

Virtue and Commerce in Domingo de Soto's Thought: Commercial Practices, Character, and the Common Good

André Azevedo Alves · José Manuel Moreira

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Abstract This paper draws from the work of sixteenth century theologian, philosopher, and ethicist Domingo de Soto and considers his virtue-based approach to the ethical evaluation of commerce within an Aristotelian–Thomistic framework for the articulation of business and the common good. Particular attention is given to the fundamental emphasis placed by Soto in distinguishing between commerce as an activity and the specific conduct of persons engaging in commercial activity. The distinction between the material and the formal parts of the common good is then employed to shed light on the way Soto articulates commercial practices, virtuous character, and the common good. It is concluded that Soto's major contribution for business ethics is clarifying that the key element for the ethical evaluation of commerce is the embodiment of virtuous personal conduct in the exercise of commercial activity. In this framework, the fulfillment of commerce's potential to contribute to the common good is thus fundamentally interconnected with putting virtues into practice.

Keywords Character · Commerce · Commercial practices · Common good principle · Domingo de Soto · School of Salamanca · Virtue

Introduction

Domingo de Soto is one of the towering figures of the group of Iberian late scholastics of the sixteenth and seventeenth centuries that came to be known as the School of Salamanca (Heredia 1961; Alves and Moreira 2010). The relevance of the School of Salamanca's contributions for economic thought has been pointed out most notably by Schumpeter (1994) in general terms but also more thoroughly by, among others, Grice-Hutchinson (1952, 1978), Roover (1955), Rothbard (2006), and Chafuen (2003). Similarly, the case for the continuing importance of the approach of the late Iberian scholastics for business ethics has been made by Melé (1999), Rivas (1999) and Alves and Moreira (2013).

Nevertheless, notwithstanding some valuable exceptions—such as Elegido (2009) on the ethical analysis of prices—there are still relatively few examples of more in depth explorations of specific contributions to business ethics from authors of the School of Salamanca. This reflection upon Domingo de Soto's insights into the interplay between virtue, character, and the common good in the ethical assessment of commercial practice aims to contribute to fill this gap. Faced with the ethical challenges posed by the first wave of globalization, Soto provides a key example of the integration of virtue into the analysis of business and commercial practices within the Aristotelian–Thomistic tradition. In particular, Soto's emphasis on the need to carefully distinguish between business as an activity and the conduct of persons engaging in business activity constitutes a promising path for the advancement of scholarship on virtue ethics in business and management.

In order to do so, we start by arguing for the relevance of Domingo de Soto's work in the context of the ethical analysis of business. Next, we present and discuss Soto's

A. A. Alves (✉)
Universidade Católica Portuguesa, Rua Dr. António Bernardino
de Almeida, 4200-072 Porto, Portugal
e-mail: azevedoalves@gmail.com

J. M. Moreira
Department of Social, Political and Territorial Sciences,
GOVCOPP, University of Aveiro, Campus de Santiago,
3810-193 Aveiro, Portugal
e-mail: jmoreira@ua.pt

perspective on the social relevance of commerce as well as his view of commerce as a morally indifferent activity. Particular attention is paid here to the fundamental emphasis placed by Soto in distinguishing between commerce as an activity and the specific conduct of persons engaging in commercial activity. We then adopt Sison and Fontrodona's (2012) contemporary distinction between material and formal parts of the common good to better understand how Soto articulates commercial practices, virtuous character, and the common good within an Aristotelian–Thomistic perspective. We conclude with a discussion of the main implications of Soto's contributions for the relationship between commerce, virtue, right reason, and the common good.

The Relevance of Soto's Approach

Domingo de Soto (1495–1560) pursued studies at Alcalá, in Spain, and then Paris but the biggest influence on his intellectual development was the founder of the School of Salamanca—Francisco de Vitoria. After returning to Spain and lecturing at Alcalá, Soto eventually joined the Dominican Order (of which Vitoria was also a member) and came to occupy a chair of theology at the University of Salamanca in 1532.¹ There, he pursued and helped to consolidate the particular blend of Thomism developed by Vitoria.

In a period where traditional scholasticism faced a dual challenge—from the rising trends of “humanistic” thought and from the Protestant Reformation—Soto, in common with other prominent members of the School of Salamanca, found himself in a peculiar position. On the one hand, this was a time where Thomism experienced a significant revival, but, on the other hand, the revived Thomism was one that reacted to, blended and in some cases incorporated key elements of its “challengers.”² Having played a key role in this intellectual revival movement, the late Iberian scholastics—and Domingo de Soto foremost among them as the leading theologian of the School—thus occupied a singular stance between traditional scholasticism and the arising forms of (Western) modern political philosophy and ethical analysis.³

True to the Thomist tradition, Soto sought to provide a rational foundation for ethics. Natural law is deemed to be

able to be discovered and understood by human beings making use of “right reason,” a concept that—as will be illustrated below—underlies the whole of Soto's approach regarding the relationship between commerce, virtue, and the pursuit of the common good.

But Domingo de Soto was not just a leading academic of his time. He also accumulated vast practical experience and knowledge throughout his life. In this regard, his involvement with the emperor Charles V—first as his imperial theologian in the Council of Trent and then also as the emperor's confessor and advisor—provided Soto with ample opportunities to engage with decision-making processes and real life problems.

To better understand Soto's theoretical positions, it may be useful to consider one example from his long practical life experience as administrator, counselor, and confessor.

Having been born in a deeply religious family of artisans, Soto was austere educated in the practice of the virtues of work and reflection (Heredia 1961, p. 10). The family background also suggests that Soto was exposed to the practical realities of commercial practice from an early age. Although, he tried as much as possible to avoid administrative positions, throughout his life Soto ended up performing numerous such functions and the positions he took when faced with concrete problems provide good examples of the application of his framework.

One such example comes from Soto's experience as administrator at the University of Salamanca. In 1538, the emperor had ordered that Martín de Azpilcueta—known as *Doctor Navarrus* and one of the most prominent academics at Salamanca—be sent to the University of Coimbra without, however, vacating his chair at Salamanca (Heredia 1961, pp. 77–78). At Salamanca, there was significant resistance to grant this license, since it was in direct opposition to the internal rules and oaths but the emperor insisted and made grave threats against the University. Faced with this problem, Soto considered both the orders (and threats) of the emperor and the rules and oaths made and declared that he could not, in conscience, provide Navarrus with a license and so would not grant it even in such extreme circumstances. However, Soto added in his reply that:

(...) if doctor Navarro went [to Coimbra] with a mandate from His Majesty, for the respect he owes to His Majesty and considering that he is sent under such grave penalties, his vote is that the chair not be vacated during those two years, considering however that it would vacate after those two years if he does not return after that time, as ordered by His Majesty.⁴

¹ For a more developed biographical and intellectual profile of Domingo de Soto see Heredia (1961). For shorter profiles see Hamilton (1963, pp. 176–180) and Carro (1968, pp. xix–xxvi).

² See Alves and Moreira (2010, pp. 25–39).

³ In this context Burns (2006, pp. 153–154), for example, stresses that: “In the third quarter of the sixteenth century, however, the most important and creative Thomist thinking was done neither in Italy nor in France but in Spain.”

⁴ Cited in Heredia (1961, p. 78).

Soto added that he also would not consent on disrespecting the oath taken but that since it was the emperor that was giving the order and under such grave threats, his consent would be irrelevant. As a result of Soto's mediation, Navarrus ended up going to Coimbra while losing his salary from Salamanca.

What is notable, in this context, about Soto's reasoning and conduct is how he combined a solid (some, as the Italian humanists that were his most fierce critics at the Council of Trent, would say inflexible) adherence to principles with a careful prudential judgment of the specific circumstances he was faced with. Even under tremendous external pressure, Soto did not grant the license and did not offer his consent for the breaking of Navarrus oath. Simultaneously, he dealt with the situation as best as possible, always distinguishing between the institutions (in this case academic and political) and the specific conduct of the persons that, in those circumstances, were engaged in academic and political activity.

Being a leading academic of his time, it is not surprising that while Soto follows the established form of presenting his thought through a major work on justice—*De iustitia et iure*—the treatise is far from limited to the discussion of abstract principles. In fact, perhaps the most salient and distinguishing characteristic of Soto's treatise is the extent to which he engages and dissects the political, social, and economic practices of his time. From Spanish conduct in the New World, to property rights and problems of criminal justice, Soto deals in significant detail with an impressive range of applied problems and among them are business activities and practices.⁵

Of particular interest in this context is Soto's views on commerce. It should be noted that this period was the one where ethical reflection upon business practices was gaining currency.⁶ A number of minor treatises and advisory handbooks dealt with ethical issues raised by business life and sought to provide guidance for the conscious

merchants and businessmen of the time.⁷ While these can also be treated as a relevant subject of analysis in their own right, Domingo de Soto's reflections about commerce and virtue have the added value of being directly intertwined and integrated with his treatment of more complex and abstract issues of justice and ethical standards. Soto's work therefore is extremely well positioned to provide insights that combine theoretical and practical reasoning.

An additional reason to study Domingo de Soto's ideas is that in many ways he offers an uncommonly fertile understanding of economics and business practices, with important implications for his ethical analysis of commerce. Going back to at least Aristotle, philosophers from different intellectual traditions have often expressed ethical concerns about for profit commercial activity.⁸ While it is important to bear in mind that Aristotle's distinction between natural and artificial chrematistics does not necessarily imply that for profit, business activity must be regarded as illegitimate (as long as profit is not pursued as an end in itself), it can also be interpreted as conducive to an attitude of ethical suspicion against commerce and traders in general.

⁷ Examples of authors in this pattern include Cristóbal de Villalón, Luís de Alcalá, Luís Saravia de la Calle, and Tomás de Mercado. Grice-Hutchinson (1978, p. 96) stress the importance of these minor treatises for the application and dissemination to a broader public of the ideas about economics and business ethics exposed in more formal and complex scholastic treatises.

⁸ In what can be considered an oversimplified perspective, Solomon (1992, pp. 321–322) traces this trend directly back to Aristotle whose assumed "prejudices" regarding commerce he indicts: "(...) Aristotle distinguished two different senses of what I call economics, one of them 'oecomicu' or household trading, which he approved of and thought essential to the working of any even modestly complex society, and 'chrematistike', which is trade for profit. Aristotle declared that latter activity wholly devoid of virtue and called those who engaged in such purely selfish practices 'parasites.' All trade, he believed, was a kind of exploitation. Such was his view of what I call 'business.' Indeed, Aristotle's attack on the unsavory and unproductive practice of 'usury' and the personal vice of avarice held force virtually until the seventeenth century. (...) It is Aristotle who initiates so much of the history of business ethics as the wholesale attack on business and its practices. Aristotelian prejudices underlie much of business criticism and the contempt for finance that preoccupies so much of Christian ethics even to this day, avaricious evangelicals notwithstanding. Even defenders of business often end up presupposing Aristotelian prejudices in such Pyrrhonian arguments as 'business is akin to poker and apart from the ethics of everyday life' (Alfred Carr) and 'the [only] social responsibility of business is to increase its profits' (Milton Friedman)." For an overview of the same theme in the context of the Confucian ethical tradition, see Chan (2008, pp. 349–351). Notable contemporary exceptions in what concerns the ethical evaluation of the profit motive include Rand (1964, 1967), Flew (1976), Nozick (1974), and Rothbard (1998). From a similar perspective, Machan and Chescher (1999) offer an overview and critical analysis of many of the ethical arguments levied against business in the Western philosophical tradition.

⁵ As stressed by Zorroza (2007, p. 199) in the context of addressing Domingo de Soto's views on the moral foundations of property and contract law, Soto exhibits a "complete and mature definition that, on one hand, follows the Thomist inspiration but [on the other hand] acquires a distinct profile, both for the clarity of his exposition and for the application of his thesis to the problems of his time, such as the discovery of the New World, the comprehension of the new international economic situation, the legitimacy and the reasons for legitimizing the conquest, the recognition of the Indians, etc."

⁶ González (1999, p. 26) points out that these works were for the most part published in cities which were experiencing great economic dynamism at the time.

Consistent with the Thomist tradition, Soto upheld the condemnation of profit pursued as a final purpose but—perhaps partly as a consequence of the particular economic, political, and intellectual circumstances of his time—he developed his analysis with special attention to the economic and social functions of commerce. This in turn led to an analysis of the ethical dimension of commerce that is both more realistic in relation to actual commercial practices and more able to account for the articulation between virtue and the ability of commerce to contribute to the common good.

Bearing this in mind, this paper draws from the work and life experience of sixteenth century theologian, philosopher, and ethicist Domingo de Soto to elaborate upon the relationship between virtue, character, and the common good on commercial activity.

Soto on the Social Importance and Ethical Evaluation of Commerce

Domingo de Soto devotes a significant part of book vi of *De iustitia et iure* to the analysis of buying and selling contracts and of commercial practices in general. As stressed by Penelas (2007, p. 225), Soto puts forth uncommonly high words of praise for commerce, expressing in several instances a clearly favorable view of its potential contributions for the common good.⁹

In his analysis, Soto starts by posing the question of whether commerce is necessary. Very conscious of the traditional arguments levied against buying and selling, Soto explains in considerable detail the reasons why commercial exchange is likely to have a negative appeal and be judged undesirable on a first approach:

The more simple and more direct is life among men, the more quiet and happy will they live. Well then. If exchange was done only between things and things, that is to say, if things were not exchanged on a monetary basis but exchanged by other things, men's lives would be more tranquil and freer from the tumults that arise from the multitude of businesses. Henceforth the buying contract ought to be eliminated from society.¹⁰

Soto then makes use Aristotle and Plinius to illustrate the view that money is not necessary and that life was simpler

⁹ As pointed out by Penelas (2007, p. 225) “it is uncommon to find in other thinkers such highly praiseful words referring to commerce. The simple fact of recognizing that the new ways of trading are the result of social evolution and that they correspond to a more cultivated and civilized life, clearly show the high regard for commerce held by the Segovian master.”

¹⁰ Soto (1968 [1556]), book vi, q. ii, a. i. (our translation).

and happier when indirect exchange did not exist, given that the existence of money is associated with the existence of a great number of deceits, mistakes, and worries.

Against these widespread views, Soto invokes the very same Aristotle associating the creation of money with the satisfaction of a deeply felt human need to have a standard to facilitate the exchange of things. Soto then reaffirms the definition of a contract as an action from which an obligation is generated on the contracting parties. The essential element in a commercial contract, for Soto, is not identity but the causality in terms of the mutual obligations it generates on the part of the intervening buyer and seller.

The firmness of Soto's generally favorable view of the role commerce in society is clear in the concluding passage of this article:

And with the explanation of these aspects we clearly refute the difficulties alleged against it. For humankind has moved from the imperfect to the perfect. And for this reason in the beginning, as it was rude and uncultivated and needed few things, [direct] exchange was sufficient; but later leading a more cultivated, more civilized and more distinguished life, the need to invent new forms of trade was felt, among which the more dignified is the practice of commerce, although there is nothing that the avarice of men will not pervert.

It is important to note that while Soto frames his argument within a traditional Aristotelian framework, he goes to great lengths to explain to his readers and emphasize the social importance of commerce. In this regard, the Aristotelian distinction between (legitimate) “natural” buying and selling contracts—those where the transaction aims at satisfying a real need of everyday life—from (illegitimate) business contracts that aim at gaining a profit poses a difficulty for Soto. Since commercial activity would seem to involve a great many of this second type of contracts, the whole theoretical edifice for the defense of commerce would appear to be at risk of crumbling. While not denying the difficulty posed by Aristotle's distinction, Soto proposes to address the issue by building upon Augustine's distinction between fornication and business: “To men, fornication is never licit; but doing business sometimes is licit and some other times it is not.”

In other words, while some practices—like in Soto's as in Augustine's framework sexual intercourse between two people not married to each other—ought always to be judged immoral, the same is not true of business. Therefore, in the case of business, Soto's position is that in some instances, it will be licit while in others it will not.

To address the task of ethically evaluating commerce as an activity, Soto presents an apparent etymological detour

that is actually a significant philosophical point with ethical implications:

To solve this situation one must consider that business [*negotio*] is the opposite of idleness [*otio*], since it is equal to not being idle. (...) But particularly by doing business we understand commerce. And perhaps it is so called as a form of *antonomasia* since this art is riddled with preoccupations and is extremely foreign to idleness. Therefore business consists in buying in order to sell.¹¹

Since business means, strictly speaking, the denial of idleness any sort of activity would appear to be a form of doing business. But why then the specific connotation of business with commerce? Soto's tentative answer is that this equivalence results from the fact that commerce is particularly extreme form of "non-idleness": buying to sell in search of a profit is a very intense and consuming activity.¹²

Another way to read Soto's etymological excursion is employed as a pointer toward the specific complexity of commercial practice, whose ethical evaluation requires attention to a great many elements that influence its circumstances and its purposes. It is in this vein that Soto states:

Doing business in itself is not in itself intrinsically good—as is the virtue of charity—neither is it intrinsically bad—as is lying—rather it is in itself indifferent—as is eating—which can be good or bad depending of the purpose and circumstances.¹³

So, commerce is a social necessity and in itself morally indifferent. But, its characteristics also make it an activity prone to many significant ethical risks. Soto elaborates upon these risks warning that commercial activity is exposed to many dangers and that a great number of circumstances can make it illicit. This may happen, argues Soto, when the object of commerce is something that cannot be legitimately sold, such as the sacrament of marriage or when business is conducted by someone who occupies a position that precludes him from legitimately engaging in a given commercial transaction. And also, when the transaction is carried out in improper circumstances of time and/or place.

Given the usefulness of moving goods from places—and times, as Soto also considers explicitly¹⁴—where they are relatively abundant to others where they are relatively scarce, commerce performs an important social function. But, could not due consideration and conscience of all the associated ethical perils and dangers lead one to prefer an alternative arrangement to perform that very same function? One possibility would be to put the state and its civil servants in charge of the storage and distribution of goods to try to avoid the dangers of profit-seeking commercial activity.

Interestingly, Soto's answer is that the sheer number of products that need to be traded (again a reference to the complexity of the social coordination function performed by commerce) make it certain that such an attempt would not produce satisfactory results. It is therefore advisable that—and in society's interest—to allow people to engage in business activity, notwithstanding its acknowledged ethical risks and dangers.¹⁵

Soto's line of reasoning is in this regard clearly sustained by the principle of subsidiarity. Since the important social functions performed by commerce are best performed through voluntary interactions at a lower level it would be a grave error for the state to appropriate those functions. Furthermore, this error would be condemnable not only in terms of negative results in terms of efficiency but also on moral grounds, since it would constitute an usurpation of a function best performed by lower level intermediate institutions.

Commercial activity in Domingo de Soto's thought can thus be said to be characterized by three key aspects: it has important social benefits (that cannot be retained by shifting it from business men to the state), it is in itself morally indifferent, and it involves significant ethical risks.

A relatively straightforward consequence of commercial transactions being bound by the principles of commutative justice is that all forms of fraud and coercion gravely undermine the justice of commercial practice. In the words of Domingo de Soto:

To make use of lying or deceit to sell something dearer than it is [i.e. for a price higher than its just price] or to buy it cheaper [i.e. for a price lower than its just price] is a sin, as it is in every contract, and a mortal sin for its kind.¹⁶

¹¹ Soto (1968 [1556]), book vi, q. ii, a. ii. (our translation).

¹² In the same article, Soto also distinguishes between buying a good to transform it and sell it (such as buying an old damaged dress and repairing it to sell)—which he considers a "mechanical art"—and true business which consists in "buying something with the intent of selling it without any transformation whatsoever, to make a profit".

¹³ Soto (1968 [1556]), book vi, q. ii, a. ii. (our translation).

¹⁴ "What we say of place can be said equally of time. In fact, it often happens that in a period there is an abundance of goods and in another [period] scarcity (...) and therefore if there was no one who bought them to keep them for that period [of scarcity], society could not help but to suffer a loss."

¹⁵ Although the language employed by Soto is, of course, very different, the tone of his repeated reminders about the complexity and centrality of the economic functions performed by commerce and its implications to some extent anticipates what would several centuries later be Hayek's (1995 [1945]) central point.

¹⁶ Soto (1968 [1556]), book vi, q. iii, a. i. (our translation).

Nevertheless, Soto's most important insights do not come from his application of the principles of commutative justice to commerce but from his emphasis on the centrality of virtue and vice for commercial activity. Invoking Augustine, Soto stresses that the "vices of merchants are not [vices] of commerce, but of the people who perform it."¹⁷ If the observation that the lack of virtue in some merchants leads them to condemnable practices were to justify a wholesale moral condemnation of commerce then, by the same standard, the vices of individual farmers would be sufficient justification for the moral condemnation of agriculture as a whole. In other words, whatever the legitimate activity considered it can be performed in a virtuous form or it can be the subject of vice. Moral condemnation is to be reserved for persons who violate the precepts of justice in carrying out their activity and not for the activity as a whole.

Soto's approach is thus particularly relevant because of his emphasis on the need to carefully distinguish between the ethical analysis of commerce as an activity that serves important economic and social functions and the ethical analysis of the specific conduct of persons engaging in commercial activity. Both aspects are, of course, connected but they are nevertheless distinct.

It may be helpful at this point to illustrate Soto's approach with two examples.

The first example is that of monopolistic practices. The condemnation of anti-competitive practices by Domingo de Soto appears essentially grounded on considerations associated with its impact on prices. After explaining how the number of buyers and sellers influences prices in markets, Soto proceeds to condemn monopolistic practices in the following terms:

This conclusion clearly shows the iniquity of monopolies, which arise when a person buys from his prince the privilege to be the only one to sell an article; or when two or three merchants, forestalling the rest, combine to buy up stock, so that everyone must buy from them; or when they agree not to sell below a fixed price. (...) Symmetrically, and for the same reason, even if it does not happen as frequently, the monopolies of buyers with the intent to reduce prices are also unjust.¹⁸

In the case of monopoly, a strong case could be made that the buying of monopoly privileges from the state is also condemnable to the extent it leads people to develop the skills, habits and vices of rent-seekers. That was not however the preferred line of argumentation for Soto in this matter since he emphasized the effects on prices and hence

appeared to be essentially concerned in this regard with the objective damages to the common good caused by monopoly privileges.

The second example deals with the obligation to provide information in a commercial transaction. The discussion about the circumstances in which the seller is obliged to mention flaws in the good being sold goes back a long time and continues, to this day, to be a significant source of case studies for business ethics. Soto starts the discussion by laying out the issue under a Thomistic framework:

The seller that, knowing the flaw in a thing, maliciously hides it from the buyer commits a sin against justice. And whoever makes a contract without knowing the flaw in the thing, even though he is not committing a sin, as soon as he finds out about the flaw is obliged to nullify the contract or is obliged to restitution.¹⁹

Soto then proceeds by providing concrete examples:

For example, if you sell to a soldier a limping horse that cannot afterwards be used in combat, or if you sell a house that is in threat of ruin, or a damaged meal. Such omission would constitute a manifestly unjust deceit, and for its kind a mortal sin, that would oblige to restitution. (...) You hide when you do not disclose what you are obliged to reveal; and you are silent when the law does not oblige you to speak. (...) we recognize that if the seller had known that the object was totally useless for the buyer, he cannot be silent about the flaw. For example, if I sell a somewhat handicapped horse to a young noble who has the habit of racing, even if I sell it for its just value, I commit, without doubt, an injustice. If however I sell it to an old doctor that wishes to ride slowly I do not commit any injury.²⁰

In the examples provided, and in line with his emphasis in the distinction between commerce as an activity and the conduct of persons involved in actual commercial practice, Soto articulates both the objective and subjective dimensions of the issue. The seller is obliged under certain circumstances to disclose relevant information not only because of the material consequences for the buyer but also because failing to do so would constitute a form of deceit and a mortal sin on the part of the seller.

At a more general level, the prevalence of this subjective dimension over the objective dimension in commerce is also clearly present in Soto's theory of value. Without entering here into a discussion of the concept of just price

¹⁷ Soto (1968 [1556]), book vi, q. ii, a. ii. (our translation).

¹⁸ Soto (1968 [1556]), book vi, q. ii, a. iii. (our translation).

¹⁹ Soto (1968 [1556]), book vi, q. iii, a. ii. (our translation).

²⁰ Ibid.

(Elegido 2009), it is interesting to note how Soto addresses the issue of pricing goods in commercial transactions:

The price of things should not be calculated by their nature, but by the utility they serve to men. The reason for this conclusion is natural; because as the world and everything in it has been made for man, the things in common estimation ought to be worth as much as they serve men.²¹

Thus, for Soto commerce has a huge potential to contribute to the common good but the assessment of its real value calls for an additional, subjective, consideration: goods are worth as much as they serve men, physically of course, but also intellectually, morally and spiritually.

The fact that commerce is riddled with more substantial ethical risks and pitfalls than other activities should not—if properly understood—lead to its moral condemnation. On the contrary: being aware of those risks and pitfalls leads to a reinforced concern and emphasis on the prevalence of the subjective dimension of the common good. In a commercial context, the attainment of the common good both in terms of external and internal goods is ultimately dependent upon the practical exercise of virtue in the everyday conduct of the persons engaged in commercial activity. In Soto's framework, as illustrated by his analysis in the aforementioned examples of anti-competitive practices and of the transaction of the handicapped horse, personal character and conscience both emerge as central for accomplishing commerce's contributions to the common good.

Virtue, Character, and Right Reason

Following, among others, Solomon (1992), Koehn (1995), and Hartman (2006) it is by now well established that a virtue-based approach to business issues has the potential to provide insights that are distinct from those offered by utilitarian and deontological perspectives. While there can be broad based agreement on the potential of virtue-based perspectives, a focus on “virtue ethics” as a more exclusivist alternative that fills the gap created by the uneasiness with principles can nevertheless be regarded as problematic. As pointed out by Melé (2009, p. 228):

One might object that the “mechanical” application of universal principles and rules, without virtues would be far from a truly moral action. But others may also affirm that ethics without principles requires that people be highly virtuous, and it would be naive to believe that this is general case.

While this is an important issue in the context of contemporary virtue ethics, it is however one that is foreign to Soto precisely because he develops his analysis in the context of the Thomistic tradition (although coming from a strongly nominalist background). Accordingly, for Soto, virtue is never detached from (or regarded as a substitute for) normative principles and standards. On the contrary, putting virtues into practice is seen as requiring the combination of a solid principles based philosophical framework with an appropriate attention to the importance to the role of character in the process of translating those principles into actual ethical conduct in commercial activity.

Drawing from Aristotelian ethics, Thomistic ethics and Catholic Social Thought, Sison and Fontrodona (2011, 2012) suggest a framework for articulating virtue, character, principles, and outcomes that can be very useful for interpreting Soto's contributions. Developing upon Aquinas, they apply to business the distinction between, on the one hand, the “material” and “potential” parts of the common good and, on the other hand, the “formal” and “actual” parts of the common good. The distinction proceeds from the Aristotelian notion of eudaimonia understood as an integral common good (Walshe 2006) composed of both material and formal parts (Rourke 1996). As laid out by Sison and Fontrodona (2011, p. 101):

A material part of the common good is that good whose effectiveness lies in being divided and distributed; it cannot be shared without diminishing. It is a common good only in potency, that is, before being divided; once divided, it is not common anymore. Water, for example, is a material part of eudaimonia, because its quantity diminishes while being distributed among the members of the political community. Another characteristic of a material part is that one unit (of water, say) can be substituted by any other equal unit. On the other hand, a formal part of the integral common good refers to something that does not diminish when it is divided and distributed among many, and can thus be actually shared. Think of knowledge, for example: it does not diminish when it is shared; indeed, it increases. Furthermore, a unit of knowledge has a unique value and cannot be substituted by another unit. In society, examples of goods that do not diminish when they are shared would be friendship, citizenship, solidarity, peace, justice, charity and so on.

Formal parts are also deemed “actual” parts of the common good in the sense that they cannot readily be replaced whereas material and “potential” parts of the common good are non-personal resources—such as machinery or financial capital—that can, at least in principle, be easily replaced (Sison and

²¹ Soto (1968 [1556]), book vi, q. ii, a. iii. (our translation).

Fontrodona 2012). Both material and formal parts of the common good are essential for business, which within this framework contributes to the common good of society both through an objective (external) dimension associated with products, services and profits and through a subjective (internal) dimension associated with the development and practical exercise of skills and virtues in the context of business activities. Virtue is thus closely linked with the formal parts of the common good and assumes a teleologically predominant role in the sense that the subjective dimension is determinant for the ethical evaluation of specific business situations (although, of course, fulfillment of the objective dimension will likely be in most contexts a precondition for the sustainability of achievements in the subjective dimension). Each activity will then call for a different mix of specific virtues and it is from the ability of actual agents to put in practice those virtues that the contribution of the activity to the common good as an integral whole will ultimately depend. In other words, the ethical analysis of business requires not only attention to its objective dimension and material conditions and effects but also—and, in the sense explained, more fundamentally—to the subjective dimension associated with the practical exercise of virtues (and vices) by the persons engaged in that activity.

The focus on fulfillment allows Sison and Fontrodona (2012) to complement Melé's (2009) understanding of the common good as a set of conditions and to reach a definition of the common good of the business firm that distinguishes between its objective and the subjective dimensions. The material parts of the common good in what concerns commerce can be associated with the potential to efficiently provide products and services to society. In this objective dimension, the evaluation of commerce will thus be intrinsically linked with the extent to which it is deemed necessary or advantageous for the benefits it provides to society.

In this context, Soto can be interpreted as starting by putting forth a very strong case for the contribution of commerce in terms of the material parts of the common good. It is because individual persons and isolated families are unable to adequately fulfill the material parts of the common good that the gradual development of commercial institutions and practices is to be regarded as a positive development, even though it also carries important ethical risks. Those risks should be taken seriously, but the principle of subsidiarity combined with a proper understating of the economic and social functions of commerce imposes on the state an obligation to respect the autonomy of intermediate commercial institutions and practices, not only for economic reasons, but also for moral ones.

Simultaneously, as evidenced in the previous section, Soto also stresses the numerous ethical risks associated with actual commercial practices. This can be read as a call

to assess the relationship between the exercise of commerce and the formal parts of the common good. The challenge of ethically assessing commerce thus ultimately and inescapably leads to the need to consider the issue of virtue in the context of commercial practice. In what concerns his ethical analysis of business issues, Domingo de Soto's underlying approach may also be described as an expression of what Melé (2009) labeled as the "Common Good Principle". This implies that the fact that assessing the relevance of the social functions performed by commerce is relevant for its ethical evaluation but is not—by itself—sufficient for commercial activity to be worthy of moral praise. Before that judgment can be made a more detailed and integrated analysis of the contributions of the activity in question needs to be carried out.

The material and the formal parts of the common good associated with commerce are part of an integral whole but they can, and should, be understood as relating to different kinds of goods. The objective dimension in the case of commercial activity is associated with the external goods derived from it and so is fundamentally linked with the economic and social benefits of commerce. As for the subjective dimension, it deals with the relationship between the practice of commerce and human flourishing. Here—and again following the framework provided by Sison and Fontrodona (2012)—it is possible to include both the development of technical skills associated with commerce and the self-perfection of character traits associated with intellectual and moral virtues, such as rectitude, honesty, prudence and practical wisdom.

Soto's emphasis on the distinction between commerce as a relevant social activity and the ethical analysis of the specific conduct of persons engaging in commercial activity allows him to be clearly aware of both the objective and the subjective dimensions associated with commerce. Furthermore, it allows him to show how the later takes precedence over the former. Given that in itself commerce as an activity is morally indifferent, it will be the specific ways in which merchants conduct themselves and their business that will largely determine the fulfillment of commerce's potential to contribute both to the material and the formal parts of the common good.

In this context, for Soto the material parts of the common good are associated with the mutual advantage derived from voluntary commercial transactions, which in turn are dependent and subordinate to the formal parts of the common good, whose fulfillment depends on the (to some extent self-cultivated) character on the part of the agents engaged in those commercial transactions.

In addition, through his emphasis on the distinction between commerce as an activity and the conduct of persons engaging in commercial activity, Soto provides a powerful antidote to two pitfalls that often plague contemporary

popular approaches to business ethics. The first pitfall is the widespread popular approach that can be described as conceiving business ethics as an essentially anti-business or anti-market posture. Based on an ingrained adversarial attitude toward business, it can lead, in its more primitive forms, to regard the very notion of business ethics as an oxymoron (Solomon 1992). More generally this encompasses a broad range of attitudes that are characterized by placing the main focus of business ethics on the determination of prohibitive norms. These restrictions and prohibitions are then expected to somehow correct from the outside the inherent perversions of business and commercial activity. Arguably, at a deeper—but also more controversial—level this can also be pointed as a criticism toward what Capaldi (2013) describes as academic “anti-market approaches” to business ethics.²² In fact, Soto provides an early refutation of perspectives that regard institutions—and particularly business firms and commercial entities—as inherently corrupt and as having a negative influence on the procurement of internal goods (Moore 2005).

Soto's understanding of the economic and social functions of commerce and his application of the principle of subsidiarity to commercial activity allow him to avoid conceiving business ethics merely as a set of constraints and restrictions. No amount of negative constraints applied to the objective dimension of commerce would suffice to safeguard its contribution to the common good. In fact, given the complexity of commerce, it is quite possible that many of those constraints would backfire such as when a businessman “buys from his prince the privilege to be the only one to sell an article”, producing adverse effects on the common good.²³ On the contrary, commerce will fulfill its common good and contribute to the common good of society to the extent an environment of general rules is combined with virtuous conduct on the part of those engaged in commercial activity. It is only through the practical exercise of virtue in commercial practice in conformity with general principles that both the material and formal parts of the common good can be fulfilled. Soto's emphasis on the distinction between commercial activity and the specific conducts of traders paves the way for understanding that there is no fundamental conflict between the objective and subjective dimensions when it comes to commerce. On the contrary, if properly understood, the two dimensions are complementary and while

the vices of merchants certainly jeopardize both the formal and material parts of the common good they do not constitute evidence of the inherently corrupting nature of commerce.

The second pitfall is that of adopting what could be described as an “anything goes” attitude that disregards the importance of ethics in business. This error is frequent in popular interpretations of Friedman (1970) that aim at reducing all questions of legitimacy to assessments of legality or at evaluating actions solely through their effects in terms of profits and losses. While—as would be expected—this error occurs mostly outside the sphere of scholarly approaches to business ethics, anyone who has the experience of teaching the subject will have been exposed to it time and again.

Soto avoids this pitfall through his constant awareness that there are not autonomous business ends but only human ends and that all human activity is the domain of both virtue and vice. Under Soto's framework, virtuous character is as central to commercial activity as it is to any other human endeavor.

Overall, the combination of a principles based normative framework with the centrality of virtue implies that both ethical reasoning and prudence are central for Soto. This is to a large extent a logical development from the Thomistic foundations that underlie much of the analysis carried out by Soto and other authors of the Salamanca School.²⁴

In line with the Thomist tradition, the ability to discover the principles of justice associated with natural law is regarded as independent from faith but at the same time that rational discovery process by itself is considered insufficient to insure ethical conduct (Alves and Moreira 2013). Ethical decision-making and conduct requires prudence so that in each actual circumstance that is faced by the person acting she is able to display the practical disposition to act in a manner that is in compliance with the principles of justice. The exercise of right reason is thus intrinsically linked with personal character. Justice is associated with rational comprehension but also with the habit and disposition of acting justly.

This implies, among other things, that in Soto's framework the fact that a businessmen may display a consistently

²² The sometimes stark contrast between Soto's understanding of market activity and the contemporary approaches classified by Capaldi (2013) as anti-market would merit an autonomous discussion of its own. However, given the variety of academic approaches that may fall in this category, it would be beyond the aims and scope of this article to explore the issue in depth here.

²³ Soto (1968 [1556]), book vi, q. ii, a. iii. (our translation).

²⁴ As explained by Alves and Moreira (2010, p. 33): “The Thomist idea that natural law could be accessed and understood through the employment of human reason also came to be an important foundation for the political thought of the Salamanca School, both at a theoretical and at an applied level. The notion that the ability to discover and understand the principles of natural law and justice was not dependent on faith or on revealed knowledge proved a powerful one when explored in depth, but the rationale was in fact relatively straightforward.” Similarly, Dierksmeier and Celano (2012) argue that the Thomistic reliance on right reason and its practical manifestation through virtuous conduct make it an interesting framework to address ethical issues on a globalized setting.

ethical pattern of conduct without enjoying substantial formal knowledge about the principles and virtues in question does not raise any special problem or inconsistency.²⁵ The ethical principles that are relevant for commerce can (and for Soto should, as he exemplifies in his own work) be defined and reflected upon on a theoretical level but it is only through the exercise of virtue (or lack thereof) embedded in the actual business practices that, in each context, we will be able to discern if commerce—in that context—is ethical or not.

The emphasis placed by Soto (and later Molina) on the rational diagnosis of concrete commercial practices led Schumpeter (1994, p. 105) to establish a stark contrast between the two and Aquinas. It is quite possibly excessive—as done by Schumpeter—to regard Soto's concept of *rationis ordinatio* as a radical departure from the traditional Thomist understanding of *ratio recta*. There is in Aquinas as in Soto (and Molina and other late scholastics) a pattern of close association between natural law and right reason. But while it is probably excessive to speak of new meanings or any form of radical conceptual innovation, Soto's analysis certainly constitutes an important extension of the Thomistic framework in the ethical analysis of commerce. This is particularly true of his emphasis on the distinction between the activity of commerce and the conduct of agents and the implications he derives from the emphasis in that distinction.

Exercising right reason, then, requires not only understanding—even if only tacitly—what justice demands but also having the prudential virtue of acting according to those demands. But, the actual exercise of this disposition is fundamentally dependent on it being associated with a concomitant habit. When such virtuous habits are consistently and reliably present, commerce will satisfy ethical standards, not because of its intrinsic characteristics but because of the character displayed by the agents engaged in it. Character is, of course, constructed through one's decisions in life, and that is what will ultimately decide whether commercial practice is virtuous or riddled with lies, deceit and abuse.

Conclusion: Commerce, Virtue and the Common Good

On a personal level, the proper role of commerce—and more generally, profit-making activity—is defined for Soto

²⁵ Although one would expect that at least in some specific circumstances that formal knowledge could be useful in rendering better judgments. As pointed out more generally by Hartman (2008, p. 316): "(...) one can certainly be pious or loving or courageous without knowing how to define the virtue in question. We might say, uncontroversially, that in certain difficult cases we make better judgments if we have some clue about the features that make an act brave or reckless or cowardly."

by a balanced consideration of the human person and its authentic goals. On a social level, the very same approach necessarily leads to considering its articulation with the common good. In this regard, Domingo de Soto's ethical analysis of commerce constitutes an excellent early illustration of the articulation between personalist and common good principles as defined by Melé (2009). The interdependent nature of human communities has implications for the ethical evaluation of any social activity. As laid out by Melé (2009, p. 235):

Each person or group that is part of a community is interdependent on the other members. The common good is fostered when members of a community strive to contribute to improving the community, to the benefit of everyone, including themselves.

Soto can be said to be at least partially reflecting this type of thinking when he states:

The buying and selling contract has certainly come into existence, as we were saying, for the common good, and thus none of the two parts ought to be injured by the other.²⁶

It is ultimately because the human good and the common good are intrinsically intertwined that personal virtues and character are defining features of commercial activity. Soto's great contribution in this regard is to show how a proper ethical evaluation of commerce is necessarily an evaluation of the extent to which virtues are put into practice in commercial activity.

But more than this, Soto extends this logic to a global level. In order to achieve this he made use of the concept of the *ius gentium*: common to all mankind and recognizable through reason even though it was not created by any assembly or human legislator. Employing the *ius gentium* Soto explicitly makes a contrast between (iniquitous and unjust) actions directed toward conquest and servitude and a state of affairs compatible with the material and formal parts of the common good. This second state of affairs being characterized by mutual voluntary cooperation among all peoples through commercial activity:

(...) when the parts of a kingdom are geographically separated, even though they recognize the same king, the things, which is to say, the wealth and the governance of one of the parts should not be administered in such a way that they are unequally employed to benefit another [part], but each [of the parts] should be administered by itself and for its own benefit. For example: if the overseas domains had been conquered for no other reason than to make use of its wealth to

²⁶ Soto (1968 [1556]), book vi, q. iii, a. i. (our translation).

serve the good of Spain, if they were submitted to laws directed only at our benefit, as if they were our slaves, [then] the respect for justice would be broken. The situation would be different if it were done so that they [the parts and their population] could mutually help each other through commerce.²⁷

In reflecting upon the ethical implications of European activities in the New World, Soto therefore makes a clear contrast between conquests that impose on the defeated a system that burdens them in order to benefit their conquerors and the establishment of an international system of peaceful coexistence and mutual help through commercial relations.²⁸ This is made possible not only because of Soto's application of a Thomistic conception of the common good but also due to his ability to articulate the implications of the principle of subsidiarity in the context of globalized economic relations.

Domingo de Soto's virtue-based approach to commerce constitutes an enlightening example of an approach that, true to the Thomistic tradition, combines a principles based normative framework with an emphasis on the importance of personal character. In Soto's framework, virtuous character and conduct are central for determining the contribution of commercial activity to what we would now identify as the material and the formal parts of the common good. This is achieved through an articulation of the principles of justice applied to commerce that carefully distinguishes between the activity and the rules that bind it and the virtuous or vicious individual conduct of persons exercising that activity. Going back to Soto makes it possible to understand the centrality of this distinction for the integration of virtue in business ethics. It also evidences a possible path for advancing scholarship on virtue ethics in business and management in a way that is fully compatible with an Aristotelian–Thomistic perspective.

Soto's major contribution for business ethics can thus be regarded as that of clarifying that the key element for the ethical evaluation of commerce is the embodiment of virtuous personal conduct in the exercise of commercial activity. In this framework, the fulfillment of commerce's potential to contribute to the common good is thus fundamentally interconnected with putting virtues into practice.

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²⁷ Soto (1968 [1556]), book i, q. i, a. ii. (our translation).

²⁸ See Rainieri (2007, pp. 243–245) for a comparative analysis of Soto and Aquinas in this regard.

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