



Memorandum on Catholicism, Protestantism, and Capitalism (1957)

By Murray N. Rothbard

[On Aug. 8, 1956, Murray N. Rothbard wrote to Richard C. Cornuelle of the Volker Fund, strongly recommending Emil Kauder's researches into the Aristotelian background of marginal utility and Austrian economic theory (Rothbard Papers). In a memo of February 1957, "Catholicism, Protestantism, and Capitalism," reproduced below, Rothbard set down some thoughts on these matters. Rothbard's letters reveal an early and keen interest in the history of economic thought. The memos he wrote for the Volker Fund, from the early fifties down to 1962, on a large variety of books and scholarly journals show off his growing knowledge of the subject. In addition, Rothbard's dissertation director, Professor Joseph Dorfman, was an authority on the history of American economic thought, and Rothbard was very interested, among other matters, in American contributions to the monetary debates of the early 19th century. Rothbard, as much a historian as an economist, was well-placed, not only to assess books for the Volker Fund, but also to grasp and synthesize economic doctrines logically and in historical perspective. His last major published work, his two-volume History of Economic Thought (1995) certainly stands as proof. – Joseph Stromberg]

In recent years, a group of scholars (most of whom might be called "right-wing Catholics") have set about revising the standard interpretation of the rise of economics and of capitalism, [which holds that], the thought, as well as laissez-faire economic policies, which nurtured capitalism, developed as an outgrowth of the casting off of medieval Catholic shackles. Modern spirit of scientific inquiry defeated scholastic dogmatism and enabled growth of a generally individualist and rationalist spirit; casting off of Church authority led to a general individualism in all fields; the Calvinist spirit and ethic, emphasizing the positive value of hard work, thrift, and money-making led to a flowering of capitalism as compared to the effect of Catholic frowning on money-making; laissez-faire economics grew in the Protestant atmosphere of Britain (Adam Smith, etc.).

There is, however, another side to the coin, and contrasting interpretations, particularly in the fields of political philosophy (the effect of natural law, for example) and economic thought, have appeared in the last couple of years. For readings in this New School, I would suggest: Joseph A Schumpeter, *History of Economic Analysis* (New York, 1954), esp. pp. 73-142; Marjorie Grice-Hutchinson, *The School of Salamanca* (Oxford, 1952); Emil Kauder, "Genesis of the Marginal Utility Theory", *Economic Journal* (September 1953); Kauder, "Retarded Acceptance of the Marginal Utility Theory", *Quarterly Journal of Economics* (November 1953), and "Comment" (August 1955); and Raymond de Roover, "Scholastic Economics: Survival and Lasting Influence from the 16th Century to

Adam Smith”, *Quarterly Journal of Economics* (May 1955).

These revisionists have done little directly on one of the cornerstones of the standard approach – Weber’s *Protestant Ethic* – but more than that by indirection. Recommended is the critique of Weber by H. M. Robertson, *Aspects of Economic Individualism* (London, 1933). Robertson and others have pointed out, for example, that capitalism really began flourishing, not in Britain, but in 14th-century Italian cities, i.e., in decidedly Catholic areas. In fact, the main point of the Revisionist critique, in all the fields, is continuity – that capitalism, liberalism, rationalism, economic thought, etc. began long before Smith *et al.*, and under Catholic auspices. And that the later developments built on, and in some cases retrogressed from, earlier Catholic views.

Kauder, in fact, turns the Weber thesis¹ on its own followers by attacking Smith and Ricardo for being influenced by [Protestantism] to develop the “labor theory of value.” Schumpeter also leaned in this direction. The brunt of this important new thesis is this: rather than saying that Hume and Smith developed economic theory almost *de novo*, economics had actually been developed, slowly but surely, over the centuries by the Scholastics and by Italian and French Catholics influenced by the Scholastics; that their economics was generally individualist methodologically, and stressed utility theory, consumers’ sovereignty and market pricing, and that Smith really set back economic thought by injecting the purely British doctrine of the labor theory of value, thus throwing economics off the sound track for a hundred years. Here I might add that the labor theory of value has had many bad consequences. It, of course, paved the way, quite logically, for Marx. Secondly, its emphasis on “costs determining prices” has encouraged the view that businessmen push up prices or that unions push up prices, rather than governmental inflation of the money supply. Third, its emphasis on “objective, inherent value” in goods led to “scientistic” attempts to measure values, to stabilize them by government manipulation, etc.

Now, Kauder’s interesting thesis is in two parts: one, that the above was the historical course of events in economic thought; and two, that the reason for this forgetting of utility theory and replacement by a labor-cost theory was influence by the Protestant, as opposed to the Catholic spirit.

Kauder maintains, first, that utility theory, was developed to a high degree by, first Aristotle, and then, the scholastics, particularly the neglected late Spanish scholastics of the late 16th and early 17th Centuries. Most historians have ignored the late scholastics and their influence, at least until recently. The standard idea is that the scholastics died out with the Middle Ages, and the gap in between was peopled only by the mercantilists. The mercantilists, however, were pro-statist *ad hoc* pamphleteers, and contributed less to economics and to liberalism than the late scholastics. (See DeRoover.)

Emphasis on subjective values of individuals and utility was also continued by the great Protestant political philosophers Grotius and Pufendorf, who were directly influenced by the Spanish scholastics (also, as we will see below, in the field of natural law), and by Italian economists de Volterra (mid-16th century), Davanzatti (late 16th), Montanari (late 17th), and especially Galiani (about 1750). [Theory was] further developed by Turgot and Condillac, French Catholics (mid 18th century). By the time of the latter three, in fact, Kauder claims that the “value paradox” (gold vs. iron) had been solved by its utility

theory, only to have Smith-Ricardo toss it away and reestablish the value-paradox problem. (I might add that the resultant holistic approach by Smith and Ricardo was subtly socialistic in still a fourth way: it established the fashion of separating Distribution from Production, and of talking only about groups of factors instead of individual factors – labor instead of laborers.)

Now, Kauder goes on to point out that the Italian-French subjective value, utility theorists were Catholics, while the labor-value theorists: Petty, Locke, and Smith were British Protestants. Kauder attributes this precisely to the Calvinist emphasis on the divinity of work, as opposed to Catholic thought, which only considered work as a means to making a living. The Scholastics, then, were free to come to the conclusion that the “just price” was essentially the freely competitive price set on the market, whereas the Protestant-influenced British had to say that the fair price is the “natural” price where the “amount of labor exchanged in each good is the same.” DeRoover points out that the late Spanish scholastics Domingo de Soto and Luis de Molina both denounced as fallacious Duns Scotus’ dictum that the just price equals the cost of production plus a reasonable profit.) In fact, Smith and Locke were influenced both by the scholastic stream which they acquired from their philosophic training, and the Calvinist emphasis on the divinity of labor. It is true that Smith believed that free competition would eventually bring market prices around to the “just price,” but it is evident that a danger has been introduced – a danger that Marx fully exploited (and, in fact, that lingers on in the imperfect competition theories, which are akin to emphasis on some juster world where the “natural” or “optimum” prices reign). Thomists, on the other hand, always centered their economic studies on the consumer as the Aristotelian “final cause” in the economic system, and the ends of the consumer are “moderate pleasure-seeking.” By the 19th century, Kauder says, religious influences on economic thought were not important. He does point out, however, the importance of his strict Evangelical background for Alfred Marshall. Marshall’s father was a very strict Evangelical, and the Evangelicals were strict Calvinist-revivalists. Perhaps this is why Marshall resisted utility theory, and insisted on retaining much of Ricardian cost-theory, which even yet persists as a result.

I would like to add further comment, however. The most “dogmatic” laissez-fairists in the 19th century were not the British, but the *French* (Catholic) economists. Bastiat, Molinari, etc. were much more rigorous than the ever-pragmatic English liberals. Further, laissez faire theory was developed in fine flower by the Catholic Physiocrats, who were directly influenced by natural law-natural rights thought.

This brings me to the second great influence of the Catholic scholastics – the natural law, natural rights theory. Certainly natural law was a great hindrance on state absolutism, and it began in Catholic thought. Schumpeter points out that the divine right of kings was a Protestant theory. The natural law, natural rights theory, also came down from the scholastics to the French and British moral-philosophers. The connection was obscured by the fact that many of the 18th-century rationalists, being bitterly anti-Catholic, refused to acknowledge their intellectual debt to Catholic thinkers. Schumpeter, in fact, claims that individualism began in Catholic thought. Thus: “society was treated (by Aquinas) as a thoroughly human affair, and moreover, as a mere agglomeration of individuals brought together by their mundane needs... the ruler’s power was derived from the people... by delegation. The people are the sovereign and an unworthy ruler may be

deposed. Duns Scotus came still nearer to adopting a social-contract theory of the state. This... argument is remarkably individualist, utilitarian, and rationalist....”² Schumpeter also stresses Aquinas’ defense of private property. Schumpeter particularly mentions the anti-statist spirit of the scholastic Juan de Mariana, 1599. He also treats their adoption of the market price as essentially the just price, utility theory, subjective value, etc. He says that while Aristotle and Scotus believed the *normal* competitive price was the just one, the later Spanish scholastics identified the market price with any competitive price, e. g. Luis de Molina. They also had a gold standard theory, and opposed debasement. Schumpeter also says that de Lugo developed a risk-theory of business profits, which, of course, was only fully developed at the turn of the twentieth century and later.³

While the 18th-century natural-rights theory was much more individualistic and libertarian than the scholastic version, there is a definite continuity here, too. The same is true for Rationalism, reason having been the main device used by Aquinas, and reason having been fought by Protestants, who place their theology – and their ethic – on a more emotional, or direct Revelation, basis.

We may sum up the Case for Catholicism as follows: (1) Smith’s *laissez-faire* and natural law views descended from the late Scholastics, and from the Catholic Physiocrats; (2) the Catholics had developed marginal utility, subjective value economics, and the idea that the just price was the market price, while the British Protestants grafted on a dangerous and ultimately highly statist labor theory of value, influenced by Calvinism; (3) some of the most “dogmatic” *laissez-faire* theorists have been Catholics: from the Physiocrats to Bastiat; (4) capitalism began in the Catholic Italian cities of the 14th century; (5) Natural rights and other rationalist views descended from the Scholastics.

I would also recommend, for a chilling example of Protestant-Calvinist influence leading to a philosophy of altruist socialism, reading Melvin Richter, “T. H. Green and His Audience: Liberalism as a Surrogate Faith” *Review of Politics* (October, 1956).

Although tangential to this particular memo, I would also highly recommend Erich von Kuehnelt-Leddihn, *Liberty and Property* (Caldwell, Id., 1952), the main gist of which is the thesis that Catholicism makes for a libertarian spirit (albeit “anti-democratic” while Protestantism makes for socialism, totalitarianism, and a collectivist spirit. One example is Kuehnelt-Leddihn’s assertion that the Catholic belief in reason and truth tend toward “extremism” and “radicalism,” while Protestant emphasis on intuition leads to belief in compromise, Gallup-polling, etc. [words missing].

Professor von Mises’ view on the Max Weber thesis should be mentioned here: namely, that Weber reversed the true causal pattern, i.e. that capitalism came in first, and that the Calvinists adapted their teachings to the growing influence of the bourgeoisie – rather than the other way round.

I am not prepared to say that the Protestant case should be thrown overboard completely and Catholic view adopted wholly. But it seems evident that the story is far more complex than the standard view believes. Certainly, the Revisionists supply an excellent corrective.⁴ On the specific questions of utility theory and Adam Smith, I can enter an endorsement of the revisionists. I have felt for a long time that Adam Smith has been considerably overrated as a *laissez-faire* stalwart.

¹ Cf. Randall Collins, a Weberian sociologist, who has also inverted the Weber thesis while using Max Weber's methods of historical reconstruction; see Collins's *Weberian Sociological Theory* (Cambridge, UK: Cambridge University Press, 1986), where he writes: "Christendom was the main Weberian revolution, creating the institutional forms within which capitalism could emerge. The Protestant Reformation is just a particular crisis at the end of a long-term cycle; it gave rise to a *second* takeoff, which we mistakenly see as the first" (p. 76). – All notes added by Editor.

² Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954) pp. 91-92.

³ See especially, Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (Lanham, MD: Lexington Books, 2003).

⁴ Rothbard later developed this line of attack at great length; see Murray N. Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought*, I (Cheltenham, UK: Edward Elgar, 1995), p. 31-175.