The Origins of Austrian Economics in the Treaties of the Theologians of Salamanca

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The works of Professor Jesús Huerta de Soto are well known to the Russian reader. Four of his books have been translated into Russian:

1. *The Austrian School: Market Order and Entrepreneurial Creativity*
2. *Money, Bank Credit, and Economic Cycles*

My acquaintance with Professor Jesús Huerta de Soto began with my fascination with the economic thought of the Spanish School of Salamanca of the sixteenth century in the early 2000s. The fact is that at that time in Russia very little was known about the School of Salamanca and the contribution of its representatives to economic science. Jesús is one of those academic scholars researching the economic heritage of Salamanca. Here are two anecdotal cases of my personal meetings with Jesús.

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3. *Socialism, Economic Calculation and Entrepreneurship*
4. *The Theory of Dynamic Efficiency*

In addition, in 2013 the journal *Economics and Mathematical Methods* published a Russian translation of his lecture dedicated to the memory of Professor F. A. Hayek's "Economic Recession, Banking Reform and the Future of Capitalism," read in 2010 at the London School of Economics and Political Science (Уэрта де Сото, 2013).

One of the fields of scientific interest of Professor Jesús Huerta de Soto and myself is the history of economic thought and the great Spanish School of Salamanca in the sixteenth to seventeenth centuries.

Thanks to the efforts of historians of Spanish economic thought, we know today that many fundamental economic doctrines and theories were presented and justified by the professors of the School of Salamanca in the sixteenth to seventeenth centuries (Афанасьев, 2004; Afanasiev, 2016).

The first case occurred at Jesús' firm. As you know, Professor Jesús Huerta de Soto, along with other prominent representatives of the neo-Austrian school, does not consider the use of mathematical methods in economics useful. However, the first thing that I saw upon entering Jesús' office was monitors with graphs of the dynamics of securities prices, built on the basis of mathematical models. I stopped to look at these graphs. Jesús said: "Look, Anton. We sometimes use mathematical models in practice for analysis and forecasting. It can be useful."

The second happened at Jesús' house during lunch. His wife, Sonsoles, prepared a delicious meal and invited us to the table. At lunch, Jesús asked which hotel I was staying at in Madrid. I replied that I was not staying in a hotel at all, but in an ordinary hostel near the national library of Spain, because the hostel is cheaper. "Poor Antonio," Jesús said with a sigh. But then Sonsoles came to the rescue. "What's wrong with that, Jesús? Don't you remember: I also often stayed in hostels, especially when I was a student."

I would like to cordially congratulate my great colleague and friend Jesús on this milestone year, wish him good health, and great success in all areas of his activities as a scientist, professor, and businessman.

I. In monetary theory, some of these relevant doctrines and their founding dates are:
  (a) The quantity theory of money (1556).
  (b) The theory of purchasing power parity of money (1535–1594).
  (c) The theory of the marginal value (utility) of money (1583, 1642).
  (d) The doctrine of the demand for money (1601).
  (e) A broad interpretation of the money supply (1601).
  (f) The doctrine of monetary mercantilism (1569) and mercantilism of the favorable trade balance (1600).

II. Regarding price theory, the following are significant:
  (g) The theory and mechanisms of competition between sellers and buyers (1597).
  (h) The justification for the sale with free prices in luxury products (1535) and in articles of first necessity (1552).
  (i) The idea of the impossibility of man knowing the exact value of the fair price of the product (1546, 1617).
  (j) The doctrine of the three main market players based on which the right price can be known (1546).
  (k) Two ways of distinguishing between price formation (one based on the expenses and another based on market forces) based on the number of market participants (1535).

One important scientific contribution of Professor Jesús Huerta de Soto is the study of the origins of the ideas of the neo-Austrian school in the works of Salamancan theologians of the sixteenth and seventeenth centuries. In particular, Huerta de Soto pointed out that in the books of Professor Juan de Salas and Cardinal Juan de Lugo, the idea of the impossibility of human cognition and strictly mathematical calculation of the fair price of a product was expressed.

Thus, the Jesuit Cardinal Juan de Lugo, wondering what the price of equilibrium was, as early as 1643 reached the conclusion that the equilibrium depended on such a large number of specific circumstances that only God was able to know it ("Pretium iustum mathematicum licet soli Deo notum"). Another Jesuit, Juan de Salas, referring to the possibilities of knowing specific market information, reached the very Hayekian conclusion that it was so complex that "quas exacte comprehendere et ponderare Dei est non hominum," in English, "only God, not men, can understand it exactly" that is, only God, and not men, can understand and weigh

exactly the information and knowledge that a free market handles with all its particular circumstances of time and place (Huerta de Soto, [2000] 2013, p. 38).

For my part (Афанасьев, 2004, p. 52 and Afanasiev, 2016, pp. 11–12), I found this idea of the impossibility of knowing the value of a fair price by the sovereign and the state in the earlier work of the eminent Spanish theologian Juan de Medina *Codex de Restutitione et Contractibus*: "Let us briefly consider these proofs: if they are sufficient to know the right price and if with them the consciences of the merchants are assured when selling their merchandise. … Then, as a public authority, the prince or the city that imposes the prices of things, they can lack or exceed in the fixing of the price in many ways, by the rejection or favor of those who sell them, by the requests or requests with which sellers offer them; and for many other causes or ways there is no doubt that the principals and rulers of the public can be corrupted" (Medina, 1546, quaestio 31, f. xcvii, author's translation).

Another important contribution of the Salamanca school, pointed out by Professor Jesús Huerta de Soto and other researchers, is the discovery of the dynamic concept of competition between buyers (Luis de Molina, 1597) and between sellers (Jerónimo Castillo de Bobadilla, 1597). "Furthermore, the Spanish scholastics were the first ones to introduce the dynamic concept of competition (in Latin concurrentium) understood as a process of rivalry among entrepreneurs. For instance, Jerónimo Castillo de Bovadilla (1597) wrote that 'prices will go down as a result of the abundance, rivalry (emulación) and competition (concurrencia) among the sellers'. And this same idea is closely followed by Luis de Molina" (Huerta de Soto, [2000] 2013, p. 38).

Meanwhile, as I showed in my articles (Афанасьев, 2004, p. 52 and Afanasiev, 2016, p. 13), the idea of dynamic competition between sellers was expressed somewhat earlier (1546) by the same Juan de Medina: "On the other hand, goods increase in value for some reason, such as if money is spent on other goods, or if many buyers compete, or if the common need of men increases; then it will be lawful to demand a higher price for them, as a stipend, which otherwise could not be fairly assigned (author's translation).

In this regard, we would like to recall two greats Catholic theologists, the Portuguese Franciscan Rodrigo do Porto and the Spanish doctor Martin de Azpilcueta Navarro. As I have pointed out (Afanasiev, 2016, p. 15–17), in the second Portuguese edition of the *Manual de Confessores e Penitentes*, they, using wheat as an example, gave a moral justification for selling basic necessities at prices higher than state prices (*tasas*) which, in their opinion, could be unfair:

> We said 'fair tax' because the unfair tax does not oblige everyone's opinion. And if it is unfair or not, for giving to one all the wheat and grain, bad, good and very good, new or old, healthy or corrupt, that of a land in which there is much and that of another in which there is little, the one that is sold where it is produced and the one that is brought from afar, even if it is brought from the kingdom without giving anything more for the rents, allowing what is outside the kingdom to be sold as much as possible and much more expensive than that of the own kingdom, being much worse. And if this unequal tax gives the occasion to sin and the occasion of many mortal sins, if we hold that its transgression obliges mortal sin—as the aforementioned doctors say—we refer this to the legislators and to what we have said elsewhere; for now it seems to us (from the above) that the intention of the legislator, who imposes a penalty against whoever sells more than so much, is not to compel mortal sin. Although the transgressor of it would sin mortally if he sold it for remarkably more than is fair, even if he sold it at less than the tax, as some usually sell corrupted bread or wine that is worth little more than nothing: because they break the natural law and the divine. Otherwise, they would not sin mortally if they sold it at the price that was fair before God, even if the rate was exceeded as much as natural justice allows. (Porto, R. d. and Azpilcueta, M. d, 1552, chap. xxiii, pp. 559–560, author's translation)

An important contribution was made by the professors of the Salamanca School to monetary theory, which Professor Jesús Huerta de Soto emphasizes in his works (Huerta de Soto, [2000] 2013, pp. 42–43). In particular, these are the essential economic facts that bank deposits are part of the money supply (first discovered by Luis de Molina and Juan de Lugo) and the negative economic effects produced or generated by fractional-reserve banking (Luis Saravia de la Calle and Martin de Azpilcueta).

Of course, the Scholastic roots of the quantity theory of money are well known. Thanks to Marjorie Grice-Hutchinson, Dr. Martin de Azpilcueta Navarro is known as the discoverer of the quantity theory of money (Grice-Hutchinson, 1952, pp. 53, 62). de Azpilcueta Navarro formulated this theory in his "Comentario resolutorio de cambios" (1556). Who could have been a significant influence on the formation of the quantity theory of Dr. de Azpilcueta Navarro? In my opinion, this is primarily his co-author, Fr. Rodrigo do Porto, whose work *Manual de Confessores e Penitentes* before publication in Coimbra in 1549 was reviewed and approved by Azpilcueta as a reviewer. Indeed, Fr. Rodrigo highlighted two important factors in determining the fair price of a product: the quantity of that product and the money with which it can be bought (Афанасьев, 2004, pp. 44–45 and Afanasiev, 2016, p. 18). Fr. Rodrigo noted:

> For the statement of the aforementioned things, in this matter of buying and selling, it should be noted that the price must be in accordance with the value of the thing being sold or bought, which is not always in one being but changes, according to the times, and the scarcity or abundance of that commodity and of the money with which to buy as it seems in times of barrenness, or fortune, or death. And so when the price is fixed by those who govern the city and place, this will be guarded without fail. (Porto, R. do, 1549, chap. xxiii, p. 393, author's translation)

In conclusion, I would like to point out that the works of Professor Jesús Huerta de Soto establish a very clear connection between the doctrines of the Salamanca professors of the Golden Age and modern economics, free market theory and monetary theory.

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