

The Economic Thought of Friar Tomás de Mercado: A Dominican Synthesis*

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Introduction

Tomás de Mercado should be better known than he is. For Dominican scholars in particular, his book *Deals of Contracts of Merchants and Traders*—which I will refer to as the *Manual*—is an example of the Dominican charism at its best. This article will introduce Mercado, situate him historically, and then describe how his work exhibits what economists might call the “comparative advantage” of his Dominican calling.

His Life

For decades, scholars disputed when and where Mercado was born. But we can now be fairly certain that he was born in Seville in southern Spain around 1520. We know he spent many years in Mexico as a young man. He was ordained as a Dominican priest in 1551 after years of study at the School of St. Dominic in Mexico City, and he continued to lecture there. Later, he returned to his native Spain, and spent several more years studying and lecturing at the University of Salamanca, before moving back to his native Seville.

The first edition of his *Manual* was published in 1569 and a second edition in 1571.¹ He died just four years later in 1575 while on a ship sailing back to the New World.

A New Economic World

For studying international trade, contracts, and the ways of merchants, Fr. Tomás could not have lived in a better time and place. The length of voyages between the Old and New Worlds, and the sheer abundance of goods, required merchants to find new ways to pool resources and spread risk. Contracts, with prices agreed-upon ahead of time, often had to hold for years at a time. This brought the role of risk and enterprise into the foreground of the merchant's task. But the life of the merchant was fraught with moral dilemmas.

It was long held that the work of the merchant differs from that of the farmer, miner, weaver, or tailor in an important way. The merchant trades goods and money but does not produce or "materially improve" goods by, say, taking fabric and cutting and sewing it to produce clothes as a tailor would. As a result, some churchmen treated mere trade as morally suspect if not downright immoral. Merchants, they thought, sought to profit from acts that did not produce value. This seemed especially true when merchants committed usury by seeking to make a profit on the lending and trading of money itself. And merchants were quite clever in designing ways to hide usury through complex financial deals.

Mercado, however, saw that transporting goods and currency across time and place served a vital economic function. He argued that, rightly pursued, the work of trade contracts and deals served the common good and could be justly pursued. But the details were complicated and treacherous. Hence the need for his *Manual*.

Many confessors at the time took a dimmer view of merchants than Mercado did, and the result was contradictory advice on penance in the confessional. The confusion led merchants to request formal guidance on their work. Mercado's *Manual* was the fruit of just such a request.²

Father Tomás explains that he wrote his *Manual* to give merchants a set of clear rules, written in their native tongue, so that they could act lawfully and with clear conscience in all their dealings. Besides this explicit aim, two of the clerics who endorsed the *Manual* note that it will be useful not just for merchants and traders, but for their confessors as well. The volume, they hoped, would provide both confessors and those seeking absolution with a common language to describe the complex moral universe of the sixteenth century.

As Mercado explains,

I did not want in this Book to be a preacher but a doctor not rhetorical and elegant but a moral theologian, clear and brief. Thus, I do not write persuading and exhorting what is best and safer, but teaching what is lawful and unlawful [in the moral sense]. In all other areas, each is to be advised by their confessor. And since trade, although it gives occasion for wrongdoing, can, although

with difficulty, be lawfully exercised my aim will be to show what intent the merchant should have in his dealings, and what means he must choose, so that he can win his life without losing the future one.³

In his view, the ordinary task of being a merchant is not so much the problem as is the merchant's means and private intentions. Mercado's advice for upright living is conventional. The merchant should not lie, perjure, or defraud. He should live modestly rather than ostentatiously. He should avoid greed. And after acquiring enough to meet his needs and the needs of his family, he should seek to be content rather than desiring ever more money. He should seek frequent access to the sacraments, including "hearing Mass daily," and, of course, confession.

The originality of the *Manual* is not so much in Mercado's general moral advice as in his knowledge of, and acquaintance with, the nitty gritty details of trade and contracts. This knowledge allowed him to make distinctions that, in his view, other confessors lacked. Mercado clearly thinks that the advice from some confessors was based on false opinions. We see this view in his admonition to merchants to go to confession. The confessor "must," he insists, be "a man of science and conscience."⁴ He goes on to tell merchants how to find a good confessor: "Before you choose one, you should make sure that he is learned, wise and somewhat understood in business, without being too scrupulous, that indeed, the little learned, inexperienced and scruffy lawyer is not for the merchant."⁵

This allowed Mercado's thought to serve as an inflection point in the growth of economics, not just as moral philosophy, but as a descriptive and theoretical science.

Spanish Dominicans Take the Lead

To see this, it helps to place him in his historical context. Scholars identify Mercado with the School of Salamanca, which refers to the famous university in Salamanca, Spain founded in 1218. But it also refers to a group of thinkers in the sixteenth and seventeenth century from Spain, Portugal, and Latin America, not all of whom were connected to Salamanca. That is why some scholars refer to them as Spanish Scholastics,⁶ which is the convention I will follow.

In the sixteenth century, these Spanish scholastics began to take the lead in writing on the morality of trade, contracts, international markets, and currency exchanges. The Dominican Francisco de Vitoria (born c. 1492) is considered the founder of the School of Salamanca because of his fame in working to apply Thomism to the moral and economic dilemmas of the growing Spanish Empire.

Indeed, he is often identified as one of the founders of international law. Mercado is part of the generation that studied with Vitoria and further developed his thought.

In the previous centuries, Italian thinkers had been much more prominent, since there was vibrant trade among Italian city states while the kingdoms on the Iberian Peninsula were still quite poor. After the discovery of the New World in 1492, however, the economic energy moved for a time to Spain, and Spanish scholastics took the lead in cutting-edge scholarship. At first, many of these thinkers were Dominican. Later, after the founding of the Society of Jesus in 1540, Jesuits joined the fray.

The Salamancans are justly credited with developing key concepts that would later become part of the intellectual deposit of modern economics, through the work of Adam Smith and others. For instance, they are known for defending private property and trade, and for extolling the benefits of competition over monopoly. All these insights are important, but the Salamancans' greatest contributions may have been their penetrating analyses of money and prices. In fact, we could say that Mercado's *Manual* is largely an elaboration of the concept of a just price in the context of the trading centers of sixteenth-century New and Old Spain.

Inflation, the Quantity Theory of Money, and Purchasing Power

Events forced Mercado and other Spanish scholastics to take up this subject. Gold and silver had started trickling in from the West Indies not long after the famous voyage of Christopher Columbus in 1492. After 1535, however, gold and silver began to *pour* in from the New World, enriching the Kingdom of Castile. The supply of gold and silver had risen at a fairly slow and steady rate for centuries before—making it a standard measure of economic value. Then, in the sixteenth century, the supply of these precious metals suddenly exploded.

With new goods and more money, prices went up. Europeans experienced unprecedented inflation. Prices doubled in the first half of the sixteenth century and doubled again in the second half.⁸ This inflation presented a new set of economic and moral questions for Spanish scholastics. They already understood that an increase in demand for goods caused prices to rise. They came to see that the amount of money in circulation also affected the prices of goods and services. When gold started to flood the Iberian Peninsula from the New World in the sixteenth century, it led to inflation, because the increase in the supply of currency served to devalue it. Mercado's analysis of this dynamic led him to

what would later be called the quantity theory of money and to the concept of purchasing power.

Just Price

In the Spanish scholastic view, one could arrive at a just price in one of two ways: For some goods, the price fixed by the prince was by definition the just price. But no political authority could set prices for every good or service at every moment in time. So for most things, the just price was the price publicly agreed upon in a competitive, public market. (This is often referred to as “common estimation.”)

That is, in their view, the prices for most things are rightly set by supply and demand, or, as economists often put it, by “utility and scarcity.” To determine a just price, you don’t need to discern the abstract, Platonic “value” of something. The just price of a good, with the exception of prices fixed by the prince, is based on the subjective judgments of participants in a market. Though this core insight about prices goes back at least as far as Augustine, it comes into much clearer focus in the thinking of the Spanish scholastics.

For instance, Martín de Azpilcueta, who wrote a few decades after Mercado, came to see that the purchasing power of money differed from place to place. In places where a currency was scarce, people were not necessarily poorer. Rather, goods and services cost less than in places where the currency was abundant. Or, to put it differently, money was worth more in places where it was scarce. Earlier, Mercado had already noticed that the same currency, which had the same official value in both Spain and the Indies, was still “estimated” differently in the two places.

By reflecting on the way demand-plus-scarcity affects prices, the glimmers of a better picture of economic value came into view: the so-called subjective theory of economic value. As Marjorie Grice-Hutchinson writes, “In their doctrine of the Just Price [these thinkers] consolidated and popularized the advances made by their predecessors, tested accepted theory against contemporary events, and transmitted to later economists a more complete and better elaborated theory of value.”⁹

Economic Value and Usury

It is hard to separate the Spanish scholastics’ analysis of just price from their analysis of economic value. And it is much easier to describe their thinking in retrospect than to identify clear ideas with any one thinker.

For centuries, the common way of thinking about economic value was to see it as something that inheres in a good or service, such as the amount of labor it takes to produce something. A convention dating back at least to Aristotle held that real trade involved goods and services, not just money.

Money, for its part, had three legitimate functions: (1) as a means of exchange, (2) as a standard measure, and (3) as a store of value. But according to Aristotle, money has no value in itself. As a result, it should not be bought and sold as if it were a commodity. To charge interest on a money loan was, in Aristotle's view, to charge for something that has no value. Under the Judeo-Christian ethic, this is a sin called usury.

Aristotle's view on the sterility of money caused a lot of trouble in the history of economic thought and moral philosophy. The reason is that it did not fit well with the actual function of money within the expanding trade economies of the high and late Middle Ages. The result was that contradictory ideas were often held by the same thinker, in an attempt to reconcile Aristotle's idea with economic reality.¹⁰ We should *not* blame this on the ignorance of the "Dark Ages." After all, the muddle concerning economic value persisted even through the time of Adam Smith in the eighteenth century and Karl Marx in the nineteenth century. Marx's entire synthesis rested on the shaky foundation of his labor theory of value. The subjective theory of value really only became clear in the twentieth century. And even in the twenty-first century, many intellectuals fail to grasp it.

The twists and turns in the usury debate are too complex to discuss here. Suffice it to say that Mercado and many other Spanish scholastics continued to identify usury with the charging of any interest on money loans—not just excessive interest, however that's defined. Indeed, the third book of his *Manual* is titled, "On Leases, Loans, and Usury."

At the same time, Mercado is often at pains to distinguish usury itself from certain common contracts that might be mistaken for usury. He argues, for instance, that a business investment that receives a return beyond the amount invested is not usury if the investment has been exposed to risk.¹¹ He does not, however, think that the mere passage of time can justify charging interest on a money loan.

Neither Mercado nor the other Spanish scholastics achieved the clarity of later thinkers, who clearly grasped the so-called "time value" of money. To grasp that concept, you must first have the concept of opportunity cost, which only came into view two centuries later. Grice-Hutchinson nicely summarizes the state of thinking at the end of the sixteenth century. "The exchange banker's use of money in order to make a profit was, by the end of the Middle Ages, generally acknowledged to be legitimate," she writes, "even though it could not easily be

reconciled with Aristotle's doctrine of the functions of money, and still less with his explicit disapproval of money-making for its own sake."¹²

The Spanish scholastics were thus transitional figures in the long historical struggle to understand money lending. But we should not downplay their achievements. In his magisterial history of economic thought, Joseph Schumpeter says,

It is within their systems of moral theology and law that economics gained definite if not separate existence, and it is they who come nearer than does any other group to having been the 'founders' of scientific economics. And not only that: it will appear, even, that the bases they laid for a serviceable and well-integrated body of analytic tools and propositions were sounder than was much subsequent work ... some of that subsequent work was therefore in the nature of a time- and labor-consuming detour.¹³

Mercado's Thought in the *Manual*

Mercado's mature thought played a key role in this transition. We can view his thinking as the dialectical outcome of the moral framework of late scholasticism, forged with his experiences and empirical observations of markets, deals, and contracts as they really existed. What started out as a fairly abstract attempt to develop normative guidelines for trade, money lending, and the like, came to be focused more and more on the concrete details of those behaviors. So much so, that with Fr. Tomás, we find a lengthy, meticulous, and highly informed *Manual*. There is no way to summarize the wealth of observational detail in this work, so I will not even try.

In the *Manual*, even the casual reader soon realizes that Mercado was a faithful witness to his surroundings. He lived for years near trading centers, both in Mexico and in his native Seville. At the time, Seville was an economic hub not just for Spain but for Europe as a whole. Indeed, of all places in Europe, the new financial instruments invented for the expanding world of trade with the New World were concentrated in Seville. So too were the huge flow of gold and silver, which first led to inflation in Spain before expanding to the rest of Europe.

Note the happenstances of Mercado's life. He was born in Seville. He spent many years in the New World itself as a student and a priest, before returning to Spain and studying in Salamanca with Francisco de Vitoria. He then returned to Seville, where he wrote and published his *Manual*. These coincidences combined unique facts of his personal biography with the mobility and intellectual orientation of his Dominican vocation.

Perhaps his empirical knowledge was entirely due to careful observations and interviews with merchants. If so, he would be much like Adam Smith. Smith, like

Mercado, was an academic moral philosopher. Still, Smith's *Wealth of Nations* (1776) is filled with a wealth of detail about British manufacturing and trade that he could not have learned in the academy. His attention to the production of pins, for instance, is a famous if quite boring example in the history of economics.

Following the empirical bent of the Scottish Enlightenment, Smith studied markets as they existed, rather than merely as he imagined them to be. Contrast this with other influential thinkers, such as Karl Marx. Marx seemed satisfied with his own brand of Hegelian theory, and was far less concerned with concrete observations of, say, the wages of mill workers in London.

But compared to Smith, Mercado's knowledge in his *Manual* seems even more personal. The most careful observer of market fairs in Seville could not know the precise details of *contracts*. So how did our Dominican friar acquire this knowledge? Spanish scholar Antonio-Miguel Bernal has recently found clear evidence that the Mercado family had extensive dealings in trade in Spain and the Indies during the sixteenth century. That is, Fr. Tomás likely had private and even first-person experience with the emerging trade between the Old and New World.¹⁴

It is not merely that the *Manual* contains empirical details. After all, a ledger of bills of sale with receipts and prices would provide such facts. The *Manual* provides a penetrating analysis of deals and contracts, for the purpose of providing moral guidance to Catholic merchants. The Spanish Scholastics often received such petitions, perhaps because of the new economic realities, but also, perhaps, because of their special charism, or what economists would call their comparative advantage.

The *Manual* is unusual, both for its time and for ours, for this reason: It *integrates* knowledge of Scripture, theology, and natural law philosophy, with the emerging theoretical insights of the School of Salamanca, and with Mercado's own observations. To be sure, he does not see his task as one of bringing the content of revealed theology to contemporary moral dilemmas. He sees himself as doing moral philosophy based on natural reason. At the same time, he doesn't hesitate to offer moral advice to merchants. For their moralizing, the Spanish scholastics were ridiculed by French *philosophes* in the eighteenth century. But these *philosophes* depended on these same scholastics for some of their most basic economic views, as Grice-Hutchinson notes in her study.¹⁵

Mercado seemed to be aware of the unusual character of his *Manual*. He certainly hoped that it would serve to correct the more usual "arm chair" moral philosophy. Indeed, throughout the text, he encourages his fellow priests and academics to get the facts right when speaking on these matters.

Despite his sharp words for ignorant confessors, however, Fr. Tomás also, no doubt, knew of the moral struggles of merchants from the confessional.¹⁶ He was, after all, a priest. He would have heard confessions and surely he learned of the struggles of Catholic merchants in this way.

Again, we should not underestimate the happy coincidences of his time and place. For hearing confessions about trade and contracts in the sixteenth century, there was no place better than Mercado's hometown of Seville in southern Spain. The city was at that time a center of the economic universe. And his years as a priest in Mexico City, and his family connections, gave him direct experience of trade in the New World as well.

So Mercado was perfectly placed—personally, intellectually, and geographically—to help nurture economics from its cradle in moral theology. His *Manual* marks an inflection point in this shift from a discipline that was largely concerned with normative questions, to one that is focused largely on analysis and description. Ethics and moral philosophy still exist, of course, but in almost every university these disciplines are separate from economics. They are in separate departments, with separate faculty, often in separate buildings.

Those academic divisions did not exist in the sixteenth century—and this may have been an advantage. Even so, only someone with firsthand observations of his time and place who was also a well-placed confessor could have written such a text. Only someone whose intellectual tradition taught the importance of the observable world would have bothered. Only a cleric out in the world, rather than cloistered in a monastery, could have gained the concrete details from observation and the confessional. And only someone with personal knowledge of trade and contracts could have gotten the facts right.

Mercado's scholarship was truly the fruit of his Dominican charism.

But was his Dominican training a foundation for his thought, or an impediment that he had to overcome? Francisco Gomez Camacho argues that the insights of Mercado and the later scholastics hinged on their adoption of sixteenth-century nominalist philosophy. Camacho summarizes this philosophy as the claim that “‘everything existing is singular or individual,’ (*Quidquid existit singular et seu individuum*), there are no collective bodies forming an organic unity or real essence.”¹⁷

I do not see any evidence of such nominalism in the thought of Mercado or the other Spanish scholastics. For one thing, all these thinkers were ardent defenders of the natural law tradition. They were followers of St. Thomas Aquinas. They were writing during the chaos of the Protestant Reformation (though of course its effect in Catholic Spain was limited). As a result, it is implausible to claim that these thinkers *were* nominalists.

Perhaps nominalism encouraged these Dominicans and later Jesuits to get their hands dirty. That is, to attend to the concrete world, rather than to rest satisfied with general concepts. But there is nothing in the thought of St. Thomas, for instance, to prevent Mercado's careful observations. On the contrary, if anything, the Aristotelian corrective begun in the High Middle Ages would have encouraged a healthy empirical focus.

I would interpret Fr. Tomás's *Manual* as a moment when economic laws or truths as such were beginning to be *discovered*. And his theological views, as well as his biographical details, made him especially open to such discoveries. Indeed, any such discovery needs a theoretical framework well-matched to accurate observations.

Those discoveries, in turn, fed back into his moral philosophy. That is, both traditional exegesis and intuitions about the natural law had been colored for many centuries by Aristotle's view of money. This was slowly corrected by careful study of contracts, trade, and exchange. In reading the *Manual*, we see that correction slowly taking place.

This is not to say that Scripture or the natural law misled early and medieval Christians; only that the proper interpretation of both emerged from a more careful study of the empirical details of economic reality. And that, in turn, led to a more accurate reading of Scripture and natural law, which finally allowed Christian moral philosophy to abandon Aristotle's mistaken view of the sterility of money.

Integrated Knowledge

Those of us interested in both economic and moral truth should hope to do as well as Mercado did. Our goal should be to integrate the discoveries and insights of economics with natural moral law and, ultimately, with revealed theology. This requires at least some thinkers who can competently traverse fields that, in the modern university, are usually isolated in separate siloes. That is hard work, but we should not avoid it just because it is difficult.

It is also controversial work. Economists, as much as anyone, jealously guard the borders of their discipline from incursion, especially from clerics and moralists. Some of this hostility is well-deserved. Many noneconomists fail to recognize that there is real economic knowledge, which cannot be reduced to ethics. Certainly any churchman seeking to offer moral guidance on financial and economic matters needs to know what he is talking about.

As in the sixteenth century, there is today far too much pontificating, and not enough understanding on economic questions. Still, insofar as the economy is about human persons, it has, by its nature, a moral dimension. We cannot and

should not ignore that. The task before us is to integrate our ever-expanding knowledge of economic truth with the perennial truths of the natural law and Magisterial teaching. For this demanding task, we can take for inspiration the pioneering work of a sixteenth-century Spanish Dominican, Fr. Tomás de Mercado.

Notes

- * I would like to thank Clara Jace for helping me to acquire a new English translation of the *Deals and Contracts of Merchants and Traders* by Tomás De Mercado, as well as *Three Essays on the Times and Work of Tomás de Mercado* (Salamanca: University of Salamanca, 2017).
1. Francisco Gomez Camacho, “Tomás de Mercado, O.P.: *Suma de Tratos y Contratos*, Seville 1571,” in *Three Essays on the Times and Work of Tomás de Mercado* (Salamanca: University of Salamanca, 2017), 19.
 2. He inscribed the first edition at the beginning “to the distinguished Merchants’ Guild of Seville, Father Friar Tomás de Mercado, wishing Health, Grace, and Happiness.” In the second edition, he changed the dedication to the merchants themselves, rather than to the guild.
 3. De Mercado, *Manual*, 43.
 4. De Mercado, *Manual*, 50.
 5. De Mercado, *Manual*, 51. I have tweaked the English translation of the 2017 edition to avoid awkwardness and make the meaning clearer.
 6. Most “Salamancans” have some connection with the school itself, either as one-time students or teachers. Since some of this group of thinkers have no connection to Salamanca, though, some scholars such as Alejandro Chafuen refer to these thinkers as the “Hispanic scholastics.” Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (Lanham, MD: Lexington Books, 2003). That said, since Mercado spent several years at the University of Salamanca, we can properly identify him with the school of Salamanca.
 7. Marjorie Grice-Hutchinson, *Early Economic Thought in Spain, 1177–1740* (Indianapolis: Liberty Fund, 2015), 96. Originally published by George Allen & Unwin in the United Kingdom in 1978.
 8. Grice-Hutchinson, *Early Economic Thought*, 103–4.
 9. As Marjorie-Grice-Hutchinson writes, “It is ... possible to trace the source of a labor theory of value, as well as of a subjective or utility theory, in the work of St. Albert and his disciples.” Grice-Hutchinson, *Early Economic Thought*, 87.

10. De Mercado, *Manual*, 76.
11. Grice-Hutchinson, *Early Economic Thought*, 108.
12. Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), 97. Although modern positivists may hate to admit it, economic science started as a branch of moral theology and philosophy. Even Adam Smith, the father of modern economics, was a moral philosopher. Those who know the history of economic thought often speak of the “scholastic origins of economic science.” Of course, the way we now use the word “science” is an artifact of the nineteenth century. It was coined by Englishman William Whewell, who deemed astronomy the “queen of the sciences.”
13. As Bernal concludes,

Friar Tomás’ is, then, an extensive family, with ample experience during the 16th century in the affairs of the Indies, from an economic, administrative and legal point of view, so that the empirical knowledge of our author and his direct information of the dealings with the Indies had nothing to do with the theoretical—or academic, as he sometimes calls it—knowledge of confessors and moralists whom, he, though discreetly and courteously, utterly discredits (for not knowing anything he says) in his work.

Antonio-Miguel Bernal, “Tomás de Mercado and the ‘Dealings’ with the Indies,” in *Three Essays on the Times and Work of Tomás de Mercado* (Salamanca: University of Salamanca, 2017), 43.
14. Grice-Hutchinson, *Early Economic Thought*, 177.
15. In “Tomás de Mercado and the ‘Dealings’ with the Indies” (op. cit. note 15), Antonio-Miguel Bernal downplays Mercado’s role as a confessor—perhaps to avoid the impression that Mercado intended his book to be a manual for confessors. He did not.
16. “The individualization of general principles and the adoption of coins as the standard unit of measurement of value implied a descent from the numeric general to the concrete singular, hence why nominalist philosophy was an essential part of the economics thinking of scholastic philosophers.” Camacho, “Tomás de Mercado, O.P.,” 23n2.