's great rival, was disturbed by the unwillingness of the Thomists to commit themselves to a precise idea of "intrinsic worth" and "just price". He came down on the side that argued that the just price of an object was its cost of production, i.e. the labor and expenses of the provider of the good. However, Scotus realized that this might imply waste: it is not unlikely for expenses to be exaggerated beyond what is necessary to produce the good, thus the "just price" might be artificially inflated. Scotus struggled with these questions and went on to make some quite modern reflections about the necessity of competition to determine just price, and thus the immorality of monopoly.

A more disturbing question was posed by another Scotist, Gabriel Biel. If the rule of justice in exchange is followed so that only goods of equal worthiness are exchanged, then, in modern language, Golden Rule-guided exchange is *not* utility-enhancing for either party. But, suggested Biel, what if there were advantages to both parties in exchange? What is the just price then? This was not clarified by the Thomists, but it is evident that Biel's argument would undermine the concept of just price entirely.

The Salamanca School resolved the problem by arguing that the estimation of usefulness varies from person to person. Consequently, the just price of a good is nothing other than the natural, exchange-established price. There is no need to go beyond that. In a competitive market, they noted, buyers will not be able to pay less for a good than its usefulness to them and sellers will not be able sell that good for more than what it is useful to them. In this manner, the Salamanca School was also able to resolve the *paradox of value*: diamonds, which are intrinsically useless, normally exchange at a much greater price than water, which has great usefulness. The Salamanca scholars concluded that as men are the best judges of what is "useful" to them, then diamonds must be useful in some mysterious way.

The charging of **usury**, or interest on money lent, came quickly under scrutiny. There is no clear basis for a ban on usury in Christian scriptures. The most famous injunction on interest emerges ambiguously as: "Upon a stranger thou mayest lend upon usury, but unto thy brother thou shalt not lend upon usury." (Deuteronomy, 23: 20). To early Church fathers, like St. Jerome, the Christian notion that "all men are brothers" necessarily implied that usury must be banned outright. Another patrician, St. Ambrose, decided that lending with interest to enemies in the course of a just war was permissible.

However, others noted that the Hebrew term for "usury" in the cited Biblical passage is closer to "bite", so perhaps it only seeks to prohibit excessive interest or interest levied upon the poor, but not ban it altogether. Other Biblical passages (e.g. Exodus 22:25) seemed consistent with this qualification. But that just throws up more questions: *what* is "excessive" and *who* is deemed "poor"?

Without clearer scriptural guidance, the proponents of the ban were driven by the "hunch" that lending at fixed interest was a rather "unholy" activity altogether -- a sentiment shared by many common people. The burden of proof, they argued, was on the defenders of interest. Could they prove that it was at least "socially" useful to permit the charging of interest? This was far from clear in feudal economies, where most lending was for consumption and not production. Social costs were more clearly discernable: the absurd mathematics of compound interest increased social inequality, reduced free men into indentured servitude and burdened civil authorities with enforcement while the only advantage it seemed to bring was to encourage consumption (a morally suspicious activity anyway). Thus, interest-bearing debt was not only unnatural, but also a morally repugnant and socially detrimental institution.

Although clerics had been prohibited from lending at interest at least since the 4th Century, the ban was not extended to laymen until much later. In 1139, the Second Lateran Council denied all sacraments to unrepentant usurers and, in an 1142 decree, condemned any payment greater than the capital that was lent. Jews and Moors (being "strangers" in Christian lands) were initially exempt from the ban, but the Fourth Lateran Council (1215) issued an admonition prohibiting non-Christians from charging "excessive" usury (thus implicitly condoning modest usury). In 1311, Pope Clement V at the Council of Vienna prohibited usury outright and condemned as "heretical" any secular legislation that tolerated it.

When Christian theologians, particularly St. Thomas Aquinas, finally came across Aristotle's work in the 13th century, they found ample support for the complete ban. The Thomists argued that as money was not in Genesis, then it had no "intrinsic worth". They appealed to Aristotle's idea (in his *Ethics*, not his *Politics*), that money is merely a human social convention which yields no utility itself, thus its value is "imposed" by humans. Loosely speaking, as money has no intrinsic worth, then a lender of money loses nothing of worth when lending it out. Thus, by the Golden Rule, he should not ask for compensation for doing so. Other forms of "earning without labor" (e.g. rent on land) were acceptable to the Thomists because there was indeed "intrinsic worth" in the object lent and thus it is "costly" to part with it.

The Thomists allowed two loopholes in their argument: interest is admissible if the lender of money bears risk (*dammum emergens*) or if, by lending, he is foregoing an alternative, profitable opportunity (*lucrum cessans*). The former loophole was intended to distinguish between owners of debt with fixed interest earnings and investors in profit-sharing partnerships (*Commenda*). But as with *any* loan, there is *always* at least default risk, then, technically speaking, usury is always admissible. The second loophole was intended to allow the charging of interest in inflationary periods (when the creditor makes a clear loss), but the scope for ritual abuse is even more glaring -- one can *always* argue that there is an "alternative" profitable use of capital.

Of course, there were always ways around this. Delayment fees, *mohatra* contracts ("repurchase agreement"), the *contractum trinius*, etc. -- widely used throughout both the Christian and Muslim worlds -- effectively replicated interest-bearing contracts. The banning of usury complicated, but did not end, debt finance. The ban was eventually repealed, after the revision of the doctrine by the School of Salamanca and the gradual lifting of laws in Protestant countries in the mid-1600s.

The ban on usury brought up an interesting dilemma identified by Nicole de Oresme: the debasement of national currencies by their respective governments (a practice that accelerated notoriously in 14th Century France). Oresme accepted that governments are entitled to *some* amount of seignorage on account of their minting services, but it must not be forgotten that money is effectively a loan from people to government. Consequently, debasement, by lowering the value of money, is a way of extracting negative interest, and thus is a form of usury -- indeed, *worse* than usury since it was done without consent. Oresme followed Jean Buridan in endowing money with "intrinsic worth" by moving away from the Aristotlean "social convention" perspective to a "metallic" perspective.

(See also our page on Islamic Economics. For economic thinking in the 16th Century, see our page on the First Economists).

Greeks

- Aristotle, 384-322 BC. - (1) , (2), (3), Portrait
  - Politics, 350 BC.
  - Nichomachean Ethics, 350 BC.

- Xenophon, 420?-355? BC - (1), (2)
  - Economics - (copy 2)

Scholastics: Dominicans

- St. Thomas Aquinas, 1225-1274. - (1), (2), (3), (4), (5), Portrait
  - *On the Principles of Nature* , 1254.
  - *Summa Contra Gentiles*, 1261-64 (excerpts)
  - *Summa Theologica* - 126?-1273.(English, French)
  - Highly influential Neapolitan Dominican theologian who effectively served as the bridge between the Greek world and the European Renaissance. His *Summa Theologica*, a remarkable fusion of Aristotlean rationality and Christian faith, has become the official dogma of the Catholic Church. His economic contributions

on property, "just" price, money and his condemnation of usury can be found in Part II of the *Summa*.

- The School of Salamanca (Navarrus, Molina, de Lugo, etc.)

Scholastics: Franciscans

- John Duns Scotus, 1265-1308. (1), (2), (3)
  - *Sententiae*, 1295?
  - Oxford Franciscan theologian, the Thomists' most formidable opponent. Influenced by Neoplatonic mysticism, Scotus was the progenitor of the "Nominalist" movement that unravelled Thomism in the 16th Century. In economic affairs (as all others), he refused the "practical" Aristotlean resolutions of the Thomists, demanding proper explanations. In the process, he created a "cost" theory of value and came to formulate some interesting arguments about the nature of pure and monopolistic competition.

- Jean Buridan, c.1295 - 1358, (1), (2), (3), (4), (5), portrait
  - *Commentaries on Aristotle's Physics*, 1509 - excerpts
  - *Commentaries on Aristotle's Ethics*, 1513
  - *De caelo et mundo* - excerpts
  - *Sophismata*.
  - French secular scholastic philosopher, a member of Ockham's "Nomalist" School who rose to become rector of the University of Paris. He was also a teacher of Oresme. Renowned critic of Aristotlean "just exchange" and originator of the metallic theory of money. Buridan's theory of determinism and the relationship between will and intellect was ridiculed by his opponents with the parable of "Buridan's Ass": the dilemma of the donkey who, standing between two equal piles of hay, is so overcome with indifference that he ends up dying of starvation (a parable which can also be inveighed against modern revealed preference theory). Buridan also initiated modern Newtonian dynamics. In his critique of Aristotle, Buridan argued that an object moves not because of the air surrounding it but rather because it is set in motion by the force or "impetus" of another body. Air, Buridan speculated correctly, formed the resistance which slowed and eventually stopped the object. His critique of Aristotle's astronomy (*De caelo*) was to be highly influential on Copernicus.

- Nicole de Oresme, c.1320-1382 - (1), (2), (3), (4)
  - *Tractatus de Origine, Natura, Jure et Mutationibus Monetarum* , 1373. (notice)
  - *Tractatus de latitudinibus formarum*, 1505.
  - Remarkable French theologian, student of Buridan, mathematician and originator of the "clockwork" theory of the universe. Oresme produced a succint analysis of currency debasement, arguing that the government was entitled to a modest seignorage gain for its services, but condemned alterations in money as theft.

- Gabriel Biel, 1425-1495. - (1), (2)

- *Sententiae*,
- This "Last of the Scholastics" was one of the founders of the University of T�bingen. A late Nominalist, Biel is renowned for his defense of entrepreneurship and free contract. He undermined the concept of "just price" by noting that trade would actually *not* occur without advantages to the parties.

Resources on Ancients and Scholastics

- "Bibliographie exploratoire: La pens�e �conomique m�di�vale" by Andr� Lapidus at CHPE
- "Review of Lowry, *Ancient and Medieval Economic Ideas and Concepts of Social Justice*" by R.B. Ekelund, 2000, *HOPE*
- "The origin of property: Ockham, Grotius, Pufendorf, and some others", by John Kilcullen.
- "Metal, money and the Prince - John Buridan and Nicholas Oresme after Thomas Aquinas" by Andre Lapidus, 1997, *HOPE*
- "Norm, virtue and information : individual behaviour and the just price in Thomas Aquinas' *Summa theologica*" by Andre Lapidus, 1994, *EJHET*
- "Late Medieval and early modern intellectual history" by R.J. Kilcullen
- "Interest" from the Catholic Encyclopedia
- "Usury" from the Catholic Encyclopedia.
- "Contract" from the Catholic Encyclopedia.
- "Property" from the Catholic Encyclopedia.
- Secondary References on the Ancients by Ross Emmett.
- Philosophy Pages of Garth Kemmerling.
- History of Dogmatic Theology from the Catholic Encyclopedia
- Scholastic Philosophy at Radical Academy.
- "Scholastic Philosophy: Lectures and Notes" -
- "Medieval Philosophy" at Episteme Links
- Guide to 13th Century Theologians
- "Churches Came to Terms with Moneylending" by Curtis Fahey, *Dossier*
- Readings at Jacques Maritain Center.
- Ancient Economies by Morris Silver
- History of Money by Glyn Davis
- Discover Magazine on the Origins of Money.