

The Austrian School and the Spanish Scholastics: Lessons for Today and the Future

Keynote Lecture

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In this keynote lecture, I am going to focus on the scholastics of the Spanish Golden Age in general (and on the thinkers of the School of Salamanca in particular) and consider the relevance their contributions have for our current situation. In other words, I will reflect on the thinking of these Spanish scholastics and on its importance to our lives today – here and now – in the circumstances in which we live.

These contributions are of very great relevance. If one thing is clear to economics professors, it is that at the present time – and I believe this is also felt at the popular

level – economic science is in the grip of a profound crisis. We have gone through a great economic recession and the recent Covid 19 pandemic which has caused considerable suffering and left millions of people unemployed, yet economic science appears to have been unable to respond to the demands and challenges that citizens and all of us in general have a right to pose to it.

Having acknowledged the impotence felt by most economists in this matter, I would like to proceed by highlighting and making clear the fact that, to a great extent, this inadequacy of our discipline has stemmed from the neglect of many contributions which had already been made and studied by the theorists of the Spanish Golden Age.

The twentieth century was the century of great wars and genocide. It was the tragic century of communism. And though, with the fall of the Berlin Wall, it seemed a new era was beginning, we have arrived at a discouraging situation in which we have again

succumbed to the excesses of social engineering, and it has led us into a severe crisis that most citizens are still unable to understand. What is behind all of this?

Traditionally, Adam Smith has been viewed as the father of economic science. However, Adam Smith was simply a Scottish thinker who was influenced by Protestantism and Calvinism and who published *The Wealth of Nations* in 1776, thus largely making a clean sweep of the contributions of the Spanish Golden-Age scholastics.

Adam Smith's fundamental error was that he introduced the virus of the objective theory of value, according to which the value of things is supposed to be intrinsic to them. Smith's successors of the so-called English Classical School delved even deeper into this error and asserted that value depended on the labor involved in producing each good. And although these theorists of the English Classical School are seen as favoring a laissez-faire approach and a market economy, they actually served on a silver platter to

Karl Marx and socialist theorists the foundation for exploitation theory, which later provided the ideological background for the major social conflicts, wars, and genocides that have ravaged humanity since the time of Karl Marx.

If Adam Smith had read the contributions of the Spanish scholastics, he would not have committed this first grave error. For instance, in 1555, the great Bishop of Segovia, Diego de Covarrubias, had already been the first to set forth the subjective theory of value. He articulates it better than anyone else when he indicates (on p. 131 of volume 2 of his collected works, *Omnia Opera*) that “the value of an article does not depend on its essential nature, but on the subjective estimation of men.” And he adds, “...even if that estimation is foolish.” Moreover, he gives the following example: “Thus, in the Indies, wheat is dearer than in Spain, because men esteem it more highly, though the nature of the wheat is the same in both places.” This is the subjective theory of value, and it

directly contradicts the erroneous, objective labor-value theory which Adam Smith and his Marxist acolytes would develop over two centuries later.

Along the same lines, we have another scholastic, Luis Saravia de la Calle, who wrote his work in Spanish and titled it *Instrucción de mercaderes* [Instruction to Merchants]. In it, he was the first to depict the correct relationship between prices and costs, namely that costs do not determine prices (as Adam Smith and his successors would later theorize), but just the opposite: The prices of things determine their costs. In the words of Saravia de la Calle, “Those who measure the just price by the labour, costs, and risk incurred by the person who deals in the merchandise or produces it ... are greatly in error... For the just price arises from the abundance or scarcity of goods, merchants, and money, as has been said, and not from costs, labour, and risk.” There you have it: Value is not determined by cost, much less by the cost of the labor involved, but rather by subjective common estimation, relative scarcity or abundance, and also entrepreneurial

spirit (for Saravia de la Calle uses the term “merchants” to refer to entrepreneurs). In fact, the main contributions of the Spanish scholastics revolve around the figure of the entrepreneurial human being, who has been given an innate creative capacity. At the center of everything lies the human being endowed with free will, as opposed to the predestined human being of Protestants and Calvinists.

This is significant, because Adam Smith injected a second lethal virus into our discipline, and even today, this virus continues to infect the vast majority of my colleagues. I am talking about the obsession with studying a phantasmagorical world of equilibrium in which all information is considered already given and available, so that those responsible for social engineering can shape our lives as they please. Indeed, Adam Smith centers his research program on the study of long-term equilibrium, and not on the study of the real prices that emerge every day in the market.

Nevertheless, the Spanish scholastics had already been perfectly clear on this matter. In 1615, the great Juan de Lugo asked whether human beings were capable of discovering the equilibrium price of a thing. He reached the conclusion that the equilibrium or just price of a thing depends on such a huge quantity of circumstances that God alone can know it. *Pretium iustum mathematicum licet soli Deo notum.*

This lesson in humility would be good for those of my colleagues who today obsess about developing sophisticated mathematical models. Such models are very pretentiously called “dynamic stochastic general equilibrium models,” and they involve thousands of formulas and extremely complex programs which do calculations on enormously powerful computers. In these models, economics is reduced to a video game designed by so called experts to predict every possible scenario and its solutions, so that we will relax and trust Papa State to successfully take care of everything including our salvation from Covid-19.

And yet, Alan Greenspan, the great architect of the severe crisis we have all suffered from 2008, published a book titled *The Map and the Territory*, which contains at least one good thing: Greenspan recognizes that none of the pretentious models to which millions and millions of euros and dollars have been devoted has been successful; they have all failed. He states that even the most sophisticated mathematical model, which received the largest investment of resources, and to which hundreds and hundreds of the world's most brilliant scientific minds were devoted (the model of the Federal Reserve, and that of the European Central Bank was quite similar) failed miserably. Greenspan concludes that he cannot comprehend what caused the crisis. [Or, as he famously declared before the US Congress, "I still do not fully understand why it happened."] Poor Alan Greenspan! He would not have such doubts if he had read Juan de Salas, who asked back in 1647 whether it is possible for us to obtain the information ordinary human beings constantly generate in the market. And he concluded that the

volume of this information is so large, so vast that *quas exacte comprehendere et ponderare Dei est non hominum*. In other words, God alone, and not man, can accurately comprehend and manage this huge volume of information, this vast knowledge.

In short, we are indebted to the Spanish scholastics for a lesson in humility: The spontaneous market order is driven by ordinary people, billions of human beings like each and every one of us, and we constantly and creatively generate new information, new knowledge about ends and means. In fact, if there is a point of connection between God and man, if man has been created in the image and likeness of God, we could say that this point of connection lies precisely in the innate creative capacity of human beings. God, who out of love created all things, wished to transmit to human beings that aspect of Himself, so despite all our limitations, we are capable of continually creating and discovering new information, new knowledge about ends and means.

This is essential, because it gives rise to the wonderful process of social cooperation, which the Spanish scholastics also study. Specifically (and this is a third, enormously valuable contribution), we owe to them the dynamic concept of competition, which they refer to by the Latin term *concurrentia*. For example, we have Jerónimo Castillo de Bobadilla's book, *Política para corregidores* [Handbook for *Corregidores*], in which he explains that competition is a process of rivalry, and that when entrepreneurs try to emulate each other (*emulatio* in Latin), they serve consumers better and push down the market price. This obvious concept of competition, which Luis de Molina also develops, collides head-on with "competition" as my equilibrium-minded colleagues describe it in their mathematical models – as a phantasmagorical static-equilibrium model which they actually label "of *perfect* competition." The use of the word "perfect" in this case is a mockery, since this model is characterized by the fact that all entrepreneurs do the same thing, nobody does anything different, nobody tries to emulate and surpass others, and

what is more, everyone sells the same product at the same price. In other words, what these economists call “competition” (and “*perfect* competition,” no less) consists merely of a state of rest which, if it is characterized by anything, it is by the complete lack of competition. Again, we can trace all of this back to the neglect of what the scholastics of the Spanish Golden Age had already taught on this matter.

Also, we could spend considerable time reviewing other areas of economic science. Perhaps it would be relevant at this point for us to discuss monetary theory. The Spanish scholastics witnessed first-hand economic conditions similar to those of our time: the massive influx of precious metals which followed the discovery of the Americas and led to a marked increase in the money supply. I say “a marked increase,” but in fact, it was child’s play compared to what we have experienced in this century. To give you an idea, in the era of the Spanish scholastics, the money supply doubled in one century. In contrast, with the rates of monetary growth we experienced from the beginning of the

twenty-first century until the Great Recession, the money supply has doubled every seven years on average – not once in a century, but once every seven years! And now the situation is even much worse: since the outbreak of the pandemia the monetary supply will almost double every three years in the US and close to it in the EU.

Our scholastics had already theorized about the disturbing effects of such monetary growth, which today we call “inflation.” For instance, we have the perfectly clear contribution of the great Doctor Navarro, Martín de Azpilcueta, who explained that money was worth less in Spain than in France because it was more abundant in Spain; that is, the nominal prices of products in Spain were much higher than in France. This idea is actually the only grain of truth in what is now known as the quantity theory of money. Nicholas Copernicus had already formulated this theory several years earlier, but he did not go into as much detail, nor did he apply it to the specific economic events of the sixteenth century, as Martín de Azpilcueta did. There is another very worthy

contribution we owe to Azpilcueta: He again took up the old Thomist doctrine of time preference, according to which, from the standpoint of justice, things available today are worth more than things available tomorrow and precisely for that reason the natural rate of interest can never be negative!

This is significant, because the theory of time preference provides the grounds for the legitimation of interest as the key market price of present goods in terms of future goods, and at that time, the debate about usury and interest was still quite intense. It was the Spanish scholastics who began to look for a way to justify interest under certain conditions. In other words, they sought to let a little fresh air into the market in the form of loans at interest, which are necessary to finance investments in production.

Azpilcueta's ideas in the monetary sphere are complemented by those of another important scholastic, who was born in Talavera de la Reina in 1537. I am referring to

none other than Father Juan de Mariana. The King Philip II entrusted him with the task of writing a brief handbook for the education of his son, the future King Philip III. The book was titled *De rege et regis institutione* [on The King and the Institution of Monarchy]. In it, Juan de Mariana presents the theory of tyrannicide, which, fifteen years before Mariana was born, Dominican and Franciscan theologians had already perfectly developed in order to give spiritual support to the *Comunero* heroes in what could be considered the first liberal revolution in Europe against the absolutist tyranny of Charles I. Sadly, the revolt was cut short at the Battle of Villalar, which was followed by the execution of the leaders Juan Bravo, Juan de Padilla, the Salamancans Francisco and Pedro Maldonado, and later the great Bishop of Zamora, Antonio de Acuña. As is logical, after decades of reprisals, Mariana could not even mention the *Comuneros*. Nevertheless, in the tradition of the *Comuneros*, he included in his book the perfect definition of a tyrant. He writes that a tyrant is a king who disregards the rights of his subjects; establishes taxes against their will and consent; tramples on the civil liberties

of the people; uses force, intrigue, and manipulation; overwhelms the people with a multitude of taxes he invents every day; sows discord, litigation, and civil wars; and undertakes major construction work paid for by the sweat of his subjects' brows. Mariana concludes that therefore, it is licit to rise up and even to assassinate a tyrant.

Mariana would again take up the theory of tyrannicide years later in *De monetae mutatione, or Treatise and Discourse on the Copper Currency which is now Minted in Castile and on Several Excesses and Abuses*. Of all his works, this one has the most significance for economics. In this book, Mariana upbraids the Duke of Lerma for having debased the precious metal in the currency. The small amount of remaining silver in the coins had been removed, leaving only pure copper coins. Of course, that contrivance made it seem quite easy to cover public spending, but the measure amounted to a dramatic increase in the money supply. The result was an enormous increase in prices which was equivalent to a devious, hidden tax, and it destroyed accumulated capital and

the exchange system. As Juan de Mariana deftly analyzes in his book, this situation laid the groundwork for the deep, chronic economic recession which ravaged Spain from those years until at least the adoption of the Count of Oropesa's healthy stabilization plan during the reign of Charles II. Unfortunately, the beneficial effects of this plan were curtailed by the subsequent War of the Spanish Succession.

In keeping with the Spanish scholastics, Mariana stresses another very important idea, namely that natural law is far superior to the power of each king or authority, an essential idea which is fully applicable even today. We should remember and be very proud of the fact that Thomas Jefferson, one of the main founding fathers of the United States, in order to encourage Madison and the rest of the founders of the great American homeland, recommended they read Father Juan de Mariana's *The History of Spain*, which Captain John Stevens had translated into English in 1699. Mariana's history is written throughout from the standpoint of liberty. He unmaskes tyrants like Alexander

the Great, Julius Caesar, and others, and curiously, the book concludes right before the War of the *Comuneros*. It is a history written from the perspective of the brave struggle of man to defend his liberty against all of the tyrants who would trample on it. And I believe every Spanish person should find a source of honor and pride in the knowledge of the connection between the liberal spirit of the Castilian *Comuneros*, their theory of tyrannicide recovered by Juan de Mariana, and the profound influence this theory had on the founding of the United States of America.

Now, I would like to touch on another of the valuable contributions of the Spanish scholastics, particularly Luis Saravia de la Calle, with respect to banking theory. The Spanish scholastics revealed that the deposit contract is incompatible with the loan contract. If I deposit something, the depositary must keep 100 percent of the equivalent of that thing available to me (the depositor) at all times. If a person who receives a demand deposit of something (whether wheat, oil, or money) appropriates it to lend it

out, he infringes on natural law – on property rights – and, in the monetary sphere, also brings about the harmful, abnormal creation or duplication of monetary units. One person (the one who has deposited the money) continues to be the owner of what he has deposited, and he quite rightly believes it forms part of his cash balances. Another person (the one who has received the money as a loan), simultaneously believes – and also quite rightly – that the money she has been lent forms part of her cash balances. So, the same cash balance belongs to and is available to two different people at the same time! As Luis Saravia de la Calle explains, such violations of the general principle of a 100-percent reserve ratio on bank deposits are followed by the distortion monetary expansion causes, an increase in prices, a speculative bubble, and ultimately, sooner or later, everything invariably crumbles, bankers are ruined one after the other, and a deep recession hits. That is the Austrian theory of the economic cycle, in embryonic form. It is the only theory which has successfully accounted for what happened to us in the Great

Recession and that will happen again as a result of the current crazy so called “ultra lax monetary policy”

Luis de Molina also recognizes that through the artifice of fractional-reserve banking, bankers are able to create money from nothing by simply making an entry in their accounting books. He refers to this as *chirographis pecuniarum*, or "written money." How different the history of mankind would have been if these extremely valuable contributions in the area of money and economic cycles had not been forgotten! Over four centuries entirely wasted because we have disregarded the Spanish scholastics!

The Spanish scholastics were influenced by certain previous thinkers. The scholastics did not work in a vacuum, but relied on a prior tradition that can be traced back even to the contributions contained in the sermons of Peter John Olivi, Saint Antoninus of Florence, and Saint Bernardino of Siena, who provided a full explanation and justification

of the entrepreneur's function. In other words, he has a right to any entrepreneurial profit, since entrepreneurs show diligence and take on risk or dangers (*industria* and *pericula* in Latin). Moreover, they provide sound management. These thinkers relied on the whole Aristotelian tradition, which can be traced back to Saint Thomas Aquinas, who in turn inherited the entire tradition of the juriconsults of the classical century of Roman law, represented by jurists like Gaius, Ulpian, and Papinian. Without knowing it, these were the first economists, because they were the first to notice the existence of spontaneous market orders which arise from the interaction of many people but have not been deliberately created by anyone. Logically, they applied this intuition to the sphere of law. Also, in *On the Republic*, Cicero tells us the following about Cato: "He said, that the condition of our country [that is, the Roman political system] was pre-eminent above all others for this cause. That among other people, individuals generally had respectively constituted the government by their laws and by their institutes, as Minos in Crete, Lycurgus in Lacedemon... But that the constitution of our republic was

not the work of one, but of many; and had not been established in the life of one man, but during several generations and ages. For he said so powerful a mind had never existed; from which nothing had escaped; nor that all minds collected into one, could foresee so much at one time, as to comprehend all things without the aid of practice and time.”

If today we were to replace the head of just one man with the supercomputer of the Federal Reserve or of the European Central Bank, into which the most advanced mathematical models have been programmed, we would understand perfectly why they were doomed to failure. Indeed, those sophisticated models reflect only a crude caricature of a human being. They concern only a “representative agent,” who resembles a penguin that merely reacts mechanically to events. Such models are not able to reflect the human being as God created him, endowed with the innate creative capacity I mentioned earlier.

Now we will consider the influence the scholastics have had in later centuries. Early on, these great professors taught many students who ended up becoming professors themselves at the newly created American universities. Oreste Popescu published a great book in which he does something similar to what I am doing today, but with respect to the scholastics who taught at the University of San Marcos in Lima and at the University of Mexico, such as Juan de Matienzo and Bartolomé Frías de Albornoz. There is a very valuable intellectual world there as well, and we must study it much deeper in the future.

Fortunately there is an entire school of economics which, from the beginning and with great care, has attempted to foster in our discipline the study of society from the perspective of the Spanish scholastics and using the methods they developed. I am talking about the Austrian School of Economics, and it is called the “Austrian School”

because Carl Menger is believed to have founded it in Vienna beginning in 1871. In fact, if we read Menger's works, we find that he cites the writings of the scholastics – specifically, for instance, Diego de Covarrubias's treatise *Veterum collatio numismatum* [Compilation on Old Moneys], in which the author studies the drop in the purchasing power of the maravedi as a result of the impact of inflation in the sixteenth century. Hence, this is a school of Catholic origin that emerged in Vienna, and I am determined to rechristen it, so that it will no longer be known as the "Austrian School," but as the "Spanish School," since that is the correct name, in light of who its originators were.

It is a school which defends austerity and the non-intervention of the state in the economy. Let us recall that Juan de Mariana, in search of practical solutions to provide, wondered how the government might be helped, so that it could avoid having to resort to inflation to pay its debts. Mariana wondered what could be done, and he proposed a very simple solution: Dear Duke of Lerma, the answer is to balance the budget and

above all (and I quote), “the royal household [that is, the state] should spend less, because moderate and orderly spending is more impressive and reflects greater majesty than unnecessary, disorderly spending.” Moreover, he adds, “Our Lord, the King, reduce your favors, your gifts, your subsidies.” This is very clearly applicable to what is happening today with respect to the much-praised welfare state, which attempts to subsidize everything: education, health care, pensions, textbooks, and a thousand other things. Mariana goes on to assert that the state “should not so generously reward the real or supposed services of its vassals by granting them lifelong pensions, for there is not a kingdom in the world with as many public prizes, patronages, pensions, benefits, and posts as our kingdom. If they were distributed in a proper, orderly manner, there would be less need to get money from the royal treasury or other taxes.” So, we see that a lack of control over both public spending and the purchase of political favors in exchange for subsidies financed using inflation or taxes is a very long-standing issue in Spain. Mariana also suggests that “the king avoid or abstain from unnecessary ventures

and wars.” In short, Mariana takes a stand in favor of an austerity policy. And what meets with more criticism these days than austerity policies? Nevertheless, under the current circumstances, Mariana would undoubtedly support policies of austerity. Likewise, he would support the policies of the people in the United States who are resisting the efforts of all of those who are betraying the founding principles of the American government by increasing the power of Washington to the detriment of the original principles of the American Constitution. This and none other is the message of the great Thomas Jefferson, who, as we have already seen and by his own confession, found inspiration in Father Juan de Mariana.

I will wrap up my remarks with a quote from Jaime Balmes, another Spanish Thomist, who died very young in 1844. In spite of the Black Legend and the unhealthy influence exerted by the doctrinal imperialism of the English Classical School, which ended up providing justification for Keynesianism, Walras’s general equilibrium model, and the

theories of the Chicago monetarists (for they are all related and suffer from the same scientific errors), the entire scholastic tradition survived. In spite of all of these misguided theoretical developments and against all odds, the tradition of the Spanish scholastics remained alight like a tiny flame, thanks to thinkers like Jaime Balmes and to others from outside of Spain, like Turgot, Cantillon, and Bastiat. Their torch was then passed to Menger and to his successors of the second generation of the Austrian School of economics: Mises and Hayek; to those of the third: Rothbard and Kirzner, for instance; and to those of the fourth and fifth, which I am honored to lead, at least in Spain. But ultimately, as we have seen, we are all indebted to the thinking of these great scholastics.

Our important mission is to build on the foundation they provided and to bring about a complete revolution in economic science. We must turn economics on its head and transform it into a tool truly useful to mankind. This is the great challenge facing us

and the reason for our tribute to the Spanish scholastics today. I will conclude by reading the biographical sketch Jaime Balmes makes of Juan de Mariana. It is equally applicable to the rest of the Spanish scholastics. Balmes describes Mariana as follows: “A seasoned theologian, an outstanding Latinist, profoundly knowledgeable about Greek and the Eastern languages, a brilliant man of letters, a worthy economist, a politician with considerable foresight; this is his head. Add to it an irreproachable life, strict morals, a heart that knows no pretense, incapable of flattery, which beats strongly at the mere mention of freedom, like those of the fiery republicans of Greece and Rome; a firm, bold voice which is raised against all sorts of abuses, without regard for the powerful, without trembling when it addresses kings. Consider that all of this is found together in one man who lives in a small cell of the Jesuits of Toledo, and you will certainly find a set of qualities and circumstances very rarely combined in a single person.”

Thank you very much.