

GROVE CITY COLLEGE

# St. Thomas Aquinas: Economics of the Just Society

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Austrian Student Scholars Conference

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12/12/2012

## **Introduction**

St. Thomas Aquinas, a medieval theologian and philosopher, is an important figure in the history of economic thought. Aquinas understands the economic ideas that economists rely on today, such as the law of supply and demand, subjective value theory, and the theory of time preference. However, Aquinas has misunderstandings in his economic understanding as well, such as in his philosophy of the society and of global trade. Aquinas applies his economic understanding to determine justice in economic matters such as pricing and usury. While economists study economics as a value free science, Thomas Aquinas readily enters into a value-laden form of practical economics.

Thomas Aquinas is regarded as one of the greatest minds in medieval history. He is the epitome of the Scholastic school, a tradition of learning within the Catholic Church that emphasized the attainment of knowledge through reason rather than strictly through faith. Aquinas wrote extensively on theology and philosophy, and less extensively on just about everything else, including economics. Properly understanding what Aquinas has to say about economics is a useful study because he, despite being a theologian, is an important figure in the history of economic thought. For hundreds of years after his death his writings on price and usury were widely referenced, in and out of the Church. To properly understand Aquinas' economic thought, significant time must be spent understanding Aquinas' purpose and framework. This paper will thoughtfully introduce the reader to Aquinas' framework and writing, explain Aquinas' stance on multiple economic matters, and demonstrate his impressive knowledge of economics.

## **Methodology**

Many of Aquinas' writings have been consulted in writing this paper including the *Summa Theologica*, *Summa Contra Gentiles*, "On Buying and Selling on Credit", *On Kingship*, *Compendium of Theology*, "Letter to the Duchess of Brabant", and more. These writings have been searched for areas where Aquinas deals with economic issues.

Additionally, secondary sources addressing Aquinas' economic and philosophical thought have also been taken into account, as to integrate other scholars' interpretations of Aquinas' thought. With all of that taken into account, here is compiled a thoughtful study and critique of Aquinas' economic thought.

In comparing Aquinas' economic thought with modern economic thought, the paper will primarily refer to the Austrian school of economics, often appealing to the writings of Ludwig von Mises and Murray Rothbard. Comparing the Austrian school and Aquinas' economics is useful because both systems rely on a thoroughly philosophical framework.

### **Aquinas' Framework**

To understand Thomas Aquinas' commentary on economics, it is first crucial to understand the framework in which he writes. Most, if not all, of the situations in which he addresses economic matters are in the framework of justice. Aquinas confronts many challenging questions about whether actions are just. In the *Summa Theologica*, Aquinas (1981, II-II, Q58, A1) holds justice as the highest of the virtues and defines it as "a habit whereby a man renders to each one his due by a constant and perpetual will." In discussing this definition, he stresses that an act of justice must be voluntary and that it must be committed intentionally. Aquinas adds that justice indicates a relationship with another. Lastly, Aquinas (1981, II-II, Q58, A11) concludes that since each man's due is

that which is his own, “the proper act of justice is nothing else than to render to each one his own.” This conception of justice comes forth from natural law philosophy.

### **Aquinas: Theologian, Philosopher, Economist?**

Thomas Aquinas is regarded as one of the most influential thinkers in the medieval era. Thomas Aquinas was not an economist. Rather, St. Thomas Aquinas is a theologian and philosopher in the Scholastic tradition. While Aquinas never published a treatise on economics, he has nevertheless been an important figurehead in the development of economic thought, especially in his work in just price and usury. In his theological and philosophical writings, he writes about many topics, including economics. However, he only focuses on these economic topics because they are important to his real purpose in writing, which is upholding justice according to natural law philosophy. As Joseph Schumpeter (1954, p. 90) described, “All the economic questions put together matters less to him than did the smallest point of theological or philosophical doctrine, and it is only where economic phenomena raise questions of moral theology that he touches upon them at all.” Rather than writing about the causes and effects of human action, most of what Aquinas and the Scholastics wrote deals with what actions are just in society. Therefore, Thomas Aquinas addresses questions of justice in terms of usury, the just price, and trade. By studying his writings and properly understanding their context, Aquinas’ economic thought can be collected, understood, and critiqued.

### **Aquinas’ Philosophy of Man, Philosophy of Social Man**

Understanding human action is of the utmost importance to the study of economics. Hence, it is prudent to begin by looking to Aquinas’ philosophy of man. Aquinas writes

that all men are created by God and are made up of spiritual and earthly components. Man, unlike other creatures, is “master of his actions through his reason and will” (1981, II-I, Q1, A1). Aquinas (1981, II-I, Q1, A2) defines free-will as “the faculty of will and reason.” Free-will gives man dominion over his action. Aquinas (1947, p. 70) states, in the *Compendium of Theology*, that man has free choice and “the intellect does not act or desire without forming a judgment.” The judgments that lead to choices that man makes are free because man is in control of those choices. Aquinas also discusses what he calls the necessity of coercion. He defines this as “when someone is forced by some agent, so that he is not able to do the contrary” (Aquinas, 1981, I, Q82, A1). This necessity of coercion, which is simply when man is forced to do something against his will, is violent and entirely against the will of man.

In discussing man’s action, Aquinas goes on to describe man’s action as it relates to his ends. First, he clarifies that all action is directed toward an end. Without an end in mind, man would not act because he would have no reason to choose an action. The end which man has in mind is what causes him to act, so that he may achieve that end. He also says that humans use their intellect to identify their end, the means leading to the end, and how they relate to one another (Aquinas, 1981, I, Q76). He further states that all that man desires is for the last end, “the fulfillment of their perfection” (Aquinas, 1981, II-I, Q1, A7). If an action is not directly for the attainment of the last end, it is a means to the last end. He also notes that men are in disagreement of how to fulfill this final perfection. Aquinas suggests several options, including the attainment of wealth, and explains why each is not man’s final end or his happiness. Finally he gives the answer that “perfect happiness can consist in nothing else than the vision of the Divine Essence”

(Aquinas, 1981, II-I, Q3, A8). Thus, Aquinas' philosophy of man, man's freedom of choice, and how man acts to achieve his ends can be properly understood.

### **Individual Man**

Aquinas' treatment of individual man and his means and ends is similar to the treatment given by the Austrian School economists, but Aquinas goes beyond the value-free boundaries of economic science by insisting upon justice as an end for all exchanges. In the Austrian school of economics, all economic law is founded on the concept of human action. Like Aquinas, Austrian economists understand man as a being who makes choices between differently valued means to achieve his ends. Ludwig von Mises (1966, p. 13) explains that "the incentive that impels a man to act is always some uneasiness." This uneasiness, or discontentment, is similar to what Aquinas describes as the lack of final perfection, the lack of happiness. Man's action continues to be driven to improve his situation in life and to satisfy his feeling of uneasiness. The man who has satisfied his ends, says Mises, would be happy and no longer act, because no further action would lead to an improvement. While the analysis of man by economists ends here, Aquinas continues into the realm of theology in order to explain man's specific purpose in life.

Economics as a science makes no judgments on what this happiness is or should be. Mises makes clear that economics does not serve to identify whether there is an objective end to man or any plan that God might be involved in. In fact, Mises (1966, p. 14) says "nobody is in a position to decree what should make a fellow man happier", which is exactly what Aquinas does. Aquinas firmly contends that satisfaction is only achieved in the presence of God in heaven. The major difference in the individual philosophy of man is that Aquinas always involves the value-laden features of human

action, while Mises and other economists avoid such discussions in a value-free treatment of facts about human action. If Aquinas' idea of man as an individual is comparable to that of modern economics, his idea of man as an economic actor in society is not.

### **Man as Economic Actor in Society**

In treating man as an economic actor, Aquinas and modern economists greatly differ. Economists in the Austrian school find it useful to start with the thought construct that Murray Rothbard (1998, p. 29) calls Crusoe Economics, which is "the analysis of an isolated man face-to-face with nature." The goal of this construct is to better understand human action by removing the human from the complex realm of society, similar to conducting a controlled experiment. The Crusoe model is a way of simplifying the innumerable complexities of a complicated world economy and to study man and his actions at the simplest level. Rothbard (1998, p. 29) says that this model "has highly important and even indispensable uses." Acting man is first described in his isolated environment, and then this theory is expanded as man interacts with another person and then eventually enters into society. The truths that are learned about man in isolation remain true in society. However, these truths might not have understood properly seen at the societal level if they had not been identified using the model of man in isolation.<sup>1</sup>

In discussing his philosophy of man, Aquinas describes man's being, free-will, and purpose at the individual level. However, in economic matters, Aquinas always views man as a member of society. He does not use this model of man in isolation. Like most economists, Aquinas sees man as a social being. Unlike most economists, he only deals with man in this manner. He makes no attempt, as economists do, to hypothetically

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<sup>1</sup> Of course, economists who use the Crusoe model admit that such an isolated man does not exist. Mises (1966) explains that man is a social being and that "the isolated asocial man is a fictitious construction" (165). Robinson Crusoe is useful only as a thought construct and rightfully recognized as fictitious.

remove man from society to understand his action. This is important because when Aquinas starts at the macro, or societal, level of human action his economic reasoning can be inconsistent because he does not work from the same praxeology of the micro level as economists do.

Aquinas also differs with the economist on the understanding of society and man's participation in society. For the economist, "society is concerted action, cooperation", and it is the product of humans working together to achieve their individual ends (Mises, 1966, p. 143). It follows naturally from the praxeology of human action that in acting for his own benefit, man will cooperate with other men because it is often mutually beneficial to do so. This cooperation comes about in the formation of societies in the division of labor. In their own interest, men trade with each other and specialize in their areas of efficiency. It would be incorrect, though, to speak of cooperation as a society working for a common goal such as the common good. This human cooperation is still, however, fueled by individual actions which are fueled by individual ends and their attainment. It is a fallacy to speak of society having goals or ends, because society is simply a combination of individuals with their own ends. Mises (1962, pp. 78-79) writes on many separate occasions about the fallacy of speaking in collectives, saying that "only individuals act" and "society does not exist apart from the thoughts and actions of people" and society "does not have 'interests' and does not aim at anything." Mises stresses that society is nothing more than men cooperating, each to achieve their own individual interests.

Aquinas, on the other hand, explicitly condemns the idea of man working for his own good in society. He says "in an earthly kingdom peace ceases when the citizens seek each



man his own” (Aquinas, 1981, II-II, Q183, A 2). Aquinas views a man working for his own ends as a selfish and parasitic entity in society. He says that “where there are many men together and each one is looking after his own interest, the multitude would be broken up and scattered unless there were also an agency to take care of what appertains to the commonweal” (Aquinas, 1946). As has been shown above, an economist would say the exact opposite: cooperation in society arises specifically because men are working for their own ends and can do so more efficiently through cooperation. Aquinas also cites Scripture to convey his idea of society, “Where there is no governor, the people shall fall” (Eccl 4:9). Thus, Aquinas says that government must be established to tend society toward the common good, which would not be done otherwise. Again, this is antithetical to the claim of the modern economist, who says that the common good is a fallacy, and that ends may only be understood as belonging to the individual. While economists see the complementary nature of society as a beneficial organization of men working for their own good, Aquinas sees this as a contradiction or impossibility. Society in Aquinas’ view is mutually beneficial for man, but must be governed in such a way that man acts not for his own good, but for the good of the society.

There are a number of reasons why Aquinas only considered man in society: the influence of the ancient Greek idea of society, Aquinas’ understanding of man as a social animal, the fact that he was writing for the purpose of establishing matters of justice, and the fact that his goal was not a systematic work in economics.

It is also important to note that the idea of society is much different today than it was in Aquinas’ time. In the philosophy of the ancient Greeks, there was much emphasis on seeking justice in politics. The notion of the Greek city-state was founded in establishing

and upholding an objective idea of justice. Aquinas continues to write in this mode of politics, where justice is realistically sought after. It can be seen that this is true in Aquinas' time by Aquinas' correspondences. Royalty and other rulers wrote to Aquinas about certain issues so that they could be just in their actions. Since then, there has been a split between facts and values in society. Thus, the social sciences, including economics, attempt to conduct their study in a value-free manner. This ideology has created a modern society where justice and good are wholly subjective to the individual. Thus, we often omit judgments of value in our studies, and attempt to limit our judgments to the facts. This difference in the views of society is largely why Aquinas' focus on justice seems so foreign to us today.

For Aquinas, to understand a person was to understand him socially. Society and societal relationships were inherent to all of man's dealings. Aristotle, in *Nicomachean Ethics*, describes man as a social animal. Aquinas, who was heavily influenced by Aristotle, follows this line of thought, constantly citing Aristotle's claim about man's social nature "almost every time a social topic is discussed" (Dempsey, 1795, p. 8). Men come into world with relationships and to separate man from these relationships, even in economic terms, was not an option for Aquinas. Treating isolated man in a theoretical construct, as economists do, was a futile form of reasoning for Aquinas because of his understanding of man's inherent social tendencies.

It also makes sense that Aquinas never leaves the realm of society because his purpose in writing on economic matters is usually to establish matters of commutative justice. As was mentioned earlier, justice manifests itself in rendering to others their due. Aquinas does not write about economics to derive economic laws of human action, but to

establish what is just and unjust in the natural order of society. This idea of justice is meaningless outside of society, because justice always deals with another person. He viewed society as a whole unified body rather than merely a grouping of individuals. He goes so far as to say that “even as in civil matters, all who are members of one community are reputed as one body, and the whole community as one man.” (Aquinas, 1981, II-I, Q81, A1). Thus, one of the reasons why Aquinas always dealt with man in society is because justice can only be spoken of in terms of society.

Lastly, one reason Aquinas may have always reasoned in societal terms is that he was not an economist. As was mentioned earlier, he writes on matters of economics as they arise in questions of theology or morals. Had Aquinas worked on a systematized theory of economic action, his reasoning on economic matters may have developed in other ways. Of course, this is mere speculation. However, as is the case, economic matters dealing with justice never occur in isolation.

Now that Aquinas framework of justice, philosophy of man, and understanding of society have been laid out, Aquinas’ specific viewpoints on economic topics such as the division of labor, property, just price, and usury will be explained.

### **The Division of Labor**

Aquinas’ understanding of man as a social being led naturally to his treatment of the division of labor. It is evident in Aquinas’ writings that he recognizes man as naturally being a ‘social animal’, just as Aristotle had said in *Ethics*. In this understanding of man’s natural inclination to society, Aquinas logically explains the organization of society. He states that it is both because of divine providence and the natural influences of man’s aptitudes that the division of labor forms in society. He compares the economy to a body,

in which different members serve their respective functions. One cannot do all, and likewise, not everyone can do the same. Thus, it is beneficial for society to have everyone serving their own productive purpose for the community as a whole. Such an organization, says Aquinas, “comes about from natural influences by which different men have difference inclinations for this function and that manner of life” (Dempsey, 1991, p. 479). To make the same point, in *Summa Contra Gentiles*, Aquinas (1934, 3B, C134) uses an analogy of a bee-hive. He says that every bee is not occupied with the same activities, “some gather honey, some build their dwelling with wax, while the queens do none of these things: and it must needs be so likewise with man” because some men are better at some tasks than others. For society to thrive, a multitude of tasks must be achieved by all men. The implications are obvious but important. Aquinas affirms the societal benefit to each man specializing in his own area of efficiency in society.

Although Aquinas identifies the division of labor as a beneficial and necessary aspect of society, he does not follow this logic absolutely. In *De Regno*, a letter on Kingship, Aquinas provides a king with advice on how to properly rule. One of the topics he focuses on is providing the chosen city with an abundant supply of food. He notes that food can be supplied to a city in one of two ways, self-sufficiency and trade. Confidently, Aquinas (1946) claims that “it is quite clear that the first means is better.” He cites multiple reasons for this claim. He says that dependency for anything implies a deficiency and that whatever is self-sufficient is more dignified. Thus, he argues that a city surrounded by towns constantly supplying adequate food is more dignified than one that acquires its food supply through trade. Self-sufficiency is safer, says Aquinas, because it avoids relying on the merchant, who might be prevented because of war or

shipwreck, or otherwise. In such a case, the city would be at a great disadvantage. He adds that trade is bad for a city because it naturally will lead to a constant presence of foreigners. Appealing to Aristotle, Aquinas (1946) says that “intercourse with foreigners...is particularly harmful to civic customs.” Further, Aquinas says that when a city opens up to trade, it gives way to vices such as greed and selfishness, which are antithetical to the common good. Military activity will also be harmed by trade because men will increasingly become merchants rather than do hard labor, which make them unsuitable for military endeavors because they become soft spirited and weak in body. Lastly, he posits that when trade abounds in a city, the inhabitants have incentive to crowd within the city walls to trade, and quarrels arise and peace departs from the city because they are packed too close for comfort. After this strong condemnation of trade, Aquinas (1946) concludes that “the perfect city will make a moderate use of merchants” because every city will require some trade because this is inherent in the scarcities and abundances that different areas will experience.

Aquinas’ development of the division of labor is sound in that he recognizes its efficiency for production and for society. However, as was discussed above, Aquinas views the division of labor as men working for the common good rather than their own good. As Mises points out, this is a fallacy. People cooperate in the division of labor “because this best serves their own interests” (Mises, 1966, p. 169). Peace, prosperity, and freedom in society may be in one’s own interests, but it is incorrect to say that they are working for the common good, because collectives do not have ends or desires. However, Aquinas’ points on the differing abilities of men in the division of labor are quite true and important for the formation of society.

However, in his discussion of providing food for a city, Aquinas retreats from a full extension of the usefulness of the division of labor. He again takes from the ideas of Aristotle, and posits that self-sufficiency is the most dignified form of food production in a city. Aristotle, in *Politics*, plainly states that all people agree in the dignity of self-sufficiency. However, economic efficiency grows as the division of labor expands. If the division of labor can only expand to the city's borders, economic productivity will also be limited. Aquinas' reason that relying on a merchant for food is too unreliable makes perfect sense. For a city to rely wholly on an inconsistent food source would certainly be imprudent. However, Aquinas' other arguments are not as convincing. For the purposes of this paper, I will only focus on military strength.

Aquinas' claim that trade will decrease military strength can clearly be countered. In a society that takes part in trade as a major mode of supply, the division of labor is extended outside of the city. Suppose that in such a city, the food supply is brought in by trade rather than self-sufficient production. Men who might otherwise spend their time laboring on the farms producing food could now specialize in military work. Rather than splitting time between farming and some military training, all of their time could be spent on the latter. In the same way, the expansion of trade could replace other self-sufficient forms of production, bringing about more opportunities for architects to better fortify the city, or for engineers to spend time innovating new weapons. Thus, engaging in trade rather than self-sufficiency increases economic productivity in ways that were previously impossible. Mark Brandly makes the argument that engaging in trade will actually benefit a nation because it builds friendly relations with other nations. This same argument could be used for cities in Aquinas' time (Brandly, 2002). Suppose there are two neighboring

cities, Goofus and Gallant. The people of Goofus do not like the people of Gallant, and thus they are more likely to war with each other. Further suppose that the city of Gallant is especially productive in agriculture, and lacking in clothing. Conversely, the city Goofus is churning out more clothes than they need but are lacking the proper food for a healthy diet. Rather than continue being self-sufficient, both cities would be best served if they traded with one another. In doing so, they extend the division of labor and satisfy each other's needs. At the same time, they increase the peace between their cities because they will be less likely to war with those who are benefitting their city, even if they have a personal vendetta.

Aquinas strays from the extreme opinion of Aristotle by recommending a moderate use of merchants. However, his fear of trade remains illogical and unfounded. While there is no correct answer to how food should be provided to a city, Aquinas' strong opinion against inter-city trade reveals a lack of foresight of how the world economy might have developed. There is no formula, of course, for trade being better or worse for a city. This will certainly depend on their situation and on the preferences of the city's ruler. Mises (1983, p. 113) says that "in peacetime, it is a matter of indifference whether one produces foodstuffs and raw materials at home oneself or, if it seems more economic, obtains them from abroad in exchange for other products that one has produced." Thus, Aquinas is not justified in so quickly dismissing the option of inter-city trade.

Aquinas (1946) comments that a city "must be efficiently fertile to provide food" and that a city could not be built on a mountain, because there was no means of growing enough food for the population, no matter how suitable the mountain was otherwise.

Again, this comment shows that Aquinas does not foresee the benefits of a world economy and the global extension of the division of labor. Today, there are many examples of societies that are built in areas where they would not flourish without trade for food supply. Arid desert countries that are entirely unsuitable for food production are able to enjoy a constant supply of food because it is supplied through the global division of labor through trade. The perpetuation of self-sustaining societies would only prevent this global division of labor and economic growth from happening.

In conclusion, Aquinas' opinions of self-sufficiency as opposed to trade as means of supplying food to a city are clearly different from modern thought. Modern economics show that the global division of labor is beneficial to society at large. Aquinas' main reason for not coming to this conclusion was that he did not foresee the global system of exchange that we benefit from today. However, it is possible that even if Aquinas had realized this possibility he would not have supported it, on the grounds of vice abounding with trade. After all, for Aquinas, avoiding vice was far more important than building a worldwide economy.

## **Property**

Aquinas' idea of a society rests on the notion of private property.<sup>2</sup> In the *Summa Theologica*, Aquinas (1981, II-II, Q66, A1) affirms that “the possession of external things is natural to man.” He posits that man naturally has dominion over the material things of the earth and that “by his reason and will, he is able to use them for his own profit” (Aquinas, 1981, II-II, Q66, A1). Shortly thereafter, Aquinas (1981, II-II, Q66, A2)

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<sup>2</sup> While Aquinas, in other part of the *Summa Theologica* and elsewhere in his writings, discusses the virtues of poverty and material ownership and it relates to man's relationship with God, this is not relevant to his economic view that private property was inherent to the natural order and many as justly acting in taking ownership of property and using for his own benefit.



explains that for a man to own his own property is just and “necessary to human life.” Goods owned privately, explains Aquinas, are treated better than those that are owned in common. One reason for this is that goods owned in common provide incentive for each person to leave the work to another. Another reason is that transactions are more manageable when the responsibility lies with one man alone. Lastly, Aquinas says that contentment with private property brings about peace, while disagreements frequently arise over goods owned in common. This affirmation of private property extended to the acquisition and ownership of land, as Rothbard (1995, p. 57) points out. It is important to understand his view of property ownership because this naturally leads to his views on exchange and prices.

### **Just Price**

Aquinas (1981, II-II ,Q77) held a favorable view of exchange, and recognized it as mutually beneficial. He says that in buying and selling, the two parties exchange what the other wants. In such exchanges, however, Aquinas is careful to distinguish when the price is just. Just exchanges must benefit both parties and not impose a burden on one more than the other. It will be explained in detail below that Aquinas’ idea of the just price was very intentional and much more than simply the market price or the cost-covering price.

Aquinas’ theory of just price is heavily debated in the world of academia. He often uses the terminology of a just price existing in exchanges. However, scholars do not agree on what exactly Aquinas means by just price. Many modern scholars, such as Murray Rothbard (1995, p. 52) hold that Aquinas believes the just price is simply the market price, determined voluntarily by buyers and sellers in an exchange. Others have interpreted Aquinas’ just price as the price that sufficiently covers the costs of producing

and selling a good. A third opinion, recently articulated by Daryl Koehn and Barry Wilbratte, rejects the previous theories and suggests that Aquinas held that the just price was the price determined by just people. They call this price the “just person price” (2012, p. 502). While this sounds subjective and odd to economic ears, this third opinion is entirely consistent with Aquinas’ writings. That Aquinas’ just price is truly meant as the just person price will be made clear by looking to what Aquinas writes about the just price.

First, in order to make Aquinas’ theory of the just price as clear as possible, it is prudent to understand what Aquinas believes influences the worth of good. In the *Summa Theologica*, Aquinas (1921, II-II, Q77, A1) says that “the quality of a thing that comes into human use is measured by the price given for it.” Thus, Aquinas holds that the price measures the quality of things. He also writes that “the price of things salable does not depend on their degree of nature, since at times a horse fetches a higher price than a slave; but it depends on their usefulness to man.” (Aquinas, 1981, II-II, Q77, A2). So, price, which measures the quality of a thing, is determined by how useful it is to man. The worth of a good, then, is subjective and determined by the consumer. Aquinas also realizes that a fluctuation of prices in the market is natural, because man’s needs are different in time. Thus, prices reflect the current value of a good according to its usefulness to man. To further support this claim we will look to Aquinas (1981, II-II, Q77, A2) again: “Gold and silver are costly not only on account of the usefulness of the vessels and other like things made from them, but also on account of the excellence and purity of their substance.” Aquinas uses this example to show that if a substance were made that was able to create items similar to the ones created by gold, the substance

would not be of equal value to gold because gold has other qualities that make it useful and valuable to humans. Aquinas also understands perfectly the idea of supply and demand. The price of goods, according to Aquinas (1981, II-II, Q77, A2), must differ by location “on account of the difference of supply.” He plainly says “where there is greater abundance, the measures are wont to be larger” (Aquinas, 1981, II-II, Q77, A2). Now that it is clear that Aquinas understands price as a measure of a good’s usefulness to man, subject to supply and demand, we can discuss Aquinas’ formulation of the just price.

Aquinas gives enough examples of the just price in his writings that, through careful study, one can determine what Aquinas means. Aquinas (1981, II-II, Q77, A1) claims that when the price of good rises above a thing’s worth, “there is no longer the equality of justice” and the exchange is unjust. He also explains that the price is unjust in an exchange if the seller raises his price above his own valuation of a good. Suppose, for example, that a man was in great need of a horse. A second man is willing to sell his horse. If the seller values his horse at \$20, and the buyer is willing to pay such a price, justice is upheld, assuming also that both men are pursuing justice in the exchange. However, it is quite possible that, because of his great need, the buyer is actually willing to pay \$50 for the horse. For the seller to only exchange at \$50, according to Aquinas, would be unjust because the seller raises the price above his own valuation of the horse. He explains that the seller should not raise the price because he is taking advantage of the buyer’s need. The buyer’s excess need is not the property of seller, and thus the seller cannot charge for it. This makes perfect sense in light of Aquinas’ focus on justice. Justice is to render to each one his own, and justice is not upheld if the seller charges for something that is not his own, namely the disproportionate need of the buyer. Aquinas

(1981, II-II, Q77, A1) also says that “the just price will depend not only on the thing sold, but on the loss which the sale brings on the seller”. The just price, then, is specific to the situations of both parties of an exchange. The only person who would be able to understand his own and the other person’s situation in light of justice is the just person. Hence the just price is the price that comes about in an agreement between just persons.

One modern application in which we can see a violation of Aquinas’ just price is in price gouging. This happens when merchants bring in supplies to those in areas in great need after a natural disaster and sell the goods at a much higher price than usual. Such actions are commonly derided as taking advantage of the needy consumer and thus this practice is commonly termed price gouging. Koehn and Wilbratte show that to distinguish what is to be considered price gouging in Aquinas’ opinion, monetary and objective costs must both be considered. Monetary costs would be the opportunity cost on the part of the seller, the cost of transporting the good, time spend doing so, and so on. The subjective costs are subjective factors such as “risk, discomfort, and physical effort” undergone by the seller in transporting the good to an area in great need of the good (2012, p. 507). Thus, the just price in a natural disaster may well be higher than the usual price for necessities. This may be attributed to transportation costs, the stress of selling that good in high demand, the risk taken in carrying the goods, and so on. If the price is above the combination of those two costs, say Koehn and Willbratte, Aquinas would call the price unjust, even if the price is arrived at voluntarily by buyers and sellers. If, considering all costs, a man were willing to sell generators for a minimum of \$100, but the market price in the disaster has risen to \$200, the just price remains at \$100, and for the seller to take advantage of the consumer’s needs would be to unjustly charge for

something that is not his own. Thus, the market price is not always the same as the just price.

It can also be shown that Aquinas' just price is not a cost-covering price. Koehn and Wilbratte (2012, p. 516) show that "the just person price for necessary goods will be zero in some cases." They use the case of monks being morally obligated to supply the poor with their needs, at no price. In fact, this example proves that the just price can be neither the market price nor a cost covering price, because neither would be equal to zero.

The preceding examples illustrate that Aquinas' just price is neither the market price nor the cost-covering price of a good. Rather, Aquinas' just price is the price that is voluntarily arrived at between two just persons who consider the good of each other in the exchange.

This "just person price" is in perfect relation to Aquinas' idea of justice. As was said above, justice is a virtue that is intentionally, voluntarily, and habitually practiced. Thus, only a just person can achieve a just price. If unjust men arrive at a price equal to the just price in trade, this is not the same as the just price. The just price cannot be accidentally achieved. Koehn and Wilbratte (2012, p. 505) quote Aquinas saying that "we should take our estimation of human goods not from the foolish but from the wise." The just man is the wise man, and men of justice should concern themselves with not what the masses decide as fair, but with what just, wise men decide.<sup>3</sup>

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<sup>3</sup> It is important to note that Aquinas' just price theory is based on justice, not charity. Often in his arguments, Aquinas will show what the just price will be and then go even further to suggest even more generous actions that are not necessarily required by justice. The just price might only be zero, for example, if persons were in extreme need. Thomas Woods identifies this type of need as "essentially nonexistent in a modern market society" and makes the case that the argument cannot be extended to the defense of a welfare state in modern society. (Woods, *The Free-Market Economics of the Late Scholastics* on mises.org)

Two main points can be made concerning Aquinas' view of prices. First, Aquinas understood prices largely as we do today. He recognized that prices arise because of the subjective valuations of men and that prices were subject to demand and supply. Second, and most important, it can be seen that Aquinas' theory of the just price is foreign in today's world not because of a lack of economic understanding, but because Aquinas' focus is on achieving justice rather than market efficiency.<sup>4</sup>

### **Usury**

Aquinas wrote extensively on the topic of usury. Usury is the lending of money with interest. This interest on loans was similarly condemned by Aristotle and Aquinas' contemporaries including his teacher, St. Albert Magnus. Aquinas' (1981, II-II, Q78, A1) primary argument against usury was that "to take usury for money lent is unjust in itself, because this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice." The main point that Aquinas makes is that goods like money are consumed when they are used. The lender who demands the sum lent plus a premium is acting unjustly because he charges for more than the use of the good. Any additional charge for a consumptible such as money, says Aquinas, is either a charge on something that does not exist or a second charge for what was lent. In either case, the usurious charge is unjust. The injustice arises because, similar to Aquinas' just price theory, the lender is charging for something that is not his own.

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<sup>4</sup> The argument could be made that Aquinas lacked the understanding that in a situation of price gouging, for example, high prices would actually bring more supplies into an area of need, thereby helping the inhabitants all the more. It seems to me that Aquinas would reject that solution and suggest that those who could do so without harming themselves should voluntarily transport the necessary supplies to those in need for little or no price. The solution then would come from wise individuals acting justly, rather than from prices signals in the market.

While the obvious case of usury lies in the lending of money at interest, Aquinas identifies multiple instances of usury that are less obvious. In “On Buying and Selling of Credit,” Aquinas (1928) looks at usury from multiple angles, giving the careful reader a more comprehensive view of his thought. The first situation involves a merchant allowing a customer to defer payment for three months, which seems to be a common interval for payment deferral. Aquinas says that if this deferment of payment is for the purpose of the bettering of the market and increasing trade, and if the price is equal to the just price, then this is not usurious. However, if the merchant sells the goods above the just price because of the deferred payment, this is usurious. The merchants in the latter case are including the time spent waiting into their own price, which is unjust. Aquinas (1928) states that “for no cause whatever may the price be increased on account of the interval for which payment is deferred.” Interestingly, Aquinas also notes that if the merchant sold the good for a lower price to receive immediate payment, this is not usurious. However, he questions whether there might not be usury the part of the debtor because by paying less money earlier, he is selling an interval of time. In the same letter, Aquinas responds to the case of merchants allowing customers to defer their payment on cloth to Easter. Aquinas says that if the cloth is sold at a higher price because of the delay, this is usurious. If the price at which the cloth was sold was not raised on account of the waiting interval, this is lawful and just. Lastly, Aquinas responds to the situation of someone paying their debt before it is due to have it discounted. Aquinas (1928) says that he commits usury “inasmuch as he sells the time for paying the money.” In each of the situations where usury is present, the lender sells an interval of time by charging above the just price after some period of waiting.

In another letter, to the Duchess of Brabant, Aquinas identifies making a loan to receive a job, or office as usurious. In this situation, a loan is made. However, the additional award, the power of an office, is just like charging interest (Aquinas, 1960). In the same way, Aquinas (1981, II-II, Q78) says in the *Summa Theologica* that “just as it is a sin against justice, to take money ... in return for lending money or anything else that is consumed by being used, so also it is a like sin ... to receive anything whose price can be measured by money.” Taking money in addition to a loan is just as much usury as taking anything that is measurable in money, such as a horse, a job, or a piece of land. In both the case of the job and other objects, however, Aquinas points out that justice does not in any way stop the debtor from freely giving such gifts to the lender if he so chooses. To include such gifts in the loan, however, is surely usurious.

There seem to be some inconsistencies in Aquinas’ reasoning. At the beginning of his letter, “On Buying and Selling Credit”, Aquinas says that there may be usury in the case of someone who pays immediately to lessen the price of his debt. However, at the end of the letter, Aquinas definitively says that paying a loan before it is due in order to have it discounted is usury. Both of these situations involve payment sooner in order to decrease the amount paid. Therefore, both cases should be treated equally, which is not the case. Alfred O-Rahilly, in his commentary on the “On Buying and Selling of Credit” properly asks why Aquinas doesn’t address the morality of the creditor when a debtor pays his debt sooner at a discount (Aquinas, 1928). If the debtor can be charged here with selling time, it seems that the creditor should equally be guilty in buying the time. At the very least, the creditor is guilty of allowing the debtor to sin by committing usury. Aquinas (1981, II-II, Q78, A2), however, stands his ground again on a very similar issue



in the *Summa Theologica*, saying that “if a man wishes to allow a rebate on the just price in order that he may have his money sooner, he is not guilty of the sin of usury” but that the buyer in this situation is guilty of usury “for the reason that he pays for the goods before they can be delivered”.

In addressing the question of “whether it is lawful to borrow money under a condition of usury”, Aquinas (1981, II-II, Q78, A4) says that it is not lawful to “induce a man to sin” but that it is lawful to use another man’s sin for good, as God does. He argues that the borrower gives a lender an opportunity to lend, but not to be usurious. The usury is sinful on the part of the lender only. He then makes a very strange distinction, saying that it is a sin to borrow with usury if the usurer has no other means of charging usury and not a sin if the usurer has other ways to charge usury. Essentially, he is saying that if he would be sinning anyway, it is not a sin to take advantage of him. If the debtor is the sole reason for his sin, however, it is sinful for you to allow the debtor to commit usury.

The idea Aquinas puts forth is both naïve and oversimplified. To justify borrowing with usury only in situations where the man would be practicing usury anyway is illogical and inconsistent with Aquinas’ view of justice. If everyone abstained from taking usury on loans, then the usurer would have no incentive to offer such a service. In this just effort of boycotting usury, the unjust practice of usury could be eliminated. Instead, Aquinas’ exception perpetuates the profitability of usury for usurers by approving the usury simply because it is an established vice in society. Justice would lead wise men to communally stand against usury by not accepting such loans. Justice should not depend on how common the injustice is!

One difficulty in understanding this concept may be the fact that people were desperate for the loans and thus had no choice but to accept loans with usury, which can be inferred when Aquinas (1981, II-II, Q78, A1) says that “he who gives usury does not give it voluntarily simply, but under a certain necessity, in so far as he needs to borrow money which the owner is unwilling to lend without usury.” It is not clear exactly what Aquinas means by needing to borrow money, which makes interpretation difficult.

One important question to ask when looking at Aquinas’ statements on usury is whether Aquinas understood time preference. Mises explains that time preference is essential in understanding human action. In its simplest definition, time preference means that “present goods are more valuable than future goods” (Mises, 1966, p. 483). This fact comes from the “fundamental and constant truth about human action...that man prefers his end to be achieved in the shortest possible time” (Rothbard, 2004, p. 15). Man aims to satisfy his ends sooner rather than later. This inherent truth of man and his preferences shed light on why someone would want to give usury for a loan. A man will value a sum of money, all other things being equal, more in the present than in the future. Thus, when he borrows \$100 from someone else in the present, it is worth it for the borrower to pay an even greater sum back to the lender after a given period of time. If the borrower did not prefer the money in the present at a higher value than future money, he would not voluntarily agree to such an arrangement.

Aquinas (1981, II-II, Q78, A2) must understand the idea of time preference, because he says that “it sometimes happens that a man...raises his price through delay in being paid, and lowers in his price that he may be paid sooner”. Of course, Aquinas staunchly says that these are both occasions of usury. It also is fair to say that Aquinas

understands that time preference is inherent to human action, because he is constantly condemning people for trying to factor their time preference into their payments. One might counter that the theory of time preference, which is inherent to human action, must be taken into account when considering the justice of an exchange. Aquinas' main objection would likely be that despite the buyer's preferences, the seller cannot charge for these time preferences because they do not belong to him. Again, Aquinas' goal is to establish justice, not to satisfy human preferences. Despite understanding time preference, Aquinas still believes usury is unjust.

### **Recommendations for Further Study**

While this paper attempted to cover the most important factors determining Aquinas' economic thought all that related to it, much has been left unsaid. There are many areas of research which would be useful to explore further. For example, more research could be done on analysis of the economic structure in Aquinas's time and how it factors into Aquinas' economic thought. Bernard Dempsey (1991) explains that "Scholastic economic organization is pre-eminently one of non-competing groups." as opposed to the competitive structure that the modern world is accustomed to. There is no doubt that the lack of competition in the market affected Aquinas' economic analysis. Additionally, a more detailed analysis of usury in Aquinas' time would be useful. Aquinas comments that debtors do not voluntarily agree to usury, they are forced to do so by their needs. It would be interesting to see what exactly Aquinas meant in saying this.

### **Conclusion**

Thomas Aquinas had a cogent understanding of how man acts and how the world works. While he struggled to properly understand the human actor's role in society and

the benefits of world trade, Aquinas' other economic ideas were very well understood and conveyed. Aquinas takes his study beyond the science of economics by engaging in a value-laden study to discover justice in society. Aquinas' ideas and recommendations are often different from what the modern world is used to because Aquinas' focus was not on economic efficiency but on justice in society.

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