The Quarterly Journal of Austrian Economics

VOL. 20 | Nº. 2 | 179–188
SUMMER 2017

Book Review

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

Michael Thomas D'Emic
New York: Lexington, 2014, 276 + xx pp.

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For anyone wondering why the School of Salamanca is said to have founded the modern study of economics, tremendous insight is provided by D'Emic's study of Cristóbal de Villalón's *El provechoso tratado de cambios y contrataciones de mercaderes y reprobación de usura* (Valladolid, 1541) and Luis Saravia de la Calle's *La instrución de mercaderes muy provechosa* (Medina del Campo, 1544), the latter with its important subsection, *Tratado de cambios*. The reason is the deep interest taken by everyone from academic

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theologians to street-level confessors in the thoughts and behaviors of Castilian merchants circa 1550. From a broad perspective, the new financial and commercial reality meant that business activity now attracted the attention of religious authorities worried about the souls of their congregants. Medieval trade in wool and wheat at seasonal fairs had become early modern trade in everything under the sun, involving complex international operations and calling for methodical moral evaluation. From a broader perspective, the new, impersonal and money-based bourgeois capitalist society was beginning to outpace the older agrarian one (163–164).

D'Emic wades straight into the financial details of mid-sixteenth-century Castile. The fact that modern merchants and financiers were forced to submit to moral authorities, who, for their part, maintained medieval perspectives on business, made for curious social feedback mechanisms. As one example, the instinctive antipathy toward usury on the part of religious and intellectual authorities—who were usually the same, and who usually appealed to Aristotle's and Aquinas's awkward, abstract view of the "unnaturalness" of making money with money—forced merchants to resort to elaborate financial instruments. And as these financial instruments became more elaborate, the churchmen entrusted with deciding whether or not they were moral labored to produce detailed accounts of their use. That is how D'Emic's book is about the early modern birth of the field of economics in mid-sixteenth-century Spain.

An example of one of these elaborate financial instruments was the *cambio seco*, or "dry exchange," which D'Emic calls loansharking (33). It allowed aggressive lenders to interact with desperate borrowers, the latter usually smaller or out-of-town merchants who had less access to credit. The interest payments on these contracts indicate a clear understanding of risk premium. Moreover, in order to pull off the trick, lenders leveraged the services of deceptive judges, lawyers, and factors in remote cities. Basically, the *cambio seco* allowed interest that was to be paid locally to masquerade as fees for service and transport. In the process of demonstrating that Villalón understood a range of financial arrangements, D'Emic deftly culls out the different types of instruments at issue. And, as he honorably and charitably points out, although Villalón displays some faulty reasoning when evaluating the ethics of these contracts, he was diligent when investigating the ways that they worked.

Further examples of the financial sophistication faced by theologians and confessors in sixteenth-century Castile include: merchants navigating a complex monetary landscape in which different interest rates reflected differences in the availability of currency between places like Valencia and Seville (30–31); derivatives markets, complete with swaps, puts, calls, collars, forwards, and futures (183); an early form of interest rate option (58); an understanding of how money changers arbitraged different currency markets (208); overdraft protection as a banking service (76); and the use of credit guarantee contracts (40). By the way, this last displays a hint of early blockchain thinking. It is simply a quest for additional security, i.e., a desire for something like the counterseals described by Elaine Ou which Chinese and Japanese merchants used to verify the silver content of Mexican coins.

Although D'Emic does not articulate it as such, perhaps because it is an uncomfortable thought, his study also provides evidence that the impetus for the birth of the modern study of economics came from the conversions and exiles of around 350,000 Jews and upwards of 500,000 Moors, as mandated by the Catholic Kings at the end of the fifteenth century. As the sixteenth century drew on, religious authorities had to attend to the commercial activities of the new converts to Christianity as well as a growing population of Old Christian merchants, both of whom rushed to fill the vacuum left by those who emigrated. Previously, say before the beginning of the sixteenth century, and especially in Reconquest Spain, commercial and financial activities were largely left to Jews and Moors. Since business was thought inherently sinful, Christians truly worried about the fate of their souls did not assume the moral hazard.

A great feature of D'Emic's book is his concise review of the debates surrounding the School of Salamanca. Just how modern were these thinkers? And to what degree can we even speak of them as an organized school of thought? In his introduction, D'Emic traces the connection between the Salamancans and Austrian economists like Bernard Dempsey, Joseph Schumpeter, Marjorie Grice-Hutchinson, Raymond de Roover, Murray Rothbard, and Jesús Huerta de Soto. He also orients readers in the debates over whether or not the Salamancans advocated free markets, understood the perils of fractional banking, influenced the likes of Adam Smith, or anticipated modern-day libertarian principles. To his credit, and displaying his own scholastic tendencies, D'Emic presents the contrarian views of skeptics like Odd Langhlom, Francisco Gómez Camacho, Raúl González Fabre, and Diego Alonso Lasheras.

But Dempsey, Schumpeter, Grice-Hutchinson, Roover, Rothbard, and Huerta de Soto are all borne out here. We cannot discard the existence or influence of a school of economic thought in early modern Spain. We know, for example, that the political and monetary theories of a late scholastic like Juan de Mariana (1536–1624) reached the likes of Cromwell, Locke, and Jefferson. As D'Emic points out, Saravia himself holds the distinction of a 1561 Italian translation of his *La instrución de mercaderes* under the title *Institutione de' mercanti che tratta del comprare et vendere et della usura che puo occurrere nella mercantia insieme con un trattado de' cambi*. It stands to reason, then, that an intellectual giant like Martín de Azpilcueta (1492–1586), the first to state both a quantity theory of money and a purchasing power equilibrium theory of exchange rates, probably loomed much larger, both after the Renaissance and outside of Spain, than has been recognized previously.

What D'Emic does most brilliantly is lay to rest any doubts regarding the sophistication and social reach of the early economic discourse of the School of Salamanca. In his dual case study of Villalón and Saravia, he shows, for example, how ideas like objective value theory were pitted against utility and subjective value theories in their debate over whether markets or authorities should set the just price of goods and services. Furthermore, he shows how regarding usury, they undertook empirical studies of complex financial instruments and interviewed the parties involved. As a result, D'Emic throws down a new marker: "at the dawn of modern capitalism, men were already debating the choice between individual freedom in the economic sphere and a collective dependence upon the state" (xxv). It is an early modern version of the liberal debating the statist. At which point, it also becomes clear that the School of Salamanca has not received sufficient attention. D'Emic rightly calls for reassessment of the traditional sociological explanation of capitalism as originating in the "Calvinist work ethic" as per Max Weber.

In chapter one, D'Emic establishes the ideological, economic, demographic, and social context with precision. Villalón represents Valladolid, essentially the capital of the Catholic Monarchy; whereas Saravia represents Medina del Campo, a major center of Iberian finance and commerce with international connections across Europe. The fifteenth century had been deflationary; so, although mild by today's standards, the fourfold increase in prices from 1501 to 1600 was a shock. The population of Castile grew from 3.9M to 6.7M between 1530 and 1591. The entire urban middle class amounted to three to five percent of the population, and merchants shared that status with physicians, lawyers, notaries, and clergy. Still, they wielded enormous influence and were deeply involved in the general struggle to climb the social hierarchy.

D'Emic then traces the intellectual roots of the School of Salamanca back to the nominalism at the University of Paris at the end of the fifteenth century. In particular, the Scottish Dominican John Mair (1469–1550) modeled a new, more pragmatic approach to life's problems. Francisco de Vitoria (c. 1483–1546) and Domingo de Soto (1494–1560) then established the new method in Spain. D'Emic also shows little anxiety when acknowledging the probable influence of the humanism of Erasmus (1466–1536).

D'Emic further orients us for his contrast between Villalón and Saravia by describing the overarching incentive provided by the new economic reality, a world in which a radical increase in trading, lending, and borrowing spawned theological debates about what constituted just prices and usury. Moreover, Villalón and Saravia both display admirable clarity and faithfulness in their reporting of the commercial and financial activity of the day. They represent a very real revolution in style, which anticipated the frankness of later manuals. Occasionally, there are even moments of brilliance. The insights of Saravia, in particular, "signified the moment of transition from one way of thinking about business to another" (159). Saravia echoed more permissive attitudes toward interest in Northern Europe advanced by the likes of Henry VIII (1491–1547) and John Calvin (1509–1564). In Spain, his more informed and liberal attitude toward interest anticipated the views of Tomás de Mercado (*Suma de tratos y contratos*, 1569), Luis de Molina (*De jure et justitia*, 1609), and Felipe de la Cruz Vasconcillos (*Trato único de intereses sobre si puede llevar dinero por prestado*, 1637). Vasconcillos puts the epistemological dagger in the anti-usury laws by recognizing, as D'Emic puts it, "the fundamental injustice of expecting to borrow money for free" (159). In Spain, a more relaxed legal view of usury began around 1598 and became official under Philip IV in 1642 (248).

Chapters two through four are then case studies of the different mindsets and logics of Villalón and Saravia respecting a range of financial contracts. As he proceeds, D'Emic deftly connects the ideas and terminology of sixteenth-century Spain with their modern analogues, speculating about other parallels when appropriate. He walks readers through the elements of the various contracts discussed by Villalón and Saravia: the *cambio seco*, the *cambio real*, the *cambio de feria en feria*, the *cambio por letras*, the *cambio por menudo*, the *parturas*, the *mutuum*, the "triple contract," and the dreaded *censo*. All of this is supplemented by their sophisticated accounting analyses and complex opinions on things like markets, equity investments, oligopolies, subprime lending, commodities contracts, and deposit banking.

As per the subtitle of his book, D'Emic emphasizes Villalón's and Saravia's moral opinions. He does this marvelously by showing both men's blind spots. Villalón, in particular, remains unable or unwilling to see finance as an additional cost of production or to see lent money as money saved by individuals who deserve compensation. He esteems charity so much that he cannot conceive of a business loan. If somebody needs money, then the moral person gives it to him without any expectations. Nevertheless, D'Emic also allows both men to voice remarkable insights. Saravia, for example, affirms that market forces determine production costs, countering Villalón's vision of them as determined by production costs. For his part, Villalón has modern advice against personal debt and in favor of a healthy work ethic. My personal favorite is Saravia's momentary hellish vision of all commercial transactions as essentially "lemon" markets in which all buyers and sellers are unethical in their quests for advantage (126–127).

D'Emic's conclusions are generally sound. I am not convinced, however, that the differences between Villalón and Saravia are as divisible into today's right and left political categories as he would have them. For example, from a modern perspective, the conservative Saravia's support for social status might still make sense; but the statist Villalón's emphasis on work would be counterintuitive. Villalón might simply be signaling that the pensions for the *hidalgo* caste are a fiscal drag. Still, D'Emic is probably onto something in that the controversy over usury that he describes followed political contours by pitting the state in Valladolid against a merchant class in places like Medina del Campo, Seville, and Valencia.

In passing, I note that D'Emic seems more optimistic than most Austrians and libertarians are regarding the benefits of financial regulations and legal frameworks. To his credit, he is up front about his views. He insists, for example, that aggressive credit card marketing, the sale of financial instruments like annuities, and the general abuse of asymmetrical information across the financial industry remain problems (see 114 n130).

D'Emic's study also has implications for comparative history. For example, a stereotypical view holds that Christians in medieval Iberia grew overly accustomed to amassing wealth through conquest and tribute during the Reconquest period. Then the radical amounts of wealth generated at the beginning of the sixteenth century by the conquest of America reinforced a culturally inherited bias against labor and business. Writers like Montesquieu, and more recently Thomas Sowell, have indicated that this is the key to understanding both Spain's and Latin America's economic retardation.

But D'Emic's study challenges this view. On one hand, he shows that, thanks to men like Saravia, Mercado, Molina, and Vasconcillos, the laws against usury were not a serious problem after the middle of the seventeenth century. He also notes the shift in Western European banking activity, which began in Italy and the Low Countries in the thirteenth century, spread to Florence in the fifteenth century, and became a regular feature across all of Europe in the sixteenth century. Public deposit banks were established at Barcelona in 1401 and Valencia in 1407. He cites historian Ian Blanchard's claim that, due to the importation of so much silver into Spain, by the middle of the sixteenth century, "the fairs at Medina del Campo became the focus of a new financial network in Western Europe" attended by "as many as two thousand merchants who were served by fifteen or so bankers for the settlement of transactions" (221). Serious economic upheaval was already occurring; and if it did not take hold in Spain as deeply as it did elsewhere, well, that is a serious question.

Carroll Johnson has written of early seventeenth-century Spain as a case of “stillborn capitalism”; D’Emic shows us the “stillborn finance” that accompanied it. As opposed to some mythical conquering mindset, however, both Johnson and D’Emic are suggesting later, more subtle or traumatic causes for the repression of capitalism and finance in Spain. Saravia himself might have had a hand in the collapse. He got his way on one issue via a royal decree in 1554 which prohibited deposit bankers from lending. From a monetarist point of view, that was a bad idea given the economic growth at the time. Or might the lag in Spain and Latin America owe to the fact that some groups repressed others? Could it be as simple as the Counterreformation’s domestic rigidity after Philip II became King in 1559? Or did the religious wars across Europe bankrupt Spain too many times? Taxation? Monopolies? Ethnic cleansing?... Pirates?

Although D’Emic modestly leaves the point implicit, the fact that Villalón and Saravia produced the first two treatises written on these topics in Spanish indicates a culture in the process of prioritizing commerce and banking. Their sophisticated content indicates that a mature bourgeois mindset was thriving in mid-sixteenth-century Spain. As historical artifacts, the treatises are related to the two chapters on the history of money that got translated into Spanish for Diego de Covarrubias’s *Veterum collatio numismatum* (1550). Additionally, the 1561 Italian translation of Saravia’s *La instrución de mercaderes* indicates a market outside Spain for neo-scholastic thinking on these topics. This is all “demand-side” evidence of Salamanca as a school of thought.

D’Emic’s book is fantastically informative, a tremendous resource for understanding the School of Salamanca as well as a model for how much insight can be gained by case studies of this sort. The book, for example, is terrific as secondary material for the study of Spanish Golden Age literature. Many of the concepts D’Emic discusses are found in vignettes in *Don Quijote de la Mancha* (1605, 1615). Cervantes alludes to monetary policy, currency exchange rates, monopolies, taxation, etc., even the murky *censo*. Also useful is D’Emic’s socioeconomic presentation of the *hidalgo* caste and its jealous concern for *honra* and *ocio*.

I will go further. Given the demographic realty of a major influx of Hispanics into states like California and Texas, any self-respecting high-school or college-level economist in the U.S. should take a crack at D'Emic's book. It has the potential to engage students in the study of a number of important economic concepts. It is also an excellent way of demonstrating that Hispanic culture played its part in the development of early capitalist theory. And, *vice versa*, specialists in early modern literature or culture will ignore D'Emic's findings at their peril.

Finally, as a literature specialist myself, I greatly appreciated the guidance regarding vocabulary that would have been beyond my comprehension. D'Emic's pursuit of the precise meanings of the terms deployed by Villalón and Saravia is exemplary. D'Emic is also to be thanked for his eminently readable, engaging, and provocative style. For example, explaining that Villalón deploys Aquinas's and Aristotle's odd natural-law objection to usury, he says, "They make no more sense in his formulation than in that of more erudite authors" (18). This commonsensical tone makes D'Emic a pleasure to read. He also produces some provocative sidebars: his argument for an earlier dating of the arrival of double-entry accounting in Spain (79); the possible relation between the sixteenth-century price revolution and the proliferation of bills of exchange (55); the existence of a yield curve that was space-based rather than time-based (216); and Saravia's apparent discovery of modern discounted cash flow analysis (176).

D'Emic provides the reader with a sense that the complexity of financial instruments circa 1550 reflects our own very natural desires to reduce risk and maximize return against the backdrop of complicated regulatory environments, in this case an early phase of the Counterreformation in Spain. Getting a glimpse of how this complexity evolved and functioned makes D'Emic's book well worth the effort.

The sole complaint I have concerns the huge number of typos. I hope Lexington Books can figure out a way to produce texts that are easier to read.

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