

A Meta-theoretical Assessment of the Decline of Scholastic Economics¹

S. Drakopoulos and G.N. Gotsis*

Abstract: The aim of this paper is to offer certain insights into the process of decline of scholastic economics in late medieval and early modern European intellectual circles. In this attempt, the paper adopts the meta-theoretical framework of Laudan's philosophy of science and introduces the concept of scientific research tradition in pre-classical economic thought. It then considers the features of the scholastic research tradition, specifies its empirical and conceptual problems and presents a general scenario which assesses its performance over time. Of primary importance, in this respect, becomes the issue of evaluating the external and internal factors in the disintegration of the scholastic tradition, whose constraints reflect its incorporation into a broader ethical analysis, and necessitate its transformation into a more secular approach to economic phenomena.

1 Introduction: Definition of the Problem

Although Schumpeter (1954 p. 97) considered the scholastic doctors responsible for the emergence of economics as a field, scholastic economics is often considered to be a theological and moral current of ideas whose apparent normativity makes them stand outside the accepted corpus of modern mainstream economics. In recent years, however, there has been a renewed interest in scholastic economic thought as the number of papers on this topic indicates (see for instance Gómez-Camacho 1998; Hamouda and Price 1997; Langholm 1992, 1998a and 2003; Lapidus 1997; Sirico 1998; De Soto 1996; Van Houdt 1998). This can be reinforced by the fact that the evolution of scholastic economic ideas has found its place in history of economic thought textbooks². Furthermore it has even become the object of separate analysis in monographs and special volumes³. In spite of this revival, the problem of the decline and fall of scholastic economics has not attracted enough attention among historians of economic thought. In particular, one important aspect of the problem needs further discussion: the reasons for the abandonment of the scholastic scope, method and doctrine in economic thought. Was the transition to subsequent forms and schools of economic reasoning an almost inevitable process in the early seventeenth century?

Explanations of this problem must not be restricted to a mere descriptive consideration of the factors involved in this change of perspective; a thorough analysis of any important cognitive dimension should be taken into account. This paper's premise is that these questions deserve an answer, in the sense that an adequate explanation of this decline should identify both the socio-political and the intellectual dimensions of such an outcome. From this point of view, it would be helpful if we turned to recent developments in the contemporary philosophy of science in order to define a proper context of evaluation and assessment of the problem of repudiation or abandonment of theories and other structured sets of thinking. We follow L. Laudan's philosophy of science with its central concept of

research tradition, as its applications are not restricted to the realm of the physical sciences.

The purpose of this paper is to offer some methodological comments on the origins of the disintegration of the scholastic research tradition. The first part of the paper is a general survey of the literature on the decline of scholastic economics, while in the first subsection of the second part the criteria of Laudan's appraisal of research traditions are discussed briefly. In the two following subsections of this part we shall discuss the contribution of the scholastic tradition to economics, strictly confining our analysis of the respective problems to issues of application of Laudan's meta-theory. Given the specific task of our approach, our primary concern is less a thorough analysis of primary sources than a reconstruction so as to focus exclusively on how scholastic economics succeeded or failed to accomplish its cognitive goals. Finally, in the last two parts we shall discuss the reasons for the decline of the scholastic tradition at a time when it was confronting competing streams of economic ideas in the early modern European intellectual milieu.

2 The Problem of the Decline of Scholastic Economics: A Review of the Literature

Schumpeter provides an extensive discussion of the economic thought of the scholastic doctors (1954, pp. 82-94). According to Schumpeter, 'It is within their systems of moral theology and law that economics gained definite if not separate existence, and it is they who came nearer than does any other group to having been the "founders" of scientific economics' (*ibid.*, p. 97). Schumpeter emphatically argues that: 'The Scholastic science in the Middle Ages contained all the germs of the laical science of the Renaissance. And their germs developed slowly but steadily within a system of scholastic thought so that the laics of the sixteenth and seventeenth centuries continued rather than destroyed scholastic work' (*ibid.*, p. 81). The same emphasis is attributed to the Salamanca school, since Schumpeter accepts that it can be seen as a separate and entirely distinct stream of economic reasoning: 'But the core of this school was made up of late scholastics, many of the most eminent of whom happened to be Spaniards; and there was nothing specifically Spanish about their teaching; the rest of Spanish sixteenth century economists, though most of them were also clerics, do not form a school' (*ibid.*, p. 165).

The evidence that the decline of medieval scholasticism was a complex phenomenon is rather compelling. This process is generally held to be a function of two crucial parameters reflecting *external* and *internal* factors in the growth of knowledge, of the changing economic environment of early modern times⁴, and of the Scientific Revolution of the seventeenth century which inaugurates a new era of scientific spirit and an entirely different approach to real world phenomena (Screpanti and Zamagni 1993, pp. 16-23).

The importance of an external history of science has been emphasised by the majority of the historians of economic thought. Galbraith (1987, pp. 20-30) attributes the decline of scholastic economics to changing socio-economic conditions only, without paying much attention to the scholastics as a distinct school, and the same line of argument is followed by Fusfeld (1994). In the same spirit, Bell (1953, pp. 68,74) observes that medieval economic doctrines were superseded by the inevitable growth of the emerging capitalist economy, which

resulted in a process of transition from domestic to national economic structures, placed increasing emphasis on the satisfaction of human wants, and restrained every religious attempt to codify rules for economic relations, thus favouring the rise of Mercantilist policies. Similarly, Staley (1989, p. 8) at best provides short clarifications on these issues as he adopts Viner's position, which emphasises the role and significance of economic conditions and the immediate impact of Mercantilism's economic doctrines on the social behaviour of laymen.

Landreth and Colander describe scholastic economic doctrines, not to 'attempt to analyse the economy, but (rather) to set religious standards by which to judge economic conduct' (Landreth and Colander 1994, p. 33). In this perspective, the decline of scholasticism is inherently associated with a process of formation of new economic practices reflecting 'the disruptive consequences of changing technology...slowly upsetting the feudal order' (*ibid.*). Under these conditions, scholastic ethical considerations of economic phenomena seemed rather inappropriate to the prevailing values of the emerging market economies. A necessary prerequisite for the transformation of European institutional structures was undoubtedly a sense of freedom from religious ideology, and its concomitant ethical teaching, that resisted individual emancipation from its precepts and viewed economic activities as subject to the political and economic power of the church (*ibid.*, pp. 33-4).

Spiegel explains the above claim by providing thorough insights into the ideological foundations of scholasticism. Since the material welfare of the individual was dependent upon the need to promote the common good, 'the economic doctrines of the church aimed at minimizing sin and maximizing charity, but not in a manner that would have precluded the important economic developments that took place during the later Middle Ages' (Spiegel 1991, p. 55). Scholastic economics were certainly reflecting the ideal of correspondence between theological teachings and secular practices, but such correspondence could not be but imperfect (*ibid.*, p. 56).

Hunt extensively refers to older medieval paternalistic social precepts that explicitly condemned greed, acquisitive economic behaviour and the human desire to accumulate material wealth (Hunt 1979, p. 24). These moral injunctions were at odds with the new demands of emerging market economies, dominated by self-interest, self-seeking motives and acquisitive economic attitudes to function effectively. In this new context alternative theories stressing the importance of self-interest for individual conduct began to dominate economic thinking, thus asserting the social values of independent and autonomous individuals, and turning against the medieval doctrines of individual subordination to religiously determined social ends (*ibid.*, pp. 25-6).

Pribram offers valuable insights into the problem of transformation of market conditions and of subsequent modes of thinking in late medieval societies. Pribram attributes the disintegration of Thomistic economic doctrines to a variety of societal factors, mainly a dramatic shift of popular mentalities, attitudes and practices underlying an overall attempt towards 'emancipation from the hierarchical structure of concepts, upon which was based the inflexible medieval classification of professional and occupational functions' (Pribram 1983, pp. 25-6). The introduction of new procedures in commercial life, the reshaping of financial activities and the undertaking of risky economic activities under the progressive invalidation of market restrictions would have been, according to Pribram, entirely inconsistent with traditional scholastic categories. In this context, the increasing

affirmation of profit-seeking behaviour, 'not as a single expression of greed condemned by the clerical authorities, but as a rational principle of organizing production and trade' (*ibid.*, p. 27), was associated with a process of transformation of social structures, which necessitated adjustments of patterns of economic action to a world of risk and uncertainty. Repudiation of long-prevailing Thomistic doctrines could be a part of that overall change of institutions, resulting in unavoidable modifications of the predominant economic conceptions. In this respect, 'unifying medieval methods of reasoning were progressively undermined by the influence of other patterns of thought [since] these methods could no longer cope effectively with new problems resulting from revolutionary changes of political ideas and from the application of new procedures to the organization of production and trade' (*ibid.*, p. 31). Neoplatonic, nominalistic and humanistic streams of thought, rivalling each other for prominence, offered secular directives in identifying the objectives of both economic behaviour and social action, unlike their scholastic opponents.

Finally, and somewhat differently from the above, Ekelund and Hébert argue that the scholastic tradition was composed of fundamental theological beliefs and was consequently displaced by new forms of economic inquiry, though the latter did not represent 'a *de novo* approach to economic analysis' (Ekelund and Hébert 1975, p. 29). There are also historians of economics who do not provide any reason for the decline of scholastic thought (for example, Deane 1978). Is there enough evidence, however, that such social and intellectual factors as the progressive monetisation of the economy, the rise of absolutism and the flourishing of humanistic ideals can provide a sufficient rationale for the understanding of processes that undermined the ecclesiastical critique of money, commerce and credit? This is the crucial problem we are going to examine.

3 The Scholastic Research Tradition in the History of Economic Thought

3.1 Laudan's Concept of Research Tradition

In the 1970s and in the 1980s, many historians of economic thought made use of the ideas of Thomas Kuhn and Imre Lakatos in order to explain the development of economic thinking (see, for instance, Coats 1972; Dillard 1978; Latsis 1976; Blaug 1980; Backhouse 1991). Recently, however, there has been a growing belief that these two approaches are not appropriate for explaining the development of economic doctrines (see, for instance, Hausman 1994; Salanti 1994; Hands 2001). Instead, a number of other meta-theories have been proposed (for a review, see Zoumboulakis 2001). One of them is Laudan's philosophy of science, which has already been applied to economics (for example, Pheby 1988). D. Wade Hands classifies Laudan's meta-theory among these first-round quasi-historical responses to the problems raised by the Kuhnian philosophy of science as entirely distinct from the more general trend toward historical or sociological approaches to the study of scientific knowledge. However, he does not assess its contribution: instead, he examines the Lakatosian approach in detail, because of the latter's importance in economics (Hands 2001, p. 111, n. 43). For our own analytical perspective, the framework of examination of such problems adopted by Laudan's philosophy appears useful, as its applications are not restricted to the realm of the mature sciences. They can also be extended to the area of non-scientific research traditions, such as theology, morals and metaphysics, which are crucial constitutive

parameters within scholastic economics. Thus employing such a meta-theory does not imply a step toward discrediting other prescriptive or descriptive methodologies, but only a choice consistent with our project of not formulating, in this case, a set of strict demarcation criteria for science.

Laudan introduces the notion of the research tradition, a conceptual structure analogous to Kuhn's paradigm or Lakatos's scientific research programmes. Research tradition is described, in Laudan's words (1977, p. 78-9), as a set of specific theories which exemplify and partially constitute it, some of those being contemporaneous, while others are temporal successors of earlier ones. All these theories share the ontology of the parent research tradition and can be tested and evaluated only within this methodological framework. What is most important, every research tradition is associated with certain metaphysical and methodological commitments which individuate the tradition and distinguish it from others, for research traditions extend through long periods of time. Research traditions reflect enduring, long-standing commitments and dominant beliefs, and it is this cluster of beliefs – which constitute such fundamental views about the world – that Laudan calls 'research traditions' (Laudan 1996, p. 83).

In his approach to the history of a discipline, Laudan argues that any meaningful analysis of the historical development of any research tradition needs to 'take account of all the "cognitively relevant" factors which were actually present' (Laudan 1977, p. 138). This undoubtedly includes theological, political and sociological factors. However, contrary to Kuhn's conception of normal science, it 'seems to be far more common for scientific disciplines to involve a variety of co-present research approaches (traditions)' (Laudan 1996, p. 85). What is crucial here is the fact that Laudan (1977, pp. 121-33) elaborates a model of scientific rationality which, without ignoring the general nature of rational decisions in theory-choice, permits him to specify certain parameters which constitute rationality as dependent on cultural and social context, apart from those elements which still remain *trans-temporal* and *trans-cultural* (*ibid.*, pp. 130-1). In this respect, scholastic emphasis on the relation between faith and reason does not prevent a critical discussion of economic problems, or, in Laudan's words: 'Thomas Aquinas or Robert Grosseteste were not stupid or prejudiced when they espoused the belief that science must be compatible with religious beliefs' (*ibid.*, p. 131). Thus Laudan rejects a strict demarcation criterion between scientific and other forms of intellectual inquiry, since 'our central concern should be with distinguishing theories of broad and demonstrable problem-solving scope, from theories which do not have this property' (Laudan 1996, p. 86). The only vital difference between sciences and other disciplines lies in the fact that, outside the former, there is no independent criterion for inclusion in a tradition, that is, no objective basis for including achievements in the theoretical canon of the discipline (*ibid.*, pp. 152-53).

The first systematic attempt to introduce Laudan's ideas in economics was made by Pheby, who shares Laudan's ideas of the notion of research traditions as being both more flexible and more realistic than the constructions of Kuhn and Lakatos. For example, it is quite feasible for different theories within a developing research tradition to be rivals (Pheby 1988, p. 74). Pheby further applies the idea of 'abandoning' research traditions in economics in his discussion of Austrians and Keynesians (*ibid.*, pp. 74-5). He also analyses Laudan's concept of scientific revolutions (*ibid.*, pp. 78-9) in a way that seems to fit with economics, by giving two distinct examples in the recent history of the discipline, the Keynesian

Revolution and the Rational Expectations Revolution (*ibid.*, p. 78). Research traditions in economics are not entirely superseded by their rivals, but they are afforded the opportunity to experience a revival, although the latter probably does not occur in our specific seventeenth-century context. Other examples of application of Laudan's ideas to economics include Arouh (1987) and Rappaport (2001).

3.2 *Medieval Economics as a Research Tradition*

Scholastic economics does not represent a unified and totally homogenous doctrinal conception, although it incorporates a wide range of economic arguments about specific economic phenomena. The term 'scholastic' indicates a specific approach to economic reality, associated initially with a group of thirteenth- and fourteenth-century theologians, doctors and medieval masters. Scholasticism is the main medieval current of thought which emerged during the thirteenth century and contained a remarkable synthesis of ancient sources, mainly Roman law and Greek philosophy, with the patristic tradition and canon law, of which economic reasoning constitutes only a very small part. It is generally held that the subsequent dominant tradition of scholastic economics was partly dependent on a previous tradition in law. Odd Langholm (1998) supports the view that the 'scholastic paradigm' in economics was articulated at the crosspoint of three distinct ancient traditions, namely: *the Aristotelian tradition* (through the Latin translations and paraphrases of the ancient texts, and other commentaries on the *Nicomachean Ethics*), *the Roman law tradition* as a legal approach to social relations (which exerted a considerable influence on medieval economic ideas through the work of the medieval Romanists and glossators), and finally *the Augustinian tradition* with its major significance at the doctrinal, ethical and conceptual level (exemplified and developed by the most prominent commentators on medieval canon law before Thomas Aquinas).

The emergence of the scholastic tradition in economics can be interpreted in terms of its components, that is, as a consequence of a new, creative synthesis of three independent pre-existing traditions of thought. The scholastic tradition did in fact incorporate elements of traditions which seemed to be previously incompatible. Despite the fact that scientific revolutions in pre-scientific traditions are far from conceivable, we could agree with Laudan's position (1977, p. 104) that 'the development of a research tradition whose novelty consists in the way in which old ingredients are combined' is of the utmost importance for our case study. This integration, however, entails, according to Laudan (*ibid.*), 'the repudiation of some of the fundamental elements of each of the traditions being combined', possibly a resonance of the so-called 'Kuhnian losses' during a paradigmatic change. This statement could indeed be valid in the case under examination.

The scholastic tradition in economics is composed of a family of mutually consistent theories, applying the tradition to different parts of its domain, and focuses on certain empirical and internal conceptual problems solved within its scope, world view and methodology. The most important of them can be schematically categorised in the following way:

i) Conceptual problems

Private property as an institutional arrangement poses an initial conceptual problem within the doctrinal system of medieval Christendom: property represented a problem for scholastic economic thinkers, since both the scriptures and natural law portrayed an ideal of community of goods. In order to address this logical

inconsistency a wide range of responses appeared, which tried to balance property rights and the common good, poverty vocations and wealth accumulation. The scholastic solution to that problem was formulated in the context of Thomistic economic discussions, in the light of the argument that private property represented a conventional human arrangement (Aquinas, *Summa Theologiae* 2a 2ae, 66,2), an institution apt to stimulate economic activity through the creation of economic incentives and to promote collective welfare (cf. Langholm 1998b, pp. 44-9; Finnis 1998, pp. 188-96).

The problem of wealth retention, accumulation and profit was treated in the context of a stewardship theory of property, where excess resources (over those required to sustain one's life and social position) should be distributed through almsgiving, in support of the needy (Langholm 1987, p. 119). This moral justification of profit-seeking activities was inserted within a specific code of economic ethics applicable to every commercial activity: a code prohibiting hoarding, fraud, usury and illicit means of negotiation. Economic arrangements yield a legitimate profit only because of just price variations as a function of alteration in needs and demand over time and place. Commercial profit is justified on the basis of labour, expenses and risk (Peter Olivi, *Tractatus de emptioibus*, Q.6 and Duns Scotus, *Opera Omnia*, vol.18, IV, 15,2, quoted by Langholm 1998a, p. 124, n. 20). Profit derived by differentials in just prices was allowed under the condition that commercial activities were not motivated by pure seeking of financial gain, given the negative valuation of avarice and greed in medieval societies⁵.

The problem of the definition of the just price⁶ was solved in the context of an Aristotelian-based approach to economic exchanges, where justice in exchange was considered as an application of commutative justice. It was further treated in terms of *indigentia communis*, or common need, underlying common estimation, a concept developed on the grounds of Roman Law considerations of a mutual agreement between contracting parties. However, this problem of an exact determination of the just price of a commodity remains partly unsolved, since it is accepted that the just price is subject to alteration with regard to time and place, so that it is difficult to determine to a fixed point. The just price implies a kind of estimation that allows a certain latitude, precisely because its formation presupposes economic bargaining that precludes deceit, fraud and every means of economic compulsion. Olivi, for example, considers a certain latitude in arriving at a just price in free bargaining, whereas Duns Scotus calls not only for latitude, but also good will, conforming to the double rule of just pricing. Monopolies are sinful as they entail compulsion, while merchants are warned against making contracts that involve or impose an excessive price for the buyer (Antonin of Florence, *Confessionale: De mercatoribus*, f.92r). Free bargaining is ensured only in a purely competitive market (Langholm 1998b, p. 469, and 1987, pp. 120-1). Accordingly, the right of the public authorities to regulate prices, and the concomitant attempt to control the price of labour during labour shortages, was partly moderated by a principle of free bargaining over the level of the just wage (or collective bargaining in the case of associations) involving a notion of justice based on proportion rather than strict arithmetical equality (Wood 2002, pp. 152-8).

The problem of the value of goods was considered on both subjective and objective levels. Some commentators (especially Henry of Friemar and Gerald Odonis in the early fourteenth century) argued that both labour and demand served as co-existing variables within the same theory of value. They employed *indigentia*

as an analytical category for demand out of need and scarcity, thus comprising conditions of supply as well (*Commentary on the Ethics*, cod. F.I.14, f.132r-135v, quoted in Langholm 1987, p. 134, n. 9). In appreciating that prices were determined by supply and demand, the Franciscan Bernardino of Siena (1380-1444) includes scarcity and subjective utility among other value determinants, drawing on 'Peter Olivi who first split the composite concept of *indigentia* into the factors of *utility* and *scarcity*' (Langholm 1987, p. 124). A further (initially empirical) problem is attested to when, in a cost of production theory of value, expenses are exaggerated in a way that exceeds what is necessary for the production of a good (and thus its just price could be artificially raised). The scholastics were able to distinguish the case where scarcity of qualified labour (or scarcity of other productive resources) affected the value of goods (or when excess demand for a product influenced the level of wages, the payment of labour). Not only was it agreed that, in the case of exceptionally high actual costs, the merchant was permitted to charge a higher price, but also a moderate gain from commercial activities was a licit practice, pertaining to risky activities such as those undertaken by merchants. Indeed, Duns Scotus and Peter Olivi were among those authors to point to certain cost factors (including labour, risk, transport costs, skill and other expenses) as value determinants (John Duns Scotus, *Opera Omnia*, vol.18, IV, 15,2,22 and Peter Olivi, *Tractatus de emptioibus et venditionibus, de usuris, de restitutionibus*, Q2 and Q6, quoted by Langholm 1998b, p. 472, n. 41). A further conceptual problem of relevance for our purposes was emerging in those cases when economic exchanges were in fact utility-enhancing for both contracting parties (these exchanges implied an advantage for both parties and contradicted the commonly-held view that only goods of equal worth could be the object of an exchange, in the Aristotelian sense of commutative justice).

Finally, lending at interest could be considered as an *anomalous problem* within the total theoretical construction of the medieval schoolmen, since usury seemed to be an illicit practice, rectified only through restitution, thus falling exclusively within the scope of injustice. Underlying these attitudes was the conviction that only labour served as the main source of economic profit. Albert the Great provides a fair summary: '(the borrower) by hard labour has acquired something as profit on which he could live, and this, the usurer, suffering no distress, spending no labour, fearing no loss of capital by misfortune, takes away, and through the distress and labour and changing luck of his neighbour collects and acquires riches for himself' (*Super Lucam* ad 6,35, quoted by Wood 2002, p. 178). This was unavoidable, given the Aristotelian theory concerning the sterility of money, its lack of intrinsic worth and its use primarily as a social convention yielding no utility to its holders. The weakness of the theory, if judged from a modern point of view, consisted in precluding cases where fixed interest earnings on monetary loans could be derived. In order to deal with this logical incongruity, the scholastics admitted that compensation (that is, interest) should be demanded in some forms of earning without labour, where one could gain utility from holding an object of worth (for example, the rent on land) or could undertake a risk in an economic activity (for example, investing money funds in a risk-sharing partnership, or in the case of dividends from profit shares).

ii) *Empirical problems*

Among the medieval schoolmen, Nicole Oresme addresses the widespread problem (in fourteenth-century France) concerning the progressive debasement of national

currencies by their respective governments. The primary function of money consists in its use as a medium of exchange, a function disrupted by the debasement process, which converts money into an object of borrowing and lending (Langholm 1987, pp. 128-9). Oresme enlarges the explanatory potential of previous medieval commentators on these subjects by assessing the economic (and social) consequences of debasement, its different techniques and its devastating effects: the devaluation of the purchasing power of money, in particular, and ultimately inflation, loss of confidence in money as a medium of exchange and loss of monetary stability. The practices of debasement are analysed theoretically as a means of extracting negative interest on behalf of the sovereign rulers, and thus as a form of usury (precluding consent of the contracting parties, since it is imposed on the subjects of a kingdom). Debasement yields illicit profits to the ruler since they are extracted from (naturally) free people, the community to whom money belongs – thus debasement is a form of economic coercion that cannot endure for long. It serves only as a temporary measure for raising money funds for the common good⁷: this pre-figures a means of exercising monetary policy by the prince (acting as an agent on behalf of the community, that appears as the principal), since money is a kind of loan granted to government by free people who acquire it by their labour activities (Oresme, *De moneta*, ch.6, p.10, ed. C. Johnson; see also Lapidus 1997, p. 47).

The medieval schoolmen placed a great deal of emphasis on the explanation of the problem of why the same goods are exchanged at different prices in different places, or, even more significantly, on the determination of reasons for alterations of market prices of the same good over time, as we have discussed above.

The scholastics were confronting the expanding practice of usury in later medieval societies in an ambivalent way: condemning lending at interest if it was orientated at consumption, but encouraging the same practice if it served productive engagements. Usury is not only an economic practice that seems to contradict basic postulates of medieval economics (though the latter acknowledged the existence of specific cases legitimising usury), but also an empirical problem that the changing economic world poses – usually investing usury with negative connotations as a morally repugnant institution, to the detriment of the weaker parts of society. Usury was considered as a socially detrimental activity in the light of a mode of economic inquiry reflecting the dominant value system of feudal societies of the Middle Ages and aspiring to normative purposes – actually to reduce the burdens of servitude and compulsion on individuals (Baeck 1994, pp. 150-1).

3.3 The Evolution of the Scholastic Tradition in the Doctrines of the Salamanca School

The so-called school of Salamanca represents a synthesis of older Thomistic ideas achieved in the sixteenth and early seventeenth centuries by a distinguished group of eminent theologians and jurists known as ‘the late Scholastics’. The denomination ‘School of Salamanca’, albeit disputed in modern scholarship⁸, denotes a circle of church intellectuals around Francisco de Vitoria and encompasses his colleagues, disciples and his principal heirs in many cognitive fields, economics included (Gómez-Camacho 1998, p. 504). The accomplishments of this trend of economic and legal thought have acquired a certain acceptance among contemporary historians of economics, partly because the Spanish doctors tried to rationalise the economic institutions of their own epoch, perhaps more

effectively than their medieval predecessors. More specifically, their economic ideas reveal a greater emphasis on empirical data of the early modern Spanish economy. In the light of Laudan's notion of an evolving research tradition, which combines elements of continuity and change within the same tradition (Laudan 1977, pp. 95-100), the different positions of the Spanish doctors summarised by Gómez-Camacho (1998) can be reconstructed in terms of core axioms of a research tradition, in the following way:

Core Axioms:

1. The attempt to explain the main institutional features of economic life constitutes a necessary prerequisite for any consistent economic theory.
2. The scope of economic inquiry is primarily to offer a rational moral insight into human economic behaviour.
3. Reconciliation of faith and reason amounts to the construction of specific ethical rules derived from natural (and divine) law, and applied to a wide range of economic phenomena.
4. The principal economic motives of individual agents are moral obligations in connection with freedom of will and right reason.
5. Economic agents are guided by a practical need to make judgements of facts and values in circumstantial cases within the limits dictated by right reason.

The core axioms, described above, are deemed to serve as the foundation of the following irrefutable assumptions:

Core Assumptions:

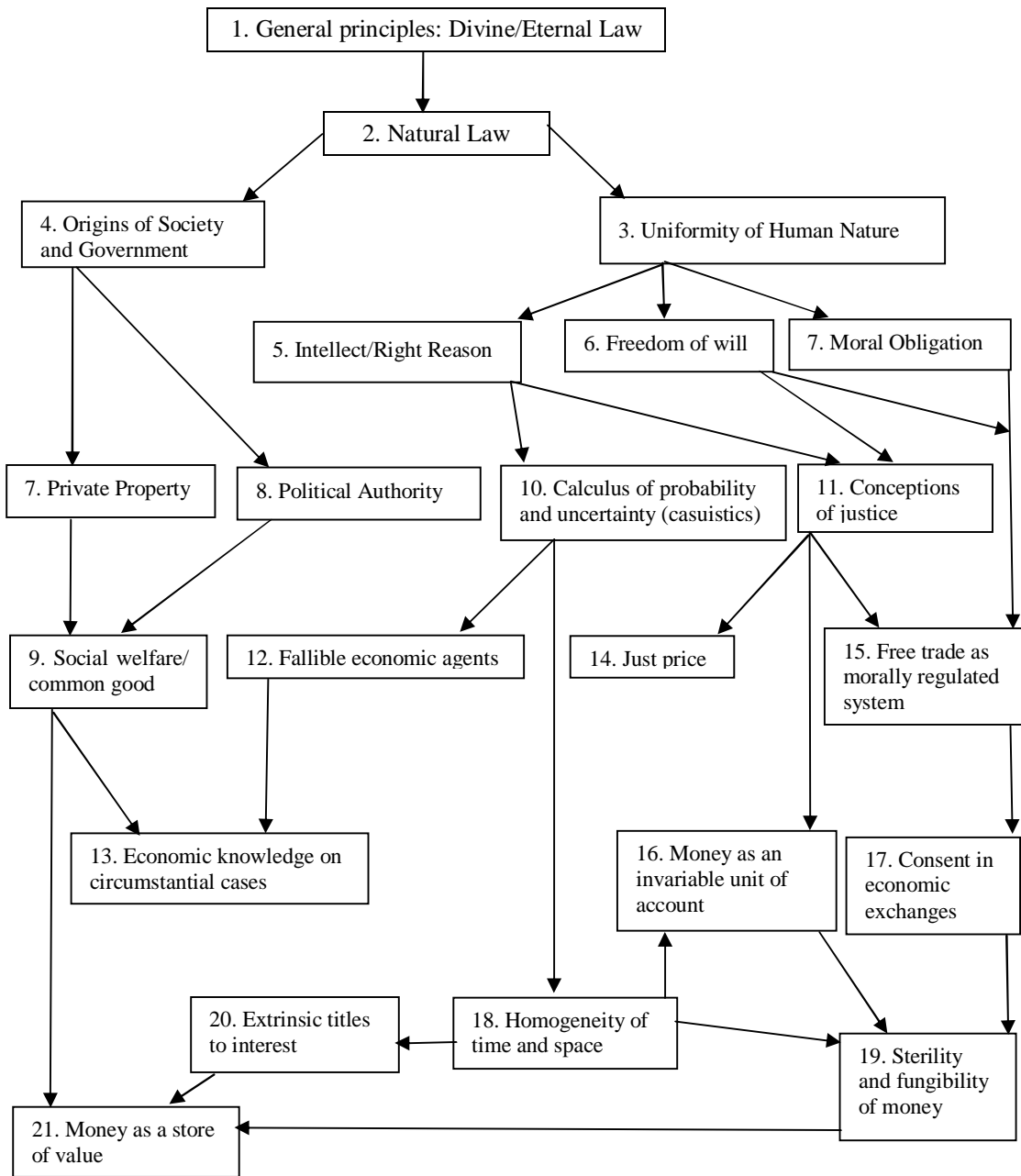
1. Economic individuals do not dispose of perfect knowledge of relevant market conditions, but act as fallible human subjects of economic activities.
2. Economic individuals are able to orientate their actions by making rational calculations of probability and uncertainty.
3. Individuals do not exhibit maximising behaviour, but an attitude of personal responsibility aiming to promote economic (and social) justice.
4. Individual decision-making implies choices that cannot be based on a mechanistic causality process, as they seem to result from a finalism inherent in every human action.
5. Position in time is irrelevant, due to a concept of homogeneity of time and space, which renders mere passing of time completely extrinsic to economic phenomena (thus time represents only an extrinsic measure of duration).

The implications of this set of core axioms and core assumptions for the elaboration of the economic doctrines of the Spanish doctors are depicted in the following table, which stresses the theoretical coherence of this evolving research tradition.

Following Grice-Hutchinson's (1978), Gómez-Camacho's (1998) and Baeck's (1994) discussion of the Salamanca school, our analysis of the most significant conceptual and empirical problems which this evolving tradition aims to solve risks caricature, but it suffices for our purposes.

Table 1

A possible reconstruction of Spanish scholasticism's economic conceptions



- A. 1,2: Metaphysical premises B. 3,5,6: Anthropological assumptions
 C. 4,7,8,9: Institutional Structure D. 10,11,12,13: Mode of economic behaviour
 E. 14,15,16,17,20,21: Spanish approach to market, money and value
 F. 18,19: Spanish world view on time and nature of goods

Empirical Problems

The inflationary processes of seventeenth-century Europe were a primary concern of Jesuits and Dominicans (Baeck 1994, pp. 186-9). The explanation of this phenomenon was achieved in terms of a simplified form of a *quantity theory of money*, which was used by the Salamanca intellectuals to explain inflation resulting from the import of precious metals (gold and silver) from the New World. Through this mechanism the increase in Spanish prices spread over Western Europe as a result of the Spanish balance of payments deficit, thus shaping the so-called Price Revolution (Fisher 1989). The Salamanca school came to formulate the essential properties of such a causal relationship between money supply and price level almost independently of Jean Bodin, Davanzati, Copernicus and other Mercantilists of the same epoch.

The problem of the status of contracts and the particularities of commercial exchanges are treated within a contract theory that stresses the free consent of the parties involved, and precludes the exercise of economic compulsion on the economic agents, since economic exchanges are enacted only in the absence of fraud, deceit and force.

The high level of interest rates imposed on loans to compensate for losses resulting from raising prices (reducing the value of debts), was interpreted within a theoretical construction on usury: prohibition of such interest rates seemed unjust, in the form of extrinsic titles to interest. In a new economic world that produces rents, investment capital creates profits; money, if invested properly (that is, productively), earns a profit. Interest, in this case, is tantamount to a participation, in the borrowers' profit, that is due to the creditor according to justice.

Conceptual Problems

Private property as an economic institution posed no problem for a theological approach to economic life, since the Spanish doctors established the idea that private property was introduced by right reason, and even in conformity to natural law: it actually represented a rational, essentially irreversible, human decision not contradicting the fundamental norms of co-existence (De Soto, *De iustitia et iure*, lib.IV, q.3, a.1, concl.).

The problem of the value of goods undergoes a further elaboration, as the Spanish doctors adopted and defended a scarcity theory of value on the grounds of a 'utilitarian' ethical doctrine placing an emphasis on *common estimation*, the product of right reason and freedom of will. In their formulation of a general scarcity theory of value, every commodity (money included) becomes more expensive in the context of strong demand and shortage of supply. Thus the quantity theory of money seems not only not incompatible with but even reducible to such a theoretical framework: the value of money is diminished in the periods of excess money supply, lack of increase in total output, and inflation – a view supported by eminent Spanish scholars (Navarrus, Mercado, De Soto; Grice-Hutchinson 1978, pp. 102-7). Most Jesuits seem to reject a cost theory of just price because of the incentives involved to raise the level of productive expenses artificially. In defining the natural price (or intrinsic worth) of goods, Molina assumes that it depends on three factors, scarcity (or abundance), the relative number of buyers and sellers, and the quantity of money in the market (Molina, L. de, *De Iustitia et Iure*, disp.348, col.564 B, C).

The problem of the definition of the just price attracted the interest of the Spanish theologians who, focusing on the notion of public good, stressed the importance of the competitive price: they also came to underline that what is considered as a just price fluctuates *within a zone of just indeterminacy*⁹, since the just price can be *any* price within the margin allowed by the principle of justice. Market prices should be established within the spectrum of the just natural price, even if the latter is subject to changes, due to the relative number of buyers and sellers, the quantity of money, and scarcity. Monopoly, however, represents a conceptual problem *unsolved* within this tradition: it is morally condemned as it distorts productive effects and leads to artificially raised prices. The necessity of the competitive market to define the just price (and the concomitant immorality of monopolistic markets) was already anticipated by the scholastics. Free choice is based on the absence of economic coercion, fraud or deceit in an economic exchange, a theme always familiar to the scholastics (De Soto, *op.cit.*, lib. VI, 93, a.1).

Profits no longer denote a conceptual problem within the scholastic tradition, as they are in fact morally justified as wages for productive services, the remuneration of the merchant's economic engagement. Profit maximisation was, however, illegitimate, since it could not come to terms with the Thomistic injunction for a moderate level of profit for the purposes to sustain oneself (and one's relatives).

Finally, in their effort to clarify the appropriate commercial practices, the Spanish doctors based their analysis on the purchasing power parity theory of exchange rates, thus applying the supply and demand approach to foreign exchanges (Baeck 1994, pp. 190-1). International trade was justified on the grounds of the argument that the act of exchange results in benefits for every republic, as it entails various mutual gains (not confined to the economic sphere). People engage in international trade because of the variety and diversity of needs to be satisfied; in addition to this, such exchanges retain their immediate cultural impact, as they promote mutual understanding between remote people, and reinforce the bonds of brotherhood between different nations, in the form of universally binding principles governing human socio-economic relations. These conceptions differ significantly from a world view favouring merchants' economic power, but rather display a zero-sum approach to international competition associated with Mercantilism, as we shall briefly discuss in the next section.

4 A Framework of Evaluation of the Scholastic Research Tradition in Economics

Medieval scholasticism, and its Salamanca version in particular, declined gradually during the seventeenth century, but this inevitable course of an intellectual movement encompasses a variety of interdependent factors. The most important of them (in terms of what Lakatos called 'external history' of structured science) should be identified in that, and inherited from the Middle Ages, the Spanish world view was promoting a type of economic inquiry reflecting the universalising precepts of western Christendom, but totally opposed to the new sense of independence and autonomy of the emerging national states of the early modern times. Even more, this problem became particularly acute by the time that a potential antagonist to the scholastic tradition (in terms of a rival) appeared and established its position during the late sixteenth century. The rise of Mercantilism

was a considerable alternative to the Salamanca school, given that the latter could not enhance the concerns and interests of the emerging classes of traders acting in such a way that their motivations were not dictated by purely moral precepts. The scholastic research tradition raised, above all, ethical issues rather than those of description or prediction, thus providing an analytical context of interpreting ethical choices in the realm of property, wealth, money, commerce and prices. By contrast, Mercantilism was assigned the perception of inappropriately associating self-interest with policy issues. Mercantilist tradition focuses on different issues (national monetary or trade policies), substituting reason for religious abstraction and adopting an economic world view other than that of a faith-based authority system. It introduces new cognitive goals and re-orientates economic inquiry towards other directions¹⁰. Baeck (1994, pp. 1-6) assesses this transition in terms of his remarkable suggestion that the centre of gravity of economic thought gradually shifted from the Mediterranean to the Atlantic tradition, not without a major transformation of central issues and concerns. In Baeck's view, the ethical paradigm that had governed economic thinking from Aristotle to the School of Salamanca was discredited by a process of Atlanticisation of the modern world and its economic doctrines (*ibid.*, p. 192). Hence, new conceptions of the economy as an instrument of certain practical and political aims were attributed to Mercantilism. Scholasticism and Mercantilism denote two entirely different directives for the economist to comply with, and this incongruity raises further disputes about the aims and scope of pre-classical economic reasoning. A settlement of such disputes is not entirely unfeasible.

As Laudan (1984, p. 41) suggests, 'when values are not fully shared, we seem to be confronted by an irresolvable disagreement', which implies 'a fundamental challenge to the very idea that science is a rational and progressive undertaking'. This divergence between cognitive ends can be effectively overcome within the context of a reticulated model of justification (*ibid.*, pp. 62-6), where 'determinations of progress must be relativised to a certain set of ends, and there is no uniquely appropriate set of those ends' (*ibid.*, p. 66). In our case, the adoption of Mercantilistic axiology may denote a choice that promotes one cognitive aim in economics, but fails to promote a rival one. For example, the shift towards Mercantilism is associated with an abandonment of aims implied by the core axioms 2 and 3 of the Salamanca school, but the recognition of the fact that aims and values both change does not preclude the methodologist of economics from using a notion of cognitive progress, since judgements of progress are appreciated against *a certain conceptual framework*.

Consequently, the 'internal history' of science in the Lakatosian terminology¹¹ should be of interest, since the methodology of research traditions offers such criteria for evaluating the performance of a tradition over time. Given that a successful and viable research tradition seeks to minimise the numbers of unsolved (and anomalous) problems, and maximise the numbers of solved (conceptual and empirical) problems, we have already determined (though roughly) the numbers of those problems that the scholastic research tradition sought to solve in each of its two distinct phases, the generations of the medieval schoolmen and that of the Salamanca school. These categorisations, albeit somewhat loose, do not lack logical consistency: they serve our analytical purpose of denoting the problem-solving ability of the scholastic tradition and its pursuit of the rational.

Each of these two distinct phases seems to address the same type of conceptual and empirical problems discussed above and enumerated in the

respective sections of the paper, but in specific cases their relative weight differs increasingly. We shall focus our analytical interest on three important aspects of the general progress exhibited by this tradition by comparing its latest and earliest formulations.

First, the Spanish economists of the sixteenth century extended the explanatory potential of medieval economics to certain empirical fields, as their study of inflation, money debasement and the gradual economic decay of Spain tends to prove¹². This is evident in their attempt to offer a first formulation of the quantity theory of money: the latter was, however, proposed alternatively by other European intellectuals (perhaps a typical example, in early intellectual history, of a multiple discovery in the Mertonian sense¹³). In doing so, the Spanish theologians sought to resolve certain practical problems of business ethics; considerations of economic policy would be an additional, but not the pre-eminent factor, in the rise of this new approach (Spiegel 1991, p. 87). Barry Gordon argues that these new theological insights were due to an effective combination of changing conditions and of a new spirit of economic inquiry (Gordon 1974, p. 74), while their overall approach 'led to a much clearer understanding of the meaning of a market and a more comprehensive analysis of price-formation' (*ibid.*, p. 75), which extended the scope of traditional scholasticism, thus yielding theoretical benefits for economic thought. According to Gordon, underlying these innovations was a definite break with medieval views on monetary transfers and an emphasis on the consensus of the contracting parties in real markets of sixteenth-century Europe. Similar explanations, however, had in fact been developed quite independently by a rival tradition in pre-classical economics, that is, Mercantilism, which did not presuppose any of the metaphysical commitments and ethical constraints of the late scholastics. This also means that the totality of the scholastic convictions relevant to economic behaviour and to its anthropological presumptions (as illustrated in Table 1) could not be shared by the proponents of Mercantilistic doctrines. Economic systems, accordingly, were no longer permeated by the values and beliefs situated within the context of scholasticism.

A second theoretical achievement of the Spanish scholars that tends to overcome the conceptual deficiency of medieval schoolmen is their effort to reconcile the views on the just price with usury doctrines in such a way as to bring both real and monetary goods under the governance of a unified theory of value. These modifications could, however, be considered as *ad hoc* adjustments of the theory to the changing empirical world of early modern times (usury doctrines were deprived of any meaning in subsequent post-scholastic thought). Like their medieval predecessors, the Spanish doctors delineate the principles governing economic activities, acting however as observers of empirical reality who seek to explore the laws of market mechanisms. Interestingly, the Salamanca school emerges as a bridge between medieval economic doctrines and the subsequent natural law philosophies of the seventeenth century (Baeck 1994, p. 191).

The third element we emphasise is the introduction of casuistics in moral thought: such an approach to economic activities, within the framework of probability and uncertainty, constitutes a major theoretical innovation of the Spanish doctors, which remained unexplored, perhaps until its new significance obtained in the context of the Keynesian revolution three centuries later. This perspective, along with the related view of fallible economic agents, could be an advance in pre-classical economics. From this point of view, the scholastic tradition seems both theoretically and empirically progressive, which in turn presupposes a

certain rate of progress over a given period of time. The latter is not subject to a proper evaluation, without setting some independent criteria of estimation of its problem-solving capacity in certain phases of its development.

Laudan's model provides a comparative framework for theory evaluation, within which a theory (or a family of theories) cannot be judged *independently* of a knowledge of its rivals: strictly speaking, only a comparative evaluation of its effectiveness and progress to that of its rivals offers a rationale for the acceptance of a theory. The scholastic research tradition in economics has in effect exposed a higher problem-solving capacity in its latest Salamanca version (compared with an earlier, medieval period), but this effectiveness must be evaluated in competition with rival traditions. Indeed, Mercantilism (as a main rival approach) seems to escape from any dilemma arising from the variety of conceptual problems (just profit, just price, usury) that the scholastic tradition confronted. Blaug (1985, pp. 29-31) points out that it was seventeenth-century Mercantilism that stressed the importance of self-interest for profit-seeking economic engagements and anticipated the function of the price mechanism as an efficient means for the allocation of resources. By contrast, scholasticism was promoting a pure juristic approach to economic activities in the tradition of Roman Law, and this feature of scholastic thinking made it stand apart from the Mercantilist tradition. In Blaug's words, 'it was the mercantilists who, long before Adam Smith, broke with the canonical conception of market behaviour as a moral problem and fashioned the concept of "economic man"' (*ibid.*, p. 30).

More significantly, however, this transformation of thinking seems to reflect not only a transition to economic structures of higher complexity, which gradually discredited the application of casuistry, but also the adoption of different patterns of theory construction that proved unfavourable to traditional ethical norms of scholasticism. Indeed, the late Middle Ages witnessed a substantial transformation in views of trade and merchant, in such a way that many of the principles inherent in Mercantilistic doctrines were in fact implemented by legislative actions, as 'an indication that economic practice tends to anticipate economic theory' (Wood 2002, p. 131). The probability, however, that some of the late scholastic economic ideas anticipated those of seventeenth- and eighteenth-century Mercantilism reveals the repudiation of the traditional hostility to wealth and trade, and a re-evaluation of the merchants' contribution to the common good. Underlying this shift in economic attitudes culminating in such an 'exaltation of the merchant' (*ibid.*, pp. 117-20) in various secular and ecclesiastical theories, were intellectual trends advocating individual or national prosperity, in contrast to earlier views on corporate ownership or partnership. (At the same time there was a strong parallel movement in theology towards individualism, epitomised by the Reformation.)

The breakdown of the scholastic paradigm of justice was ultimately a function of the process of depersonalisation of the idea of the communal economic sphere, and of its replacement by a system of impersonal relations between typical agents motivated by self-interest and acting only on their own advantage, thus undermining the dimension of virtue in economic activities (Langholm 1998a, pp. 161-4). This was precisely the case in the economic thinking of the Dominican tradition in the sixteenth century, especially in Cajetan's insistence that the just price takes no account of the reasons for engaging in exchange, since an economic agent forced by need does not violate his own will. In Langholm's words: 'Justice in exchange is about to be viewed as something determined by the forces of supply

and demand, forces that are essentially objective and impersonal' (Langholm 2003, p. 230). Justice was progressively deprived of its initial 'foundation in the parties mutual obligation to consider one another's needs', thus involving a new doctrinal orientation in the place of inherited traditional views.

5 Scope, Orientation and Inherent Limitations of the Scholastic Tradition

Medieval economics reflect the particularities of medieval society, which was primarily a social formation based on rigid social hierarchies, a society established on status rather than in terms of contract (in contrast to the modern societies of the Enlightenment or those in the period of emerging capitalism). Spiegel asserts that, since 'the medieval order was an essentially static one, and the idea of progress was as yet not born to serve as a stimulus to drastic and relentless change' (Spiegel 1991, p. 56), the scholastic economic constructions (especially the just price) were intended to 'conserve the order of medieval society, with its customary occupational structure and the traditional levels of living of each noncompeting group' in a way that 'would serve as an instrument of stabilizing the allocation of productive resources along customary and traditional lines' (*ibid.*, p. 63). In Diana Wood's words: 'The ethical ideal of medieval economic thought was the imposition of a mean in the sense of the balance of justice, or righteousness. It featured in every aspect of the medieval economy – the balance between private and communal rights to property, the redistribution of resources between rich and poor, the use of money as an impartial mean against which all things could be measured, dealings between buyer and seller, producer and consumer, employer and employee, and borrower and lender' (Wood 2002, pp. 208-9).

Undoubtedly, the medieval schoolmen were more favourably disposed to economic activities than their Ancient Greek predecessors, in defining when the operation of the market would be consonant with the precepts of justice. In doing so, however, they adopted typically pre-modern stances, at least in their economic world views. Medema is right to observe that 'the "economic problem", in a sense, was man's sinful nature, the effect of which, if left unchecked, was to promulgate outcomes contrary to the dictates of Christian justice if unchecked by religious and civil laws' (Medema 2003, p. 430). Such outcomes were ascribed to a typically self-interested behaviour promoting economic attitudes inimical to divine and natural law: these side-effects should by minimised, or even prevented, by government action. The Salamanca school stands in conformity to that tradition: it provides the moral grounds for constructing an efficient analysis of economic activities, and, for that reason, its basic postulates and fundamental premises are morally impregnated. For instance, analytical (descriptive) and normative (prescriptive) analysis is interwoven, since the Dominican and Jesuit friars provided a consistent and logically coherent strategy of assessing (and justifying) economic activities that serve morally accepted social ends – the moral goals of promoting public good and social welfare¹⁴. This aspect of scholastic thought, judged from a contemporary point of view, purports to offer a moral evaluation of economic behaviour, resulting in the formation of an economic ethics, which raises claims to universal validity and application¹⁵.

This kind of economic ethics has little in common with the contemporary positive approach to economic phenomena, but it also began progressively to show little relevance to the evolutions and processes of the modern European

economies¹⁶. Indeed, scholasticism elaborated an holistic conception of the economic world as embedded into a set of religious beliefs and cultural norms, unlike the modern, disembedded economy (in Polanyi's particular terminology). Negishi is right to observe that the theory of the just price, entirely normative in nature, lacks its practical necessity in the world of perfect competition presupposed by classical and neoclassical economics. Similar conclusions can be drawn from the medieval arguments against interest, which rather imply imperfect loan markets, distinguished by an unequal distribution of status and contracting power of the bargaining members (Negishi 1989, pp. 6-7). The contemporary reappraisal of scholasticism places an emphasis on this ethical content, given that even when economics became a distinct scientific discipline, it never ceased to raise moral and ethical issues. Ekelund and Hébert (1975, p. 22), for instance, argue in favour of the contemporary significance of the scholastics, at least in the field of value analysis, on the grounds that scholastic economics must not be perceived as a set of 'fallacies about market prices, interest and property...expelled from the corpus of economic knowledge', but as a major tradition representing a synthesis of subjective and objective elements of value that 'stopped short of what we today call the "neoclassical synthesis"' (*ibid.*, p. 26). Furthermore, Melé (1999) points out the importance of a decision-making subject in the formulation of ethical principles governing economic transactions, and evaluates Spanish scholasticism's business ethics as ultimately oriented to the economic agents, albeit primarily focused on particular actions. Wren (2000) argues that a late scholastic view of business ethics was construed out of attempts to reconcile biblical, patristic and other canonical precepts with the realities of expanding economic activity, in the form of admonitions to merchants. Such moral guides about virtuous conduct in exchange relationships address, according to Wren, the surprisingly modern issues of restitution for defective goods, the importance of the market as the final arbiter of value, or the underlying need to make moral choices conforming to one's ultimate responsibility for his actions. By the same token, Landreth (1976) and Landreth and Colander support the claim that the ethical issues raised by medieval economics remain relevant, and this can be corroborated by the contemporary concern with various versions of economic justice in the economic mechanism of the price system, or by the weight of ethical considerations in certain current regulatory economic arrangements (Landreth and Colander 1994, p. 31).

This certainly positive reappraisal of late scholastic economic thought requires further attention. Rothbard (1996) places the Spanish doctors among the antecedents of praxeology, and contends that their prominent position in the history of economic thought lies not merely in that they have addressed issues in the field of the theory of money and interest but also in their development of proto-liberal reflections on economic phenomena. De Soto (1996, p. 63) shares this view and defends Rothbard's position that the Spanish scholastics at Salamanca might be the direct predecessors of the Austrian school of economics and the forerunners of its subjectivist conception. Baeck underlines the importance of the doctrines of the Flemish Jesuits of the sixteenth century for the establishment of free markets, as well as their advocacy of non-intervention by the state in exchange markets, that is, the adoption of policies favouring economic liberalism. In his view, the Salamanca doctors were the first to perceive the autonomous market mechanisms as more effective than state intervention, thus producing a theoretical analysis akin to that of modern economists (Baeck 1994, p. 206). Sirico (1998) seems to employ the same arguments to denote a certain link between Menger's approach and post-Conciliar

Roman Catholic economic thought, as he contends that the focus, both on acting and on the purposive individual as the relevant unit of inquiry, allows intentionality to reveal the true motivations for decision-making actors, in a way that enlarges the scope of the personalist agenda inaugurated by the late scholastics.

It is true that this recent revival of the scholastic tradition, in the form of contemporary Catholic economic teaching¹⁷, fits well with Laudan's meta-theory. Such a retrospective approach implied in the argument in favour of the contemporary dimension of scholasticism obscures, to some extent, the nature and identity of economic categories of the past, which are invested with different meanings, not always consistent with contemporary economic knowledge, as Lapidus (1992, pp. 13, 16) demonstrates in the case of monetary loans. Nevertheless, it must be noticed that a limited retrospective reading of the history of economic thought certainly offers an opportunity for reconstructive formulations in the economic literature of previous periods and elucidates the epistemological difficulties inherent in the pursuit of knowledge and in appraising the validity of any theoretical construction.

The merits of an internalist evaluation of the decline of medieval economics must undoubtedly be taken into consideration. Langholm emphatically admits that 'the modern mechanistic conception of the market as a suprapersonal force setting the terms to which an individual exchanger must submit, was foreign to the medieval masters. Their frame of reference was a moral universe that obliged any buyer or seller to act for the common good and agree to terms of exchange accordingly, regardless of the advantage granted him by the forces of the market' (Langholm 1998a, p. 85). Economic exchange, accordingly, was conceived as a means of distribution of scarce resources, and 'it was this feature of the economy on which the scholastic masters focused their attention, and which shaped their main analytical paradigm' (Langholm 1998b, p. 452).

The doctrines of the Salamanca school represent a first tentative, though not deliberate, step towards the depersonalisation of economic ethics that became so prominent a feature of post-scholastic thought. Competitive market price was no more considered as a universal criterion of justice in exchange, in a world where the evolution of economic institutions made the possibility of relating justice to a market price appear no longer realistic. Provided that the premises upon which the scholastic model rested seemed no longer verified by economic reality, elements like the cause of exchanges or an economic agent in need were considered (by Cajetan in particular) to be substantially irrelevant. The 'depersonalisation' of economic exchanges is intrinsically related to this 'new way of economic reasoning where poverty and need are not included in the terminology and where the individual is subsumed in the aggregate forces of supply and demand' (Langholm 2003, p. 249). In other words, 'depersonalisation' is assumed to be a pre-condition of the escape of the market from these ethical and social limits that constrained it in the medieval societies.

The importance of the sixteenth-century Dominican tradition lies in its anticipating some of the consequences of a 'disembedding' of the economy from these constraining institutions. The decisive step, however, was taken some decades later, when Domingo de Bañez, a Dominican commentator of Aquinas, specified a mode of unjust exchange in which one is compelled by need to buy or sell and, since consenting, one suffers no injury. Accordingly, 'the contract itself is valid though it is unfair...the party who is compelled to make the contract is not

compelled by the other party but by something else, namely, by his want' (Bañez, *Decisiones de iure et iustitia*, II-II, 77,1, quoted in Langholm 1998a, p. 116).

In the early seventeenth century, another member of late Salamanca school, Juan de Lugo, is commenting on usury in a way entirely inimical to the scholastic doctrine, holding the view that anyone engaging in exchange within a restricted spectrum of alternatives, acts *simpliciter* voluntarily and only *secundum quid* involuntarily. Such a choice involves compulsion if judged from a moral point of view, but the latter seems irrelevant to the effectiveness of the economic transaction (De Lugo, *De iustitia et iure*, disp. 25,11, quoted in Langholm 1998a, p. 75, n. 76). Langholm is right to observe that 'this ethical alienation between exchangers represents a decisive break with the ideals with which economic philosophy had been infused since the time of the Early Church Fathers' (*ibid.*, p. 116). But, as has been pointed out, even the later scholastics could not explicitly advocate the idea of the economy as an autonomous sphere of interactions between individuals¹⁸. Alternatively, the Salamanca school elaborated a model of economic thought intrinsically related to a set of morally constructed core axioms and core assumptions in such a way that every effort to abandon such normative principles would result in a complete invalidation of the scholastic tradition in economics. What was really at stake seemed to be moral obligation as constituting the primary economic incentive, orientating economic attitudes under certain ethical constraints imposed by the common good. Instead of virtue or economic ethics, subsequent economic philosophies would enforce rules as the essential preconditions to effective economic activities. In other words, this would signify the adoption of other, substantially secular, approaches to economic reality and the ultimate demise of scholasticism.

6 Concluding Remarks

The paper has sought to investigate the contemporary significance of employing a meta-theoretical framework for assessing an historical incident in the history of economic thought, the decline of scholastic economic ideas. For that purpose, a specific meta-theory, that of Laudan's theory of scientific research traditions, is adopted, due to the fact that the latter is constructed through an effective combination of philosophy of science on the one hand, and of sociology and history of science on the other. Then the paper sought to identify and specify the reasons for the decline of scholastic economics, based on the contributions to this subject of distinguished historians of economic thought. The first thing that becomes obvious is that scholars have sought to examine the problem in attempting to provide explanations underlying the importance of *external* history of science for the disintegration of scholastic economics. In doing so, they place special emphasis on the social, political and economic environment of the early modern European world, while they recognise the role of some cognitive factors associated with alternative currents of secular ideas during the same period.

This paper finds that there are some other important aspects of the problem. Drawing on Laudan's distinction between conceptual problems, affecting the logical consistency of theories, and empirical problems, placed at the level of the empirical challenges that each theory needs to confront, the paper argues that scholastic economics provides successful solutions to a number of empirical problems, together with some major developments in abstract theorising. The scholastic approach, however, is integrated within an ethical and religious

framework that delineates its scope, method and world view to the extent that the latter seem progressively incompatible with the aims and values of the emerging secular scientific spirit.

It is useful to see the decline of scholastic economics in terms of both the external and the internal factors involved in such an outcome. There is much work to be done in this area, but one crucial point should be re-considered, the eventual inadequacy of scholasticism to offer the proper foundations for a value-free scientific activity. The paper has presented an agenda for an overall research tradition in scholastic economics, whose advance and limits are dictated by its structure, religiously originated and apparently normative in nature.

* Department of the History and Philosophy of Science, University Campus (Panepistimioupolis), Ano Lissia, University of Athens, GR-157 71, Athens, Greece. Email: ggotsis@phs.uoa.gr.

Notes

1 Special thanks are due to an anonymous referee of this journal and to Dr Sarah Dodd.

2 See, among others, Bell (1953), Ekelund and Hébert (1975), Houmanidis (1999), Landreth and Colander (1994), Pribram (1983), Roll (1973), Schumpeter (1954), Screpanti and Zamagni (1993) and Spiegel (1991).

3 See, for instance, the survey and substantive discussion of medieval economics provided by George O'Brien (1967) and Odd Langholm (1992, 1998a and 2003), or the highly instructive analysis of scholastic economic ideas in Langholm (1987 and 1998b).

4 Backhouse (1998, pp. 193-203) readdresses the question concerning convergence of economic beliefs over time, concluding that the inability of contemporary economics to reach a consensus and, eventually, eliminate disagreement, is partly due to the fact that 'empirical evidence provides very weak constraints on theorizing' (*ibid.*, p. 201), while new problems are posed by the continually changing nature of the economic world. Change of theories is associated with transformations of the economic environment, which may change in response to new theoretical discoveries.

5 Newhauser (2001) challenges the commonly-held view that avarice originated from patterns and values of a monetary economy at the dawn of capitalism. On the contrary, the sin of greed for possessions, or *avaritia*, is deeply rooted in anthropological structures through a long history and occupies a central position among the list of vices in a series of theological and literary texts, from biblical times to the early Middle Ages and beyond. Confronting the concrete manifestations of avarice and its socio-economic implications, Aquinas and the canonists argued that avarice is a sin because of its corrupting effects on both individual and social integrity. This argument was based on a stationary conception of society, namely on a zero-sum game of economic relations, where an excess surplus for a small elite minority was achieved at the detriment of others. Odd Langholm underlines the fact that, despite Italian humanism's attempt to reach a compromise between religious and secular codes regulating economic behaviour, this static view prevailed in all the fifteenth-century penitential literature, originating in a natural rights tradition that was reluctant to recognise the long-run social benefits of accumulation. Certainly, this tradition seemed to be entirely different from the social philosophy upon which classical political economy was based (Langholm 2003, pp. 269-71).

6 Typical discussions of the problem of the just price in medieval economic thought can be found, among the abundant literature, in the recent contributions of Hamouda and Price (1997) and Lapidus (1994). See also De Roover (1958), without ignoring the classical analysis of this issue by J.W. Baldwin, S. Hollander, G. Wilson and S.T. Worland.

7 Kempshall, more specifically, examines the relevance of the concept of the common good for medieval thinking and raises questions of crucial importance for the relation between individual and community. Kempshall stresses the ethical dimensions of this concept and underlines the fact that 'the individual is subordinated to the common good of the political community as a necessary precondition of participation in eternal beatitude' (Kempshall 1999, p. 6). If virtuous life, however, is promoted by one's incorporation into the common good of society, then employing such an idea, derived from philosophical speculation, into more concrete matters becomes even more crucial for medieval economics. Its precise significance for the scholastic approach to matters of economic policy (such as taxation, debasement, or toleration of usury) lies in the fact that 'the scholastic theologian will therefore conceive of the common good in human society as a hierarchy of political authority to which every citizen must subordinate all his actions' (*ibid.*, pp. 9-10), which constitutes an ambiguous problem for late scholastic thought.

8 There is an abundant non-English literature on early economic Spanish thought. Gómez-Rivas (1999), for example, cites an annotated bibliography on the Salamanca School, in his overall review of Spanish publications focusing on the relationship between problems in business ethics and the advance of the economic theories of the Spanish doctors.

9 Gómez-Camacho (1998, p. 523) indicates that the Spanish doctors' analysis of this interval of justice seems closer to the 'Marshallian analysis of price indeterminacy in the ultra-short period of a corn-market in a country-town, (where) buyers and sellers are supposed to come to the market without knowledge of the equilibrium price'.

10 Laudan refers extensively to the impasses involved in a hierarchical model of justification of rational consensus formation in the case of the rising of scientific disagreements. According to prevailing hierarchical views of the relation between methods and aims of scientific activity, disagreements about factual matters are to be resolved at the methodological level, while methodological differences must be treated at an axiological level (Laudan 1984, p. 26). This tradition, however, tends to underscore axiological differences as either nonexistent or irresolvable. In our case, if the disagreement between scholastic economics and Mercantilism is placed at the axiological level, that is, at a *dissensus* on what the founding intentions of a discipline must be, then there is no level of resolution of the existing conflict. In other words, disputes about cognitive goals of science (as described at least by core axioms 2 and 3) cannot be terminated, since we can always 'specify a broad range of circumstances in which we would expect factual dissensus to endure' (*ibid.*, p. 33). It follows that, in the conflict between scholastic and Mercantilist methods, we are unable to invoke shared procedural rules, for there is no common ground for realising identical cognitive goals and values.

11 Shionoya (1997) sets out to explore the relationship between external and internal history, or between the sociology and the philosophy of science with regard to the problems associated with the establishment of economics as an autonomous science. He argues that a conflict between the criteria of revolutionary change and synthesis arises in the case of the foundation of economics as a science, and he contends that equal attention must be paid to the two instrumental concepts adopted in Schumpeter's *History*, the 'filiation of scientific ideas' and the 'classical situation'.

12 See, for instance, van Houdt (1998), who discusses in detail the theoretical novelties introduced by Lessius, the eminent Flemish Jesuit theologian, in late scholastic economic thought. For a critical reappraisal of scholastic monetary economics, see Niehans (1993).

13 Spiegel (1991, pp. 90-1) makes a distinction between two contrasting approaches to the nature of creative thinking, the heroic and systematic theories of invention.

14 As Odd Langholm (1992, p. 593) concludes: 'The logical consistency of scholastic economic doctrines in its two main areas of application, the exchange of commodities and the lending of money, has often been questioned...While modern Economics is dominated by social and utilitarian arguments, scholastic economics was mainly deontic, and its focus was personal'. This was due to the fact that the medieval schoolmen sought to establish the material presuppositions of a virtuous way of living, and thus their treatment of economic life was merely instrumental. And he continues: 'In the medieval schools, an element of utilitarian reasoning was reluctantly admitted but vigorously circumscribed by a deontological element. No complete harmony can be established between these fundamentally different elements of ethical theory, and this incompatibility is the source of a dilemma which always troubled Christian social thought. It is a compromise' (*ibid.*, p. 594). It should be kept in mind, however, that: 'The ideal of a Christian economy would not be efficiency or optimality in any material sense' (*ibid.*, p. 595).

15 Another version of continental scholasticism was generated from the transplanting of Spanish economics to the New World, with important contributions to the theory of value, prices and quantity theory of money. For a critical survey of these developments, see Popescu (1997, pp. 32-56). Popescu explains the economist's lack of interest in the contributions of Spanish-American theologians and jurists as dependent upon the scholastic pursuit to reiterate religious and moral principles in the study of economic problems, and to attempt to find solutions incorporated in this view of economic processes.

16 From the historian's point of view, Aurell emphatically observes that the values of the new commercial capitalism, so deeply rooted in the environment of the Italian city-states, were not inserted in the circles of the Barcelona's merchants of the late fifteenth century. Aurell contends that, because of the lack of such an enterprising mentality, 'Barcelona was unable to generate a "capitalist" form of viewing the economy, through the incorporation and generalisation of the most modern commercial techniques... Thus it should hardly be surprising that merchants adopted a position of social rigidity... From social rigidity to downright monopoly, there is but a step' (Aurell 2001, pp. 215-6). The author specifies a cluster of traditional values which, combined with other economic motivations, were in practice responsible for the forsaking of a sense of entrepreneurial risk among Catalan merchants of that period.

17 See, for example, Barrera (2001) and Van Drunen (2002). For more on Catholic social philosophy, see Cochran and Cochran (2003).

18 From another point of view, Davidson and Ekelund (1997) argue that, even in the heyday of the Church's control over the institutional sphere, religiously sanctioned regulations and constraints were partially ineffective in achieving their initial moral goals. In analysing the Church's attempts to monopolise the marriage market, and the microeconomic effects which accompanied this involvement in private life, Davidson and Ekelund come to the conclusion that, even in the Middle Ages, this 'Church monopoly could only partially overshadow social practice' (p. 243).

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