

The Late-Scholastic and Austrian Link to Modern Catholic Economic Thought

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In the foreword to a seminal work on Late-Scholastic economic thought, the social theorist Michael Novak suggests a link between the Austrian School of economics and the then-emerging Catholic emphasis on economic enterprise and the business economy.¹ By studying the thought of the Late Scholastics, he wrote, “the Catholic Church will gain by a deeper understanding of her own tradition ... in the economic as well as in the political domain.”²

Novak wrote before the appearance of *Centesimus Annus*, the fullest and most developed presentation of papal economic thought in the Post-Conciliar Era. Major sections of this document offer a sympathetic presentation of market economics, along with a qualified endorsement of institutions that distinguish market economies from socialist and mixed systems. Pope John Paul II also engages in exegesis on specific features of the market that comply with Catholic moral and social teaching.

The reliance of the modern Catholic view of economics on Late-Scholastic thought has been more pronounced than ever. Both place enterprise, human initiative, the price system, exchange, private property, the division of labor, and the liberty of contract at the center of economic life. Unlike more positivist schools of economic thought, the modern Catholic approach never loses sight of the centrality of the acting person; the subjective will, and all that this implies, is the driving force behind economic life. That appreciation of the acting person is combined with a skepticism toward unnecessary uses of governmental power. We see in the Church’s social teaching, especially as expressed by Pope John Paul II, a blending of personalism with a proper understanding of economic reality.

To explore this Austrian strain in Catholic economics, we must rediscover Late-Scholastic economic thought. By doing so, we can expand on the embryonic thesis given to us by Michael Novak; namely, that the Austrian School of economics, with its emphasis on subjectivity and choice, offers the transmission of a body of thought that makes the link between old and new Catholic economics coherent, notable, and strong.

Finally, we can then more clearly understand the meaning of these ideas’ reappearance in modern Catholic economics. My intention is to sketch a picture of an intellectual tradition tracing from scholasticism (and its influences in Christian and ancient traditions), to the economic thought of the Late Scholastics, to the recovery of this tradition in late-nineteenth-century Vienna (in the writings of Carl Menger and Franz Brentano), and finally to its reintegration into modern Catholic social teaching under the guidance of Karol Wojtyla’s papacy. In particular, I want to pay special attention to the proto-personalist aspects present within the work of the Late Scholastics. This proto-personalism also provides a theoretical bridge with the work of the later Austrian School.

The goal of scholasticism, in the tradition forged by Saint Thomas Aquinas, was to develop a body of logic and philosophic thought built on a Catholic understanding of the world, including an emphasis on natural law. This body of thought sought to address a wide number of scientific and social problems. This ambitious project provided an opportunity for Scholastic theorists to explore areas now classified as economic, including property, trade, money, interest, prices, and wealth creation. The Scholastics agreed, in line with Catholic social teaching, generally, that the way to understand economics was by reflecting on the preferences, purposes, outlook, and intentions of economic actors themselves and observing how they impress themselves on a physical world of limited resources. This approach differs from that of the Greeks, who began their analysis from the “things” that the economy produced. The Scholastics, being proto-personalists, and in another sense, even proto-phenomenologists, offer a foundation for economic science that begins with an analysis of human action and human nature. From this foundation in human cognition, Thomist economic thought became progressively liberal and refined through the centuries, culminating in the sixteenth-century School of Salamanca in Spain, a primary center of learning and commerce.

The history of Scholastic economics begins with the Franciscan San Bernardino of Siena (1380-1444), who raised the status of businessmen to a higher moral plateau than had previous theorists. The transitional figure

from Bernardino to the Late Scholastics is Thomas De Vio, Cardinal Cajetan (1468-1534) who spelled out what was then the state-of-the-art in monetary theory. From Cardinal Cajetan's Italy, the torch passed to Salamanca and to the Dominican founder of Salamancan economics, Francisco de Vitoria (1485-1546). Like other Scholastics, Vitoria viewed the "just price" as the common market price.³

Dominican student Domingo de Soto (1494-1560), for example, said "the price of goods is not determined by their nature but by the measure in which they serve the needs of mankind."⁴ He also regarded it as a "natural right" that a man can "donate or transfer the things he legally owns in any way he wants."⁵ Martin de Azpilcueta Navarrus (1493-1586) even developed a clear and logical refutation of all price controls in the form of either ceilings or floors, and an equally clear theory that the value of money is inversely related to the amount available in the economy.⁶

The middle generation of Salamancans include such thinkers as Covarrubias y Leiva (1512-77),⁷ Tomas de Mercado (d.1585),⁸ and Francisco Garcia.⁹ The late generation of Salamancans was led by the Dominican Baqez de Mondragon (1527-1604), a friend and confessor of Saint Theresa of Avila.¹⁰ We can also include Luis de Molina, Francisco Suarez (1548-1617),¹¹ Juan de Mariana (1536-1624),¹² Leonard Lessius (1554-1623),¹³ and Cardinal Juan de Lugo (1583-1660).

In all, the School of Salamanca phenomenon represents a major episode in the history of economic thought. It forged the beginnings of a tradition of economic theory that deserves closer study. Joseph Schumpeter, in his *History of Economic Analysis*, observes that "it is within their systems of moral theology and law that economics gained definite if not separate existence, and it is they who come nearer than does any other group to having been the 'founders' of scientific economics."¹⁴

The link between the Late Scholastics and the late-nineteenth-century Austrian School is the theory of economic value. The value of any good,¹⁵ or service by implication, resides not in the objective qualities of the good itself but, rather, in how people personally regard the good. That is, economic value derives from individual impressions and intentions and is, ultimately, subjective.

Understanding economic value as intrinsic to the thinking and acting person necessarily precludes the idea that outside parties, including governments, can better impose prices and plans than those intended by individual economic actors themselves. The economy "works" so long as people's individual intentions are allowed to be realized in the course of enterprise

and exchange, and without third-party intervention designed to impose new values and priorities.

By placing the locus of analysis on the individual human mind and rejecting utopian fantasies of transforming the natural law to accommodate another view, the Late Scholastics created an economics that is both theocentric and anthropocentric. Economics, like all worldly philosophy, must center on God because the world is God's creation and the individual is created in God's image; likewise, man's creative intentions and purpose, to an extent, reflect the creative intentions of God Himself.

This way of approaching value is personalist in the best sense of the term. We see the themes of the Early Scholastics later echoed in the writings of John Paul II on the human person. The Scholastics, as does John Paul, do not attempt to address economics prior to anthropology. As John Paul's Christian Personalism utilizes a "bottom-up" anthropology—beginning with concrete human experience and culminating with reflection on the persons of the Trinity—so, too, does Scholastic economics employ a "bottom-up" methodology that begins with an understanding of human need and desire.

A community of enterprise made up of acting individuals does not result from a mysterious design imposed from the outside; it results from acting individuals spontaneously impressing their values on the material world and cooperating to improve the world around them. An attempt by the sovereign to upset this natural order of enterprise overrides the intentions of actors, generates imbalances, and violates justice.

The Austrian School is, from all appearances, a purely secular one, but one that arrived at Scholastic conclusions about the nature of economic value and the inherent workability of free exchange in markets. Carl Menger's work secured a foundation for a body of thought in the Austrian School that developed in this century around the works of Ludwig von Mises and F. A. Hayek. As with the Late Scholastics, the focus of the Austrian School is on individual intentions and purposes, and the schools share a high regard for enterprise and a dim view of the uses of power against the natural activity of economic exchange. In this sense, the Austrian economists, unknowingly, have furthered aspects of the personalist agenda.

The Austrian School adopts a view of action that is methodologically individualistic and subjectivistic and assumes that purpose and intentionality are the basic motives for decision making in the marketplace. Cause and effect in the market is no different from that in society at large; there

are no overarching and anonymous social forces that propel evolution apart from individual valuation. Social evolution is brought about by millions of individual calculations, decisions, and actions that create the appearance of an overarching order. Much of this same method of analysis can be found in Wojtyla. Similarly, Wilhelm Ropke attempts to distinguish this approach to economics from statist and positivists by reference to the “humane economy,” which, he argues, rests on the protection of human liberty, the guarantee of a stable social order, and respect for the valuations and intentions of acting persons.

Philosopher Barry Smith’s book on *Austrian Philosophy* explains the similarity between Austrian and Scholastic thought by examining the intellectual milieu of the University of Vienna. In particular, he points to Franz Brentano (1838-1917), a contemporary of Menger, as among the most powerful figures in Austrian philosophy. Brentano studied and upheld Aristotelian philosophy, and was ordained a priest in the Catholic Church in 1864.

As a priest, Brentano developed an understanding of, and an affection for, Scholasticism and its Aristotelian roots. Intellectually, he eschewed the influences of Kant and the idealist German philosophers.¹⁶ Brentano was the chief proponent of the Austrian approach to value theory within the philosophy faculty and his lectures were very popular. Late in life, Menger made a detailed study of Brentano’s works in order to complete his own theory of economic method.

For Brentano and Menger, valuation is implied in an action (whether economic or mental) and is inseparable from the individual. Values are not the property of objects but the products of the mind. Value is founded in the attitude of the subject. Both construe social science as a process of elaboration on the very nature of human cognition and action. In that sense, social science is not looking for constants that act automatically, as it were, apart from human choice, but for general patterns of social development that appear as a consequence of human action in a world of scarcity.

Herein lies the link between Mengerian economics, Brentanian psychology, and its later culmination in Post-Conciliar Catholic economic thought. The focus is upon the acting person and that person’s impact on the world. This action rests not on objectively defined external values but on internal ones comprehended by the actors themselves. The relevant unit of inquiry is not economic man but acting and purposive man.

Karol Wojtyla, in his book *The Acting Person*, provides a clear affirmation of the value of the individual person, the subjectivity of individual understanding, and the composition of the community from its individual parts in the acting person.¹⁷ In both Catholic and Austrian traditions, we see an emphasis on the individual as a person who acts and chooses, where both reject a mechanistic view of the acting person. Both view the acting person as part of a community, and participation in that community as essential to the fulfillment of the purposes of acting persons.

When Pope John Paul II proposes to “reread” Pope Leo XIII’s *Rerum Novarum* in the hundredth year after its promulgation,¹⁸ the pontiff appears to draw from a tradition of economic thought in order to place more emphasis on free markets and individual enterprise than his predecessors had. This rereading is performed through the now-acquired lenses of personalism and the pivotal insights of the Austrian economists. The Pope asks a fundamental question: “What kinds of economic institutions are most consistent with the dignity of the human person and the common good of society?” This question is essentially Scholastic and personalist and one that the Austrian School has addressed from the beginning.

It would be futile to attempt to show precisely every source of influence that went into the writing of *Centesimus Annus*, but it does not stretch the bounds of plausibility to say that the Austrian School exerted a prominent influence. Certainly, Austrian methods, approaches, and insights pervade the document. Those same methods, approaches, and insights had developed and flourished in an intellectual atmosphere that was both Catholic and Scholastic in late-nineteenth-century Austria. We can notice the parallels that exist in the approach to markets, property, exchange, labor, and government.

The significance of *Centesimus Annus* is that it has enlarged the scope of social teaching, made it more sophisticated in light of contemporary economic science, and pronounced on the Church’s overall vision of what constitutes the humane economy. What results is an overarching vision of a view of man, society, enterprise, and markets that is thoroughly grounded in Catholic intellectual history. In *Centesimus Annus* we see the fruition of the “Personalist Revolution” in theology, begun with *Redemptor Hominis*.

Like *Rerum Novarum*, *Centesimus Annus* rejects socialism for reasons that are more fundamental than technical or pragmatic. The document fuses a Mengerian-Brentanian critique of socialism. Socialism is condemned because it rejects the need for free economic action and for free mental action. Cen-

tral to the entire intellectual structure is the dignity of the free person. According to John Paul II, socialism reduces man

to a series of social relationships, and the concept of the person as the autonomous subject of moral decision disappears, the very subject whose decisions build the social order. From this mistaken conception of the person there arise both a distortion of law, which defines the sphere of the exercise of freedom, and an opposition to private property. A person who is deprived of something he can call 'his own' and of the possibility of earning a living through his own initiative comes to depend on the social machine and on those who control it. This makes it much more difficult for him to recognize his dignity as a person and hinders progress toward the building up of an authentic human community.¹⁹

Socialism is rejected not only because it is bad economics, but, more important, it is rejected because it is anti-personalist and, therefore, bad economics.

When discussing the causes of the crisis in Eastern Europe that led to the collapse of the Soviet bloc regimes in 1989, the Pope points to several factors, including “the inefficiency of the economic system, which is not to be considered simply a technical problem but rather as a consequence of the violation of the human rights to private initiative, to ownership of property, and to freedom in the economic sector.”²⁰

The Pope returns to the fundamentals of economic life, and presents a working model of the interaction between the individual, the economy, and the society as a whole. Private property, he emphasizes, has always been central to Catholic teaching and has “always been defended by the church up to our own day.”²¹ As for entrepreneurship, the Pope writes, “it is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society.”²²

The Pope's conclusion in this line of thought, then, is nearly inescapable: “The modern business economy has positive aspects. Its basis is human freedom exercised in the economic field, just as it is exercised in many other fields.”²³ This is not to say that capitalism in the West is fully personalist in its operation. It is not. Much work needs to be done by the Church to bring about such a transformation of the economy.

The Pope is often careful to distinguish what he is endorsing from the cruder and more positivist forms of capitalist economics that, like marxism, treat individuals as units in a machine, devoid of inherent worth. John

Paul allows for interventions in the market economy to protect the rights of workers and to guarantee fixed rules and safety for people.

The development of Catholic social teaching has drawn from many traditions, and will continue to do so. But, as Michael Novak has suggested, the Late-Scholastic and Austrian Schools have paved the way, and will likely continue to exercise influence on the direction of that development.

It is in the interest of theologians and scholars who desire a better understanding of the direction of change within Catholic social teaching to familiarize themselves with this Late-Scholastic/Austrian/liberal tradition of thought. Continued development along these lines requires intellectual interchange within and among these traditions.

Notes

¹ Alejandro A. Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986).

² *Ibid.*, 13.

³ Murray N. Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought*, Vol. I (Hants, England: Edward Elgar Publishing, Ltd., 1995), 60, 80, 101, 103.

⁴ *Ibid.*, 103.

⁵ Chafuen, *Christians for Freedom*, 60.

⁶ *Ibid.*, 106.

⁷ Rothbard, *Economic Thought Before Adam Smith*, 110.

⁸ Chafuen, *Christians for Freedom*, 50.

⁹ *Ibid.*, 103.

¹⁰ *Ibid.*, 54.

¹¹ Rothbard, *Economic Thought Before Adam Smith*, 116.

¹² Chafuen, *Christians for Freedom*, 64–65.

¹³ Rothbard, *Economic Thought Before Adam Smith*, 123–24.

¹⁴ Joseph Schumpeter, *History of Economic Analysis*, ed. Elizabeth B. Schumpeter (New York: Oxford University Press, 1954), 97.

¹⁵ Let me be clear from the beginning—we are speaking about economic value, not moral values.

¹⁶ Barry Smith, *Austrian Philosophy* (Chicago: Open Court Publishing, 1994), 17.

¹⁷ Karol Wojtyła, *The Acting Person*, trans. Andrej Potocki (Boston: D. Reidel Publishing Company, 1979).

¹⁸ John Paul II, Encyclical Letter *Centesimus Annus* (1 May 1991), no. 3.

¹⁹ *Ibid.*, no. 13.

²⁰ *Ibid.*, no. 24.

²¹ *Ibid.*, no. 30.

²² *Ibid.*, no. 32.

²³ *Ibid.*