How Thomas Aquinas Influenced Economic Theory and Practice

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Introduction

In our modern economy of the 21st Century, the assumption that bargaining between buyers and sellers and the market forces of supply and demand always result in a fair and appropriate price between consumers and producers often goes unquestioned. Through competition among producers for consumer spending, and through consumers bidding up or bidding down prices, the market should determine the correct prices for different items. Additionally, if there are many competitors (perfect competition) and buyers in a market, the prices of the traded goods should equal their marginal and average costs according to standard economic theory.[1] However, when there is only one producer or seller or a less than competitive number of producers in a marketplace (i.e., monopoly or monopolistically competitive/oligopoly situations, respectively), then the price of a good can and will usually be greater than any type of cost measurement due to producers having an advantage over consumers. The monopolist or the handful of a firms which constitute monopolistic competition or an oligopoly usually restrict the number of items they produce, which in turn raises the price of the good above its average and marginal costs.[2] Mainstream economic theory mostly celebrates the situation of perfect competition and the benefits it confers to consumers but mostly does not like the market outcomes yielded by lesser or no competition, although it is acknowledged that most modern day

[1] David Colander, *Microeconomics, 10th Edition,* (New York, NY, McGraw-Hill Education, 2017), Chapters 11-15.
[2] Ibid.

US markets are either monopolistically competitive or oligopolistic.[3] Competitive situations are considered fair and optimal for consumers (i.e., the consumers' gain or pleasure is maximized) whereas the less competitive situations provide less fair and optimal outcomes for buyers.

St. Thomas Aquinas wrote about prices in the marketplace and how they were set either justly or unjustly. Aquinas's views of the marketplace were influenced by his readings and interpretations of Aristotle's writings on commerce.[4] His writings on a "just price" were an extension of his "just law" concepts in which he argued along with St. Augustine that some laws were unjust and should not be obeyed because they are against the interests of a community, or certain members of a community, or unreasonable, and/or defy God's natural law that follows certain moral principles.[5] This same line of reasoning was applied by Dr. Martin Luther King, Jr. in the Civil Rights Movement in opposing laws that promoted segregation and voting rights suppression.[6] This paper is about Aquinas' writings on what constitutes a just price for goods and services and the influences his writings had on subsequent economic theory. It can be shown that some of Aquinas's thinking on a just price may have influenced the thinking of Adam Smith and subsequent economists, including Marx, regarding the value of labor in prices and regarding the possible unfair treatment of certain segments of and consumers within different markets due to unjust pricing.

<u>Just Price. Common Market Price, and the Value of Something</u>

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[3] Ibid. Most US markets are not considered perfectly competitive where there is an extremely large number of firms fighting for consumer purchases.
[4] Scott Meikle, *Aristotle's Economic Thought*, (New York, NY: Oxford University Press, 1995), 143.
[5] Thomas Aquinas, *St. Thomas Aquinas on Politics and Ethics, A Norton Critical Edition*, ed., Paul E. Sigmund, (New York, NY: W.W. Norton and Company, 1988), 55, and Thomas Aquinas, *An Aquinas Reader*, ed., Mary T. Clark, (New York, NY: Fordham University Press, 2000), 314-315.
[6] Martin Luther King, "Letter from Birmingham Jail." 16 Apr. 1963.

Barry Gordon writes that Aquinas was a believer in the advantages of personal property rights and ownership when it comes to assuring that the material needs of a community can be met.[7] For Aquinas, moral philosophy and legal principles are important to economics reasoning, and "[E]conomic analysis is undertaken for the sake of determining appropriate standards in dealings between citizens"[8] and for insuring justice among them. Among Aquinas's classification scheme of different types of laws, his writings on commutative ("transactional") law, or the rights and responsibilities of a citizen to another citizen, pertain the most to his economic thinking, although his writings on distributive justice (what a society owes to the individual) are key to understanding how a society or government addresses the needs of poor or disadvantaged citizens.[9]

According to Diana Wood, a lot of medieval economic thought was inspired by Aristotle's writings and what was considered divine law from scriptures.[10] One form of justice about which Aristotle wrote was "corrective justice" which included the domain of justice covering relations and transactions between/among individuals and was applied to correct for inequalities when it came to private matters, such as the buying and selling of property, buying and selling of goods,[11] things which today in our US legal system are typically covered by what we call "civil law" and what Aquinas apparently labeled "commutative justice." For a transaction to be just in a bartering situation, buyer and seller had to agree on which products and their quantities/weights were equivalent. That is, would six pairs of shoes made by a cobbler be the equivalent of twelve pounds of poultry or fish as supplied by a fisherman? If both sides

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[7] Barry Gordon, *Economic Analysis Before Adam Smith*, (New York, NY: The MacMillan Press, Ltd, 1975), Chapter 6, "St. Thomas Aquinas."
[8] Ibid, 137.
[9] Ibid, 158-159.
[10] Diana Wood, *Medieval Economic Thought*, (Cambridge, UK: Cambridge University Press, 2002), Chapter 6, "The Just Price and the Just Wage".
[11] Ibid.

agreed to the trade, and if there was no deception involved (for example, trading rotten fish for good shoes) then this would be a just transaction in which the values of each set of goods is implied to be comparable, and the exchange is just. Money was one of the main media of exchange in the medieval period, and grew in importance over time, and therefore it was used as one of the main measurements of value in an exchange. The growth in the use of money in exchange made the development of a just price concept more important according to Wood as buyers used money instead of their own goods in evaluating whether the price of a good was justified by the seller.

In medieval thought in general and in Aquinas's writings, thanks to an influence from Aristotle, what a buyer is willing to pay for a good in order to meet his/her needs and subject to how much he/she can afford is similar to some notion in modern economic theory of the concept of consumer satisfaction subject to one's budget constraints. Satisfaction subject to income limitations in turn allows one to determine his/her demand for a good or service. Therefore, many have claimed that Aquinas and others had some notion of consumer demand.[12] However, as Aquinas notes, consumer demand is something of which the seller is not supposed to take unscrupulous advantage, such as a farmer selling his harvest at current market prices in a city which has endured a famine when he knows that more food from other producers is on its way. Perhaps the farmer is selling at the current market price, and his actions would be just in a "strict sense" in that he is following a current or common market price, but at the same time his behavior is somewhat less than completely moral or virtuous.[13] Especially important is the concept of a "common" price, a price which not only refers to an average or usual price but a price that exists in a "community" of people who should treat each other fairly and morally. This

[12] Ibid.
[13] Ibid, 136.

also includes strangers or travelers who, just because they are outsiders to the community, should not be charged more because of their status. To charge an "unjust price", a price which is more than what a good is worth regarding its costs of production, shipment, and profit for the maker, is tantamount to fraud, and medieval times were filled with fraud and chicanery in many exchanges with the Church concerned with these fraudulent transactions and the immorality and sin of avarice in general.[14] Although legal today and not considered fraud, many still get irritated with the merchant who sells power generators and scarce food items at higher prices than what existed before a hurricane has ravaged an area.[15] In Aquinas's time, such practices would have been forbidden and probably punished.

According to Meek, the local artisan who both produced and sold his/her goods in local markets were not the main target of the scholastics' admonitions of charging a just price.[16] Generally, local consumers were familiar with and could trust these businesses, and these businesses often engaged in bartering. Instead it was merchants who bought and sold goods from distant areas for money in the local markets, or who traveled from one region to another with his/her goods, that aroused suspicion because these traders often sold inferior, adulterated and/or fake goods which could not always be carefully evaluated by the consumer. Aristotle thought such traders to be immoral, and their businesses should be banned. Aquinas, on the other hand,

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[14] O. F. Hamouda and B. B. Price, "The Justice of the Just Price," *European Journal of the History of Economic Thought* 4, no. 2, (Summer 1997): 191-216.

[15] Paula McMahon, "Hurricane Irma: Price gouging, scam complaints now exceed 8,000," *Sun Sentinel,* Broward and Palm Beach, FL), September 8, 2017. https://www.sun-sentinel.com/news/weather/hurricane/fl-reg-gouging-hurricane-irma-20170907-story.html . Accessed on January 23, 2019. However, some contend that dramatic price increases during times of crisis can help the market ration scarce items more efficiently. See Andrew Ross Sorkin, "Hurricane Price Gouging Is Despicable, Right? Not to Some Economists", *The New York Times*, September 11, 2017. https://www.nytimes.com/2017/09/11/business/hurricane-price-gouging.html . Accessed on January 23, 2019.

[16] Ronald L. Meek, *Studies in the Labor Theory of Value, 2nd Edition*, (New York, NY: Monthly Review Press, 1956), 12-14.

was willing to tolerate such merchants as long as they charged just prices.[17] Additionally, Friedman has written that one purpose of the just price was to correct for information asymmetries between buyers and sellers in most medieval markets that were mostly noncompetitive and often did not have a great number of buyers and sellers which would yield of competitive and common price.[18] At the same time, according to Hamouda and Price, not only did the concept of a just price prevent unjust wealth accumulation, it discouraged the accumulation of riches on a vast scale and was designed to help those in the lower classes of society.[19] Unlike the economists who came later, Aquinas and other medieval scholars did not see the accumulation of wealth as a means of investment capital for the purpose of business expansion by merchants and producers in order for them to make more goods and expand production.[20] There is also the argument that the medieval era was full of class struggle and class tensions due to serfs and peasants being exploited for maximum gain on the part of lords and vassals through rising land rents, taxes, and fees for the use of mills and other manorial

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[17] Ibid.

[18] David D. Friedman, "In Defense of Thomas Aquinas and the Just Price," *History of Political Economy* 12, no. 2, (1980): 234-242.

[19] Hamouda and Price, "The Justice of a Just Price."

[20] Ibid. The authors also argue that this is one reason given for why the economies of so many medieval societies were static, never really grew, and never really advanced. Pressure to keep prices within a certain just range also often caused shortages of many goods, reduced incentives to innovate, and often forced producers to lower the quality of many items if their production costs went up. Medieval times also saw many wars, and monarchs would often raise taxes substantially to pay for such wars, and with a limited ability to raise prices, producers often cut back production of goods or lowered quality. At the same time, however, these economies rarely suffered from economic recessions or depressions when compared to modern times. Whether this characterization of a stagnant economy due to excessive government and Church interference is completely accurate can be debated. Other works cited in this paper mention that the Church wanted people focused on morality and spirituality rather than efficiency and materiality, and that producing and selling items and services for consumption by the general public were only one part of the medieval economy. Many people's needs were met by means of self-production on their own lands through the manorial system based chiefly on serfdom, which is not the case in modern capitalism, although the manorial system gradually broke down over time. Therefore, Church and state rules may have been one of several set of causes for medieval economic systems being so static. Eventually, these factors, the Black Death, the growth of cities, and constraints on fertile land eventually led to demise of the medieval economy (see Joseph R. Strayer, Hans W. Gatzke, and E. Harris Harbison, *The Mainstream of Civilization to 1500*, *2nd Edition*, (New York, NY: Harcourt Brace Jovanovich, Inc., 1974), 275-276.

equipment/services and other restrictions on what peasants could do.[21] Therefore, one could speculate that Aquinas was also in an indirect way writing about possible unjust transactions between serfs and lords. As to whether Aquinas' writings basically supported the feudalistic system or was somewhat critical of it, there is contradictory literature on this.

When it comes to the supply of and pricing of goods, Aristotle, Aquinas and the scholastics of the medieval period also had some notion of modern pricing and production. The asking price of a product had to be the costs of its inputs (raw materials, etc.), labor, production and transportation risks, a reward according to the "status" of the labor employed in its creation or to the status of the maker, and some remuneration for the maker(s) so that they can adequately provide for themselves and their families and donate to charity or to the Church. If producing or transporting an item to market was considered risky (e.g., the use of volatile chemicals in production, transporting goods through treacherous terrain, etc.), then the producer/maker was justified in charging a higher price. By the maker's status, it is thought that Aquinas and others were referring to the craftsmanship and skill level of the maker in addition to his/her social or class standing.[22] However, the fees charged by professionals such as doctors and attorneys were admonished to not be so high as to be an undue burden on those of lower social status and income.[23]

As has been noted, Aquinas writes that a just price includes 1) some features of demand in that what the consumer is willing to pay is to be considered and 2) some features of supply in that costs of producing an item or rendering a service has to be considered when charging a price. Yet, many have disagreed over the years as to which of these two factors that Aquinas and

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[21] Stephen Resnick and Richard Wolff, "The Theory of Transitional Conjectures and the Transition from Feudalism to Capitalism in Western Europe," *Review of Radical Political Economics* 11, no. 3 (October 1979): 3–22.
[22] Wood, *Medieval Economic Thought*, 153.
[23] Ibid, 154.

other medieval scholars thought to be more important, and whether Aquinas and these scholars (and also Aristotle who influenced Aquinas's writings) thought costs, especially labor costs, determined the true and real value or price of an item or service. In this way, consumer demand and the price that a buyer is willing to pay for something are only reflections of an appreciation of the costs that make up an item, and so costs should roughly equal consumer valuation of needs and wants. That is, a consumer's consideration of the usefulness of an item to him/her automatically must consider how much the item costs especially in terms of what it would cost him/her to make or reproduce it on his/her own. Adam Smith, who is considered by many to be the first economist, thought that the value of all goods could ultimately be traced to the labor used in their production. Even the machinery and equipment used in their production had to be produced by humans, and the knowledge applied by a professional in the rendering of a service was usually acquired from human teachers.[24] Therefore, Smith is thought to have some type of labor theory of value.[25] The economic historian R. H. Tawney erroneously credited Aquinas with coming up with a labor theory of value, although Aquinas's notion that the value of an item increases in proportion to the labor used in creating it probably could easily be misinterpreted.[26] Although Aquinas recognized costs, especially labor costs, in arriving at a just price, he also had a notion of consumer demand/desire that was also independent of costs and formed by the consumer's needs.

If, according to most economists, Aquinas actually had no explicit labor theory of value as part of his concept of just prices and just wages, then how could he have influenced the later economists' thinking on prices, wages and some type of labor theory of value? It has been

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[24] Adam Smith. *The Wealth of Nations* / Adam Smith ; Introduction by Robert Reich ; Edited, with Notes, Marginal Summary, and Enlarged Index by Edwin Cannan. (New York :Modern Library, 2000).
[25] Stanley L. Brue, *The Evolution of Economic Thought, 5th Edition*, (Fort Worth, TX: The Dryden Press), 80-82.
[26] Richard Henry Tawney, *Religion and the Rise of Capitalism* (New York: Harcourt, Brace and World, 1937, orig. 1926), 36.

claimed that he has an influence on later economists, and the labor theory of value, through his writings and emphasis on 1) the importance of property rights, and 2) how costs, especially labor costs, are important to determining the value of something.[27] Barry Gordon writes that Aquinas's emphasis on property rights as a way to insure the best use of nature's gifts and wealth to humanity and on the labor costs inherent in using and developing property inspired the philosopher John Locke to think that since property has to be acquired, developed, and put to its best use through labor, then it is actually labor, not property, that is the root of all wealth and value in a society.[28] In this view, capital, property, and wealth emanate from labor. To a certain degree, according to Gordon, this sort of thinking could be drawn from some of Aquinas's writings:

> "For if a particular piece of land be considered absolutely, it contains no reason why it should belong to one man more than another, but if it be considered in respect to the opportunity one may have to cultivate it and the unmolested use of the land, it has a certain commiseration to be the property of one and not of another man, …"[29]

Additionally, since Aquinas and other "schoolmen" (i.e., medieval theologians) believed that human labor was similar to God's work in creation, the leap in thought to viewing labor as the source of all value was inevitable according to Gordon. Locke also had a profound influence on Adam Smith.[30] Additionally, the growth of wage labor in manufacturing under capitalism as it gradually replaced feudalism in Europe was probably seen by Locke and others as the source of wealth for the owners of many mills and factories since the greater the number of workers they hired, the greater their output and the greater their revenues and profits according to Meek.[31]

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[27] Barry Gordon, *Economic Analysis before Adam Smith*, pp. 181-186, and Ronald L. Meek, *Studies in the Labor Theory of Value,* 12-14.
[28] Gordon, *Economic Analysis before Adam Smith.*
[29] Thomas Aquinas, *Summa Theologica*, II-II, qu. 57, art. 3.
[30] Gordon, *Economic Analysis before Adam Smith*.
[31] Ronald L. Meek, Studies in the Labor Theory of Value, 21-24.

Conclusion

Even though R. H. Tawney was incorrect in claiming that Aquinas had a labor theory of value, he was correct that Aquinas had an influence on the classical economists[32] by being a proponent of property rights and by noting the importance of labor in the costs that make up a just price. In medieval time, with so many artisans and craft workers, it would be easy to see how Aquinas could place such an emphasis on labor since many products and services were created by one person in his/her shop. By combining property rights and the importance of labor in creating value, Locke saw labor as the source of all value and wealth in a society, and Smith took this concept further by claiming that even though a commodity's value to a consumer is evaluated from the utility he/she receive from it, nonetheless the commodity's true value must ultimately reflect how hard the consumer would have to work on his/her own to reproduce the item he/she wanted. Ultimately all value was traceable back to human labor in this view. As time went by and as the discipline of economics developed, two important economists who came after Smith continued to use a labor theory of value in their analyses and development of further economic theory, and they were David Ricardo and Karl Marx. For the labor theory of value, Marx was the more important of these two since he used it to make labor exploitation the cornerstone of his analysis of a capitalistic system. In fact, Marx basically argued that workers never really received a just price/wage for their work since their bosses and the owners of the places where the workers labored got some of the money in the form of profits that workers should have been paid. In this way, Marx the atheist revolutionary, and Aquinas, the Catholic Friar and Scholastic, would have more in common than what many would think.

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[32] The classical economists included Smith, Ricardo, Mill, Malthus, Marx and their contemporaries. In the late 19th Century, classical economic thinking was slowly and mostly replaced by neoclassical economics as orthodox economic thinking in most societies except the USSR and its allied nations. See Stanly L. Brue, *Evolution of Economic Thought.*

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