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Justice in the Marketplace in Early Modern Spain: Saravia, Villalón, and the Religious Origins of Economic Analysis

Michael Thomas D'Emic
Lanham, Maryland: Lexington Books, 2014 (277 pages)

What was usury? In the author's paraphrase of the version given by one of his subjects, Saravia de la Calle, who in turn is citing one of Saint Thomas's principal statements: "a consumptible good—such as bread, wine, or money—cannot be lent without actually transferring ownership … the use and the possession of things like money are one and the same thing. It is therefore unjust to charge separately for the possession of money and for its use, since this equates to demanding two separate payments for the same thing."

To the economist, or to the accountant, there is no double charge. By arranging the exchange of one kilo of wheat now for the promise of the delivery of x units of wheat in a year, one party accords to the other the use of one kilo of wheat for a year, for a rate of remuneration of (x-1)/1 = x - 1. This might be positive or negative. Because the two goods are certainly not perfect substitutes (nobody can eat today with tomorrow's bread, or tomorrow with today's), one would not expect to find x = 1.

The Thomistic argument just recalled belongs to that phase in the evolution of the Scholastic doctrine in which the doctors attempted to produce strictly rational arguments. The above is an example of a reasoning based on *jus naturale*. I would not entirely agree with the author that it provides "the theological justification of the usury ban" (155). It purports to offer a strictly rational justification of it.

At the time Villalón and Saravia (the authors studied by D′Emic) wrote their tracts (1540s), the authority of Saint Thomas was indisputable within Catholicism. Only Calvin had already rejected the above and several related Thomistic arguments in the famous letter to Oecolampadius. Calvin, being a serious scholar, provided a competent refutation of these arguments, but what is striking is the tone of his indignation: Christians should have better things to do, he seems to feel, than set up these legalistic pseudo-syllogisms.

Villalón and Saravia also had, no less than Calvin, a deep concern for the salvation of souls. However, the souls that most concerned them were those of merchants, and the danger to their salvation was posed chiefly by the multiple temptations they underwent in their business to violate the usury ban.

Villalón and Saravia wrote a little more than half a century before the triad of Late-Scholastic giants, Lessius, Molina, and De Lugo, and thus provide examples of early Late-Scholastic treatments of usury. They are closer to pastoral service in that they write in their vulgar language, Castilian. (It would have been unthinkable for such high academic authorities as the triad not to write in Latin.) The purpose of Villalón and Saravia is to help less knowledgeable pastors and confessors to establish the ethical soundness of various more or less elaborate or more or less tortuous commercial practices. In particular, their aim was to detect the usurious nature of many apparently innocuous but uselessly complicated transactions.

D’Emic ably explores the connection between Villalón and Saravia. Indeed he argues convincingly that although Saravia never mentions Villalón’s tract, his work is partly meant as a polemic answer to it. Villalón’s *Provechoso Tratado* is not only antiusury but also antiprofit, even as Saravia’s *Instrucción* makes this vital distinction. They also have different ideas about another Scholastic centerpiece, the just price. Villalon is closer to a cost of production theory of the just price; Saravia endorses the market equilibrium price. Villalón argues that the motives for an impecunious if not necessarily destitute *hidalgo* to borrow are foolish. Saravia thinks that there may be some sense in trying to protect and aggrandize one’s honor. (Villalón does not notice that to a young promising *hidalgo* a period of ostentatious largesse may be useful in gaining the spotlight and securing some rewarding appointment by the Court.)

From a more systematic point of view, these writings provide examples of a somewhat parsimonious use of the principles of emergent loss and cessant gain. Only several decades later, with the triad of the giants, will these principles display their liberating influence of which much is made by Schumpeter. The liberal Saravia proves ready to unhesitatingly rule out of existence deposit banking! Even D’Emic, sympathetic as he is to Saravia, is somewhat dismayed (234).

The paradox that the Late-Scholastics, legalistic as they were, initiated the field of economics was originally advanced by Schumpeter. D’Emic gives it a qualified assent, based mainly on Saravia’s analysis of the market equilibrium price and of the just price. He contends that in Saravia’s *Instrucción* the two are equal. Equal or identical? An independent criterion of (commutative) justice is offered (139): “justice is the equality of one thing and another,” an obscure definition coming straight from St. Thomas. If it does not specify in what lies the equality, it spells disaster. Then, from Aristotle, Saravia draws the suggestion that a thing receives its value from the need, or the subjective utility, of the buyer. Nothing is said on the individual circumstances such as an income or wealth constraint on which the evaluation depends. There will be as many evaluations as market participants. It is one thing to say that the subjective evaluations are independent of cost conditions; it is another to say that the market price is so independent. Perhaps Saravia assumes such a short span of trading time that the supply is simply a given amount. Even so, we need a description of the process through which a common price is reached, and I fear that Saravia, who states that this price will be the just price, does not provide it. D'Emic sees in some suggestive passages by Saravia the positing of supply and demand functions, which would determine the market and hence the just price, but it is doubtful that Saravia thought in terms of functions. Even so, the problem of describing a process converging to a "commonly prevailing price" would remain. Even if we did not insist on this, and accepted D'Emic's interpretation in terms of a market supply and demand schedules, we would be left with the problem of explaining on what grounds Saravia maintains that this price is just on the indeterminate definition of commutative justice recalled above.

D'Emic reports (258) that Gomez Camacho, a renowned scholar, maintains that market equilibrium price and just price "cannot be the same thing." They may be different variables and be equal under certain circumstances, but it would seem that this is not what Camacho says. D'Emic shows that Camacho's argument is faulty; still the latter's contention might be true. It would depend on what it is, if it exists, that gets equalized at the natural price.

At the conclusion of his neat exposition, the author, bravely defying yet another scholar, Odd Langholm, suggests that Villalón and Saravia may be seen as early leftist and rightist, respectively (251). Villalón would like all economic matters to be regulated by the state, despises the nobility, and is egalitarian. Savaria relies on decentralized markets, accepts profits, and loves the aristocracy.

In order to underline the relevance of his research to our contemporary concerns, the author observes that several important people, including Pope Francis, have seen in the 2007–2009 financial and economic crisis the outcome of a widespread moral failure. He then considers several papal statements and finds that Francis comes out as a leftist. Both ideological attitudes are present in the Church, he reassuringly concludes.

Some of the statements quoted by D'Emic are undeniably antimarket. Others perhaps escape the left-right dichotomy. For example, when Francis argues that the market does nothing to narrow inequalities, and that large inequalities in income and wealth are not conducive to social cohesion or even to economic growth (252), these are economic propositions that many economists would support. They can be explored by both theoretical and empirical research. Francis can claim no specific authority on them, but has a right to express his views. The first passage quoted by D'Emic (xi–xii), however, is quite puzzling—not for its ideology but for its apparent incongruity. There are limits on human behavior in market dealings set by ethics, says the pope, and these should not be ignored. "Ethics would bring about balance and a more humane social order," and one would expect Francis at this point to encourage a revision of professional ethical standards in finance, or perhaps a strengthening of the Dodd-Frank Act and similar measures. He veers instead toward a traditional, if ever valid, recommendation completely unrelated to the ethics of finance: “Not to share one’s wealth with the poor is to steal from them and to take away their livelihood.”

—Giacomo Costa (e-mail: giacomocosta4@gmail.com)
University of Pisa, Italy (retired)

A History of Financial Crises: Dream and Follies of Expectations

Cihan Bilginsoy

London: Routledge, 2015 (446 pages)

How Crises Shaped Economic Ideas and Policies: Wiser after the Events?

Nicos Christodoulakis

Cham, Switzerland: Springer, 2015 (222 pages)

These books add a historical dimension to analysis of the recent financial crisis, about which a shelf of titles has already been published. Both are written by professional economists (university professors) who are properly critical of professional economics. They recognize that economic theory, far from being a set of laws or propositions that were sent down from on high and etched into stone tablets, is in fact a historically contingent enterprise that owes much to the particular environment within which it happens to be formulated. This is especially obvious in times of economic distress. As Christodoulakis writes, “most economic theories sprung [sic] to life as a response to a crisis, putting aside previously held orthodoxies that failed to foretell or cope with the shock” (1).

Bilginsoy’s *A History of Financial Crises* is an impressive marshaling of the history of theory to carry forward a narrative of repeated financial crises and economists’ analyses of them. Bilginsoy offers thorough and illuminating accounts of famous “bubbles” throughout Western history, beginning with the Dutch tulip mania of the seventeenth century and continuing through the financial crisis set off by the American real estate collapse in 2007.

The book is intended to be used as text for economics classes and thus Bilginsoy presents a variety of economic views on each episode rather than making an argument for one or another position. Although the cast of characters for each episode varies somewhat, major schools that are frequently put into conversation are the Austrian (usually represented by Murray Rothbard), Keynesian, Chicago (Milton Friedman), and institutional (Charles Kindleberger). (Bilginsoy summarizes the various approaches somewhat differently in chapter 6.)

This feature, combined with its exceptionally clear writing, makes the book an appealing entry in economic history. Although Bilginsoy’s sympathies are evident in many