Religion has, for centuries, had something to say about economic life. Most has come in the form of direction—how to behave in a manner most pleasing to God (in whatever form) or how to attain the best life after this one. In these directions we find reflections of what economic life was like in earlier times and how that life has shaped the ideas of more modern thinkers. It is difficult to say to what extent these religious texts influence modern economic thought, but clearly there was an awareness of economic concepts, even if such understanding was not well articulated.

Although the content of modern economic thought may seem far removed from religious doctrine, some argue that the two cannot be fully separated. As W. Cunningham writes, “Economic science has grown up in Christian lands, and could not escape the influence of its environment. The relations between religion and economics are well worth discussing, even though they are somewhat obscure.”

The ideas presented in this chapter do not represent a “school of economic thought,” so the “five major questions” approach to analysis will not be followed. Instead, the chapter focuses on three major Christian eras: biblical times, the Middle Ages, and the Protestant Reformation.

**BIBLICAL “CONTRIBUTIONS” TO ECONOMIC THOUGHT**

The Bible (Old and New Testament combined) illustrates the Christian path to salvation. Although a formal articulation of economic theories is not set out, certain prescriptions for right economic conduct (normative economics) are described. The major tenets might be distilled as follows:

1. God is ultimately in charge of the economy, although this may not involve daily intervention, and scarcity is a problem only God can fully overcome.
2. God cedes some power to people, granting them free will.
3. God provides guidance through the law, parables, prophecies, and interventions that range from miracles to wrath.

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4. Economic matters are both vital and trivial. Proper conduct is essential for salvation (at least in the Old Testament), yet pursuit of economic gain is insignificant, if not detrimental, in the grand scheme of things.

The Old Testament

The Old Testament details early history, the law, and prophecies, where the law most directly affects economic behavior and outcomes. In the book of Leviticus, for example, the concept of value and possible strands of wage and price theory are described.

The Lord said to Moses, “Say to the people of Israel, when a man makes a special vow of persons to the Lord at your valuation, then your valuation of a male from twenty years old up to sixty years old shall be fifty shekels of silver, according to the shekel of the sanctuary. If the person is a female, your valuation shall be thirty shekels. If the person is from five years old up to twenty years old, your valuation shall be for a male twenty shekels, and for a female ten shekels. If the person is from a month old up to five years old, your valuation shall be for a male five shekels of silver, and for a female your valuation shall be three shekels of silver. And if the person is sixty years old and upward, then your valuation for a male shall be fifteen shekels, and for a female ten shekels. And if a man is too poor to pay your valuation, then he shall bring the person before the priest, and the priest shall value him; according to the ability of him who vowed the priest shall value him.”

In the context of modern economic theory, such valuations would be easy to explain. In labor markets there have been and continue to be disparities in pay based on age and gender. Some of the gaps are justified by differences in productivity, and some may be attributable to discrimination. For the purpose of assessing tributes or taxes, basing valuation on earnings reflects the ability-to-pay philosophy of taxation found in public-sector economics.

Manna in the Wilderness

During their time in the wilderness, the book of Exodus tells us that God provided his people with manna (bread) and quail.

Then the Lord said to Moses, “Behold, I will rain bread from heaven for you; and the people shall go out and gather a day’s portion every day, that I may prove them, whether they will walk in my law or not. On the sixth day, when they prepare what they bring in, it will be twice as much as they gather daily.”

In the evening quails came up and covered the camp; and in the morning dew lay round about the camp. And when the dew had gone up, there was on the face of the wilderness a fine, flake-like thing, fine as hoarfrost on the ground. When the people of Israel saw it, they said to one another, “What is it?” For they did not know what it was. And Moses said to them, “It is the bread which the Lord has given you to eat. This is what the Lord has commanded: ‘Gather of it, every man of you, as much as he

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3 The term manna, literally translated, means “What is it?”
can eat; you shall take an omer apiece, according to the number of the persons whom each of you has in his tent.’” And the people of Israel did so; they gathered, some more, some less. But when they measured it with an omer, he that gathered much had nothing over, and he that gathered little had no lack; each gathered according to what he could eat. And Moses said to them, “Let no man leave any of it till the morning.” But they did not listen to Moses; some left part of it till the morning, and it bred worms and became foul; and Moses was angry with them. Morning by morning they gathered it, each as much as he could eat; but when the sun grew hot, it melted. . . . And the people of Israel ate the manna forty years, till they came to a habitable land; they ate the manna, till they came to the border of the land of Canaan.  

The theological significance of the passage is trust in and obedience to God. The kernel of economic thought is that of preferring sufficiency over accumulation: Produce and consume only that which is needed, and don’t attempt to hoard for the future. It is primarily a normative economic strand of thought, but it has implications in the present as the global environment faces increasing pressure from growth in population and production. In earlier times, belief in the futility of accumulation tended to discourage economic pursuits beyond provision for basic needs.

**Jubilee**

When God gave the law to Moses, he included both instruction and specified rewards for obedience. One law that focused on economic activity was that of the *sabbatical year*.

The Lord said to Moses on Mount Sinai, “Say to the people of Israel, When you come into the land which I give you, the land shall keep a sabbath to the Lord. Six years you shall sow your field, and six years you shall prune your vineyard, and gather in its fruits; but in the seventh year there shall be a sabbath of solemn rest for the land, a sabbath to the Lord; you shall not sow your field or prune your vineyard. What grows of itself in your harvest you shall not reap, and the grapes of your undressed vine you shall not gather; it shall be a year of solemn rest for the land.”

Part of the purpose of the law was to remind the Hebrews that all blessings come from God. In Leviticus 25:20–22, to address those concerned about food during the sabbatical year, God provides assurance that the sixth year will provide ample food for the next three years. The passage establishes that material goods (food) are provided by God. It also recognizes that land fertility can be exhausted if soil is farmed without interruption. To further demonstrate God’s ownership and provision, every fiftieth year was to be a year of *jubilee* (a specific sabbatical year), as God continues with Moses in Leviticus 25:

“And you shall hallow the fiftieth year, and proclaim liberty throughout the land to all its inhabitants; it shall be a jubilee for you, when each of you shall return to his property and each of you shall return to his family. A jubilee shall that fiftieth year be

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to you; in it you shall neither sow, nor reap what grows of itself, nor gather the grapes from the undressed vines. For it is a jubilee; it shall be holy to you; you shall eat what it yields out of the field.”

What comes next is perhaps the most explicit display of advanced economic thinking. With land returned automatically every fifty years, we would reasonably expect land prices to reflect the amount of time the buyer actually has use of the land. Modern price theory suggests that demand for land, and price in turn, depends on the amount of time left before the next jubilee. As God directed Moses,

“In this year of jubilee each of you shall return to his property. And if you sell to your neighbor or buy from your neighbor, you shall not wrong one another. According to the number of years after jubilee, you shall buy from your neighbor, and according to the number of crops he shall sell to you. If the years are many you shall increase the price, and if the years are few you shall diminish the price, for it is the number of crops that he is selling to you. You shall not wrong one another, but you shall fear your God; for I am the Lord your God.”

This passage contains only a fragment of thought on how prices are determined, but it also explains the concept of the *just price*. This idea shows up repeatedly over the centuries, finding modern connections in the concepts of *usury* (lending at interest or excessive interest) and *income distribution* (fair wages).

**The New Testament**

In the New Testament the emphasis changes from the law to reconciliation and salvation through Jesus Christ. The economic focus changes as well: there are still notions of right conduct, but they are less rigid and motivated differently. The miracles of Jesus are described in the New Testament and are used to demonstrate how God transcends the known physical, political, religious, and economic laws of the time.

Perhaps the miracle most obviously connected to economic concepts is the feeding of the “five thousand.” As written in the Gospel according to Mark:

The apostles gathered around Jesus, and told Him all that they had done and taught. He said to them, “Come away to a deserted place all by yourselves and rest a while.” For many were coming and going and they had no leisure even to eat. And they went away in the boat to a deserted place by themselves. Now many saw them going and recognized them, and they hurried there on foot from all the towns and arrived ahead of them. As He went ashore, He saw a great crowd; and He had compassion for them, because they were like sheep without a shepherd; and He began to teach them many things.

When it grew late, His disciples came to Him and said, “This is a deserted place, and the hour is now very late; send them away so that they may go into the surrounding country and villages and buy something for themselves to eat.” But He

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answered them, “You will give them something to eat.” They said to Him, “Are we to go and buy two hundred denarii worth of bread and give it to them to eat?” And He said to them, “How many loaves have you? Go and see.” When they had found out, they said, “five, and two fish.” Then He ordered them to get all the people to sit down in groups on the green grass. So they sat down in groups of hundreds and of fifties. Taking the five loaves and the two fish, He looked up to heaven, and blessed and broke the loaves, and gave them to His disciples to set before the people; and He divided the two fish among them all. And all ate and were filled; and they took up twelve baskets full of broken pieces and of the fish. Those who had eaten the loaves numbered five thousand.8

Clearly this passage sets up the fundamental problem of scarcity, creating a scenario that is impossible to solve in traditional earthly ways. The financially poor disciples had neither 200 denarii nor access to enough goods to feed 5,000 people. The miracle in the story is overcoming the scarcity, but the importance of the passage to the history of economic thought is that it demonstrates that people were aware of economic limitations and were contemplating how to solve the scarcity problem.

The Problem of Accumulation

The Old Testament passage from Exodus illustrates the futility of accumulation, and the theme continues in the New Testament. In the Gospel of Mark, Jesus tells the parable of the widow who gave two coins to the church while those around her were giving much more.

And he [Jesus] sat down opposite the treasury, and watched the multitude putting money into the treasury [of the synagogue]. Many rich people put in large sums. And a poor widow came, and put in two copper coins, which make a penny. And he called his disciples to him, and said to them, “Truly, I say to you, this poor widow has put in more than all those who are contributing to the treasury. For they all contributed out of their abundance; but she out of her poverty has put in everything she had, her whole living.9

In a similar passage, Jesus relates economic gain to prospects for salvation.

Jesus said to him, “If you would be perfect, go, sell what you possess and give it to the poor, and you will have treasure in heaven; and come, follow me.” When the young man heard this he went away sorrowful; for he had great possessions. And Jesus said to his disciples, “Truly, I say to you, it will be hard for a rich man to enter the kingdom of heaven. Again I tell you, it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God.10

These passages allude to the triviality of economic pursuits. Not only does accumulation not further the cause of salvation, it is a potential impediment because it

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8 Mark 6:30–44 (Revised Standard Version).
becomes a distraction from more Godly pursuits. Passages such as this, when taken seriously, would tend to inhibit the development of economies and economic theory.

The concepts of utility and cost-benefit analysis are also reflected in these excerpts. For the poor, the sacrifice of material consumption is great in marginal terms but low in total amount. Jesus’s words reflect the concept of marginal utility, implying that the marginal utility of two coins for a poor person is much greater than for a rich person (and is greater even than the marginal utility of a larger sum to the rich person). The rich are reluctant to give up large amounts of total earthly utility for an uncertain promise of a much greater utility in the afterlife. Jesus appears to recognize this in his parable about the camel passing through the eye of a needle. The benefits are uncertain for both rich and poor, but the cost to the rich of giving away all possessions is much greater, making them less likely to accept Jesus’s offer.

Does all this imply that tucked into the Bible is a model of rational decision making and utility maximization? Not likely, but it does suggest some level of awareness of the economic forces influencing individual decisions in biblical times, and these same forces are part of the foundation of modern economics.

THE MIDDLE AGES AND ST. THOMAS AQUINAS

The Middle Ages is that vast period in European history dating from the fall of the Roman Empire to the beginning of the Renaissance, roughly A.D. 500–1500. Life was difficult, with war, famine, and epidemics inhibiting economic development and largely precluding the development of economic thought. The lack of strong nation-states made the church something of a unifying and dominant force. The economic structure of feudalism that emerged around the ninth century, and the relatively small scale of markets, meant that economic life was largely proscribed, with seemingly little to theorize about or explain. That left the church to provide guidance for everyday life to the masses, and its primary focus was to guide people spiritually. The church’s position on many economic matters was directed more at maintaining the dominance of the church than it was at advancing economic theory or promoting economic development.

Saint Thomas Aquinas (1225–1274) is perhaps the best known voice on economic matters during this period. He was a theologian of the Dominican order, receiving his doctorate from the University of Paris in 1257, and he spent many years researching and teaching in universities from Rome to Paris. His economic thought appears to have been heavily influenced not only by his religious training but also by his study of Aristotle and other Greek philosophers. One of Aquinas’s objectives was, in fact, to bring different lines of Christian and philosophical thought into a meaningful synthesis.  

The economic thought of Aquinas and his contemporaries was, even more so than for the Greeks, a subset of their ideas on ethics. The focus was on achieving

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salvation in the afterlife and right conduct in the earthly life; to the extent economic matters were addressed, that was their aim. In Aquinas’s major work, *Summa Theologica*, only a few dozen pages of the nearly 5,000 address anything of an economic nature. For historian George O’Brien, the Middle Ages were perhaps better described as the “dark ages” when it came to the development of economic theory. Religious doctrine and theologians like Aquinas dominated intellectual life.

The great development of economics as an independent science, which culminated in the work of Adam Smith, had begun in the previous century, and the breaking down of the unity and authority of Christian dogma had been progressively increasing since the first half of the sixteenth century. The further we go back, therefore, the more marked becomes the influence of the religious on the economic life of Europe, until we reach the Middle Ages, the period at which it exerted its greatest strength. What renders the Middle Ages so important in this respect is that it is the only period in history in which economics was regarded altogether from the standpoint of ethics, and in which ethics was included within the jurisdiction of the universal and infallible religious authority. In the Middle Ages anything approaching economic science in the modern sense was unknown. The great doctor of the thirteenth century, who dealt with every department of Christian life and duty, knew nothing of a science of political economy, either in the sense in which it was understood by the mercantilists, as aiming at increasing the prosperity of the state, or in the sense in which it was understood by the classical economists, as stating the principles upon which people do habitually act in their economic affairs. St. Thomas Aquinas, in so far as he deals with economic life at all, deals with it simply as a branch of general ethics.12

Aquinas’s ideas on economics were centered on notions of justice: the basic premise being that no one should gain at his or her neighbor’s expense. For Alexander Gray, “This is the sum and substance of mediaeval economic teaching.”13 Out of this concern for justice emerge Aquinas’s two main focal points: contempt for usury and the just price.

**Usury**

*Usury*, in its ancient and medieval context, referred to charging interest on borrowed money.14 The biblical basis can be found in Luke 6:35: “But love your enemies, and do good, and lend, expecting nothing in return.” The Old Testament supports the prohibition of usury as well in Deuteronomy 23:19: “You shall not lend upon interest to your brother, interest on money, interest on victuals, interest on anything that is lent for interest.”15 For centuries to follow the practice was either forbidden or maximum rates of interest were imposed.

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14 In modern terms *usury* refers to charging excessive interest on loans.
15 Interestingly, in the next verse (Deuteronomy 23:20) lending upon interest to foreigners is deemed acceptable.
As we evaluate the church’s prohibition of usury, the historical economic context must be considered. In modern terms, lending at interest is critical to the functioning of a capitalist economy. It allows potential or existing firms access to funds to invest in capital, expand production, and increase profits. The revenue generated from a loan, if forecast correctly by the entrepreneur, is sufficient to cover the costs including interest payments. In antiquity and in the Middle Ages, most people seeking to borrow money were destitute and unable to feed themselves or their families. Often they were victims of a temporary hardship such as bad crops. To exploit someone in such desperate economic circumstances was sinful and ran contrary to the biblical admonition to “love thy neighbor.”

In response to objections to the prohibition of usury, Aquinas offered this argument in *Summa Theologica*. Note that at the end of the first paragraph we see the origin of the term *usury*.

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. In order to make this evident, we must observe that there are certain things the use of which consists in their consumption: thus we consume wine when we use it for drink and we consume wheat when we use it for food. Wherefore in such like things the use of the thing must not be reckoned apart from the thing itself, and whoever is granted the use of the thing, is granted the thing itself and for this reason, to lend things of this kin is to transfer the ownership. Accordingly if a man wanted to sell wine separately from the use of the wine, he would be selling the same thing twice, or he would be selling what does not exist, wherefore he would evidently commit a sin of injustice. In like manner he commits an injustice who lends wine or wheat, and asks for double payment, viz. one, the return of the thing in equal measure, the other, the price of the use, which is called usury.

On the other hand, there are things the use of which does not consist in their consumption: thus to use a house is to dwell in it, not to destroy it. Wherefore in such things both may be granted: for instance, one man may hand over to another the ownership of his house while reserving to himself the use of it for a time, or vice versa, he may grant the use of the house, while retaining the ownership. For this reason a man may lawfully make a charge for the use of his house, and, besides this, revendicate the house from the person to whom he has granted its use, as happens in renting and letting a house.

Now money, according to the Philosopher [Aristotle] (Ethic. v, 5; Polit. i, 3) was invented chiefly for the purpose of exchange: and consequently the proper and principal use of money is its consumption or alienation whereby it is sunk in exchange. Hence it is by its very nature unlawful to take payment for the use of money lent, which payment is known as usury: and just as a man is bound to restore other ill-gotten goods, so is he bound to restore the money which he has taken in usury.16

In *Summa Theologica* Aquinas also rejects lending for which interest would come in nonmonetary form, although the borrower is allowed to pay a voluntary “gratuity” if it leaves neither party worse off as a result of the loan.

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Aquinas addressed the lawfulness of borrowing at interest and arrived at the perhaps surprising conclusion that lending at interest is sinful, but borrowing at interest is only sinful if not used for noble purposes or if it leads someone into the sinful role of the lender.

Accordingly we must also answer to the question in point that it is by no means lawful to induce a man to lend under a condition of usury: yet it is lawful to borrow for usury from a man who is ready to do so and is a usurer by profession; provided the borrower have a good end in view, such as the relief of his own or another’s need.  

Just Price

The concept of the just price is that parties to a transaction should not take advantage of one another. All goods for sale have what we might call today a “fair market value,” and church doctrine saw the sale of goods for more than they were worth as injurious and contrary to principles of justice.

Aquinas’s discussion of the just price is contained in a section of Summa Theologica addressing “sins committed in buying and selling.” He explains different ways in which sellers might overcharge for goods, either explicitly or implicitly, but he also describes conditions under which a seemingly unjust price may be acceptable.

Aquinas first deals with the general question of paying prices inconsistent with value, and here we see that an unjust price may be too high or too low.

It is altogether sinful to have recourse to deceit in order to sell a thing for more than its just price, because this is to deceive one’s neighbor so as to injure him. . . . But, apart from fraud, we may speak of buying and selling in two ways. First, as considered in themselves, and from this point of view, buying and selling seem to be established for the common advantage of both parties, one of whom requires that which belongs to the other, and vice versa, as the Philosopher [Aristotle] (Polit. i, 3). Now whatever is established for the common advantage, should not be more of a burden to one party than to another, and consequently all contracts between them should observe equality of thing and thing. Again, the quality of a thing that comes into human use is measured by the price given for it, for which purpose money was invented, as stated in [Aristotle’s] Ethic. v, 5. Therefore, if either the price exceed the quantity of the thing’s worth, or, conversely, the thing exceed the price, there is no longer the equality of justice: and consequently, to sell a thing for more than its worth, or to buy it for less than its worth, is in itself unjust and unlawful.  

At this point the notion of the just price diverges from fair market value because the just price can vary depending on the circumstances of the buyer and seller:

[W]hen a man has great need of a certain thing, while an other man will suffer if he be without it. In such a case the just price will depend not only on the thing sold, but on the loss which the sale brings to the seller. And thus it will be lawful to sell a thing for more than it is worth in itself, though the price paid be not more than it is worth to the owner. . . .

17 Aquinas, Summa Theologica, 2334.
18 Aquinas, Summa Theologica, 2320–2321.
On the other hand if a man find that he derives great advantage from something he has bought, he may, of his own accord, pay the seller something over and above: and this pertains to his honesty.19

When a buyer pays less than he or she is willing, economists say that the buyer receives *consumer surplus*. Likewise, a seller receiving more than is necessary to part with a good receives *producer surplus*. The implication from Aquinas is that justice is best served when the total surplus is minimized and, to the extent it cannot be avoided, that neither party receives a substantially larger share than the other. The concepts of consumer and producer surplus would not be formalized and named by economists Dupuit and Marshall for another six centuries or so, but awareness of these phenomena can be found in Aquinas.

One source of an unjust price for Aquinas is imperfect information about the good being sold. This can take three forms: (1) the good is not what the seller claims; (2) the quantity of the good is misrepresented; or (3) the good is defective in quality. For the first case, Aquinas uses the example of watered-down wine being sold as undiluted wine. The second may take the form of inaccurate weights, such as those used for weighing grain. Quality defects, for Aquinas, might include selling a sick animal as a healthy one. In each of the three cases, the price is too high compared to the good’s true worth, but it is not a sin if the seller is not aware of the problem. However, if the problem becomes known, the seller is to compensate the buyer. Neither is it a sin if the seller, aware of the defect, sells the good at an appropriate discount. As Aquinas writes,

> if the defect be manifest, for instance if a horse have but one eye, or if the goods though useless to the buyer, be useful to someone else, provided the seller take as much as he ought from the price, he is not bound to state the defect of the goods, since perhaps an account of that defect the buyer might want him to allow a greater rebate than he need.20

Similarly, if the buyer finds that he has received more (in quality or quantity) than what the seller represented, he is morally obligated to offer additional compensation.21

The modern theoretical equivalent of Aquinas’s moral concern is referred to as *adverse selection*, a topic explored further in Chapter 24. Accepting that buyers and sellers possess different information about a good, prices adjust to reflect the buyers’ risk that sellers may be concealing the types of defects described by Aquinas. The market accomplishes on average what Aquinas would have sellers do themselves—adjust prices for defects.

Finally, Aquinas examines selling goods at prices higher than what one paid for them. On this point he distinguishes between two types of exchange: exchange for use, which is natural, and exchange for profit, which is sinful.

A tradesman is one whose business consists in the exchange of things. According to the Philosopher [Aristotle] (Polit. i, 3), exchange of things is twofold; one, natural as it were, and necessary, whereby one commodity is exchanged for another, or money

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19 Aquinas, *Summa Theologica*, 2321.
20 Aquinas, *Summa Theologica*, 2325.
taken in exchange for a commodity, in order to satisfy the needs of life. Such like trading, properly speaking, does not belong to tradesmen, but rather to housekeepers or civil servants who have to provide the household or the state with the necessaries of life. The other kind of exchange is either that of money for money, or of any commodity for money, not on account of the necessities of life, but for profit, and this kind of exchange, properly speaking, regards tradesmen, according to the Philosopher (Polit. i, 3). The former kind of exchange is commendable because it supplies a natural need: but the latter is justly deserving of blame, because, considered in itself, it satisfies the greed for gain, which knows no limit and tends to infinity. Hence trading, considered in itself, has a certain debasement attaching thereto, in so far as, by its very nature, it does not imply a virtuous or necessary end.22

Aquinas does, however, suggest that a small profit—enough to support the family, for charitable giving, or made in service of the nation—is acceptable. Here he writes that

gain which is not the end of trading, though not implying, but its nature, anything virtuous or necessary, does not, in itself, connote anything sinful or contrary to virtue: wherefore nothing prevents gain from being directed to some necessary or even virtuous end, and thus trading becomes lawful. Thus, for instance, a man may intend the moderate gain which he seeks to acquire by trading for the upkeep of his household, or for the assistance of the needy: or again, a man may take to trade for some public advantage, for instance, lest his country lack the necessaries of life, and seek gain, not as an end, but as payment for his labor.23

**Evaluation**

It is not clear from his writing, but Aquinas seems to imply that the cost of production determines the worth of a good. In some cases that worth determines the just price, but in other cases it is only the starting point. Utility considerations for both buyer and seller must be taken into account as well. For Aquinas, goods that confer greater utility to both buyer and seller should command a higher price if the transaction is to be fair to the seller who must part with the good. Modern theory would in fact expect a higher price to result, at least in markets where individual negotiations occur, but Aquinas gave no indication that anything other than moral forces would drive up the price.

Despite the kernels of modern theory we might see in the writings of Aquinas, it must be remembered that he was not trying to explain how prices are determined. Rather, he was imploring market participants to exchange at prices that are fair to both parties. As we have seen, this may run contrary to the notion of an equilibrium price because the fairness of the price for Aquinas depends on the individual circumstances of the buyer and the seller. One might infer from his writings that Aquinas had a sense for how prices are actually determined, but there is no clear exposition of a price theory.

22 Aquinas, *Summa Theologica*, 2326.
Some question whether Aquinas really contributed anything to economic thought, suggesting that this synthesis between Christianity and philosophy is little more than a repackaging of old ideas. As Alexander Gray remarks,

Aristotle is chiefly influential in moulding the views of the Middle Ages with regard to the nature and functions of money, the iniquity of usury, the principles which should govern exchange and the nature of justice. On much of these, indeed, St. Thomas merely repeats Aristotle, with an added buttress drawn from Christian sources.24

Even if we regard Aquinas’s writings as a contribution to the literature, many scholars agree that economic thought in Europe did not advance significantly during the Middle Ages. Some Arab-Islamic scholars were actively exploring economic matters at this time, but that discussion is left for another chapter.

PROTESTANT REFORMATION

For centuries the Roman Catholic Church supported, and in some cases controlled, the political monarchies in European countries. Because these monarchies relied on a highly structured system, with well-defined social and economic roles, the predominant theology that denounced economic gain was an effective mechanism for keeping people in their “proper” place. In fact, poverty was considered a “badge of holiness.”25 With large segments of the population poor and unable to save, property owned exclusively by the ruling class, and usury denounced by the church, economic development (both in theory and practice) stagnated.

As interpretations of the Bible evolved, they had profound implications on how people viewed economic life. Perhaps the most significant to the development of modern capitalism was the Protestant Reformation. Occurring during the early days of mercantilism (1500–1776), this fundamental change in religious ideas supported growth of the institutions (physical and social) that would make capitalism flourish. The ideas of the Protestant reformers are not necessarily classified as economic theory—it was theology first and foremost—but they certainly contributed to the development of capitalism. By sparking economic development and encouraging intellectual pursuits that challenged accepted modes of thinking, the Reformation helped advance modern economic thought.

Among the Protestant reformers, the teachings of John Calvin (1509–1564) were probably the most instrumental in promoting capitalist ideas and institutions.26 Calvinism, as his ideas and those of his followers are now called, encourages economic activity, whereas it was discouraged by Catholicism. As R. H. Tawney explains,

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26 Martin Luther (1483–1546) is often credited with starting the Protestant Reformation, which is valid enough. His writings did support a break from Catholicism, but they did not support capitalist values. Christine Rider, *An Introduction to Economic History* (Cincinnati, OH: South-Western College, 1995), 85.
The suspicion of economic motives had been one of the earliest elements in the social teaching of the Church, and was to survive till Calvinism endowed the life of economic enterprise with a new sanctification.  

For the Greeks, work was disdained because of its association with the lowest classes in society. Both the Greeks and medieval theologians criticized trade for the purpose of accumulating wealth as unjust, as it caused one to gain at the expense of a neighbor. With the teachings of Calvin and other Protestant reformers, the notion of work changed. People were “called” by God to their profession, to specialize in that form of work to which they were best suited.

Calvin’s theology included predestination, the idea that one’s salvation or condemnation had already been decided by God and that no earthly action could change that fate. With the final outcome predetermined, people were to a degree liberated from the old theology that told them their poverty would facilitate their salvation. The new message was that economic success was a sign of divine favor. The wealthy were blessed by God for responding to his call to their particular profession. Similarly, the poor are in that state because their actions are not in accord with God’s will. As Tawney explained,

For, since conduct and action, though availing nothing to attain the free gift of salvation, are a proof that the gift has been accorded, what is rejected as a means is resumed as a consequence, and the Puritan flings himself into practical activities with the daemonic energy of one who, all doubts allayed, is conscious that he is a sealed and chosen vessel. Once engaged in affairs, he brings to them both the qualities and limitations of his creed in all their remorseless logic. Called by God to labor in his vineyard, he has within himself a principle at once of energy and of order, which makes him irresistible both in war and in the struggles of commerce. Convinced that character is all and circumstances nothing, he sees in the poverty of those who fall by the way, not a misfortune to be pitied and relieved, but a moral failing to be condemned, and in riches, not an object of suspicion—though like other gifts they may be abused—but the blessing which rewards the triumph of energy and will. Tempered by self-examination, self-discipline, self-control, he is the practical ascetic, whose victories are won not in the cloister, but on the battlefield, in the counting-house, and in the market.

Note the mention at the end of this passage of “self-examination, self-discipline, and self-control.” The accumulation of wealth was seen as a blessing, but seeking wealth distinct from God’s calling was disdained.

What was condemned as covetousness, Mammonism, etc., was the pursuit of riches for their own sake. For wealth in itself was a temptation. But here asceticism was the power “which ever seeks the good but ever creates evil”; what was evil in its sense was possession and its temptations. For, in conformity with the Old Testament and in analogy to the ethical valuation of good works, asceticism looked upon the pursuit of

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29 Tawney, Religion, 230. Puritanism was one of three main denominations emerging from Calvinism, the other two, bearing similar ideas, were Presbyterianism and Congregationalism (198).
wealth as an end in itself as highly reprehensible; but the attainment of it as a fruit of labour in a calling was a sign of God’s blessing. And even more important: the religious valuation of restless, continuous, systematic work in a worldly calling, as the highest means to asceticism, and at the same time the surest and most evident proof of rebirth and genuine faith, must have been the most powerful conceivable lever for the expansion of that attitude toward life which we have here called the spirit of capitalism.30

Usury Revisited

One of the barriers to economic development during the Middle Ages was the prohibition of usury. Calvin and other Protestant reformers, although rejecting lending at interest to those in distress (poverty), contend that the biblical prohibition of usury was not meant to apply to all lending. As Calvin states,

if we would form an equitable judgment, reason does not suffer us to admit that all usury is to be condemned without exception. If the debtor have protracted the time by false pretences to the loss and inconvenience of his creditor, will it be consistent that he should reap advantage from his bad faith and broken promises? Certainly no one, I think, will deny that usury ought to be paid to the creditor in addition to the principal, to compensate his loss. If any rich and monied man, wishing to buy a piece of land, should borrow some part of the sum required of another, may not he who lends the money receive some part of the revenues of the farm until the principal shall be repaid? Many such cases daily occur in which, as far as equity is concerned, usury is no worse than purchase. Nor will that subtle argument of Aristotle avail, that usury is unnatural, because money is barren and does not beget money; for such a cheat as I have spoken of, might make much profit by trading with another man’s money, and the purchaser of the farm might in the meantime reap and gather his vintage. But those who think differently, may object, that we must abide by God’s judgment, when He generally prohibits all usury to His people. I reply, that the question is only as to the poor, and consequently, if we have to do with the rich, that usury is freely permitted; because the Lawgiver, in alluding to one thing, seems not to condemn another, concerning which He is silent.31

The Effects of the Reformation on Economic Activity and Thought

The theology of the Protestant Reformation does not represent a systematic body of economic thought, but it did help legitimize economic activity, including the accumulation of wealth. That dramatic shift in cultural values helped make modern capitalism possible, along with the theories that have emerged to explain its workings.

Although through Calvinism prosperity may have become the new “badge of honor,” lavish consumption and the flaunting of wealth in other than industrious ways was discouraged. Implicitly this encouraged saving, which, when combined with the drive to increase production and a more relaxed view on usury, would ultimately facilitate the accumulation of capital for industrialization.

When the limitation of consumption is combined with this release of acquisitive activity, the inevitable practical result is obvious: accumulation of capital through ascetic compulsion to save. The restraints which were imposed upon the consumption of wealth naturally served to increase it by making possible the productive investment of capital.32

In *The Protestant Ethic and the Spirit of Capitalism*, Weber explains how “the spirit of capitalism,” driven by the Protestant Reformation, transformed a traditional system into modern capitalism. In the following passage, Weber describes working life before modern capitalism emerged.

Until about the middle of the past century the life of a putter-out was, at least in many of the branches of the Continental textile industry, what we should to-day consider very comfortable. We may imagine its routine somewhat as follows: The peasants came with their cloth, often (in the case of linen) principally or entirely made from raw material which the peasant himself had produced, to the town in which the putter-out lived, and after a careful, often official, appraisal of the quality, received the customary price for it. The putter-out’s customers, for markets any appreciable distance away, were middlemen, who also came to him, generally not yet following samples, but seeking traditional qualities, and bought from his warehouse, or, long before delivery, placed orders which were probably in turn passed on to the peasants. Personal canvassing of customers took place, if at all, only at long intervals. Otherwise correspondence sufficed, though the sending of samples slowly gained ground. The number of business hours was very moderate, perhaps five to six a day, sometimes considerably less; in the rush season, where there was one, more. Earnings were moderate; enough to lead a respectable life and in good times to put away a little. On the whole, relations among competitors were relatively good, with a large degree of agreement on the fundamentals of business. A long daily visit to the tavern, with often plenty to drink, and a congenial circle of friends, made life comfortable and leisurely.

The form of organization was in every respect capitalistic; the entrepreneur’s activity was of a purely business character; the use of capital, turned over in the business, was indispensable; and finally, the objective aspect of the economic process, the bookkeeping, was rational. But it was traditionalistic business, if one considers the spirit which animated the entrepreneur: the traditional manner of life, the traditional rate of profit, the traditional amount of work, the traditional manner of regulating the relationships with labour, and the essentially traditional circle of customers and the manner of attracting new ones. All these dominated the conduct of the business, were at the basis, one may say, of the ethos of this group of business men.33

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What Weber describes is a work life geared to sufficiency instead of to acquisi-
tion or accumulation. For Weber the transformation to modern capitalism was not
the result of a technical condition—more money to invest or new technologies
invented—rather, it emerged from a growing spirit of capitalism born out of the
Protestant Reformation. This is not to say that accumulation of financial capital and
invention were not important to the development of modern capitalism; however,
Weber posits that they resulted from creation of this capitalist spirit.

Tawney provides further insight into the effects of the Reformation:

That [from the Puritan mind] which looked forward found in the rapidly growing
spirit of economic enterprise something not uncongenial to its own temper, and went
out to welcome it as an ally. What in Calvin had been a qualified concession to prac-
tical exigencies appeared in some of his later followers as a frank idealization of the
life of the trader, as the service of God and the training-ground of the soul.
Discarding the suspicion of economic motives, which had been as characteristic of
the reformers as of medieval theologians, Puritanism in its later phases added a halo
of ethical sanctification to the appeal of economic expediency, and offered a moral
creed, in which the duties of religion and the calls of business ended their long
estrangement in an unanticipated reconciliation. Its spokesmen pointed out, it is
ture, the peril to the soul involved in a single-minded concentration on economic
interests. The enemy, however, was not riches, but the bad habits sometimes associ-
ated with them, and its warnings against an excessive preoccupation with the pursuit
of gain wore more and more the air of after-thoughts, appended to teaching the main
tendency and emphasis of which were little affected by these incidental qualifications.
It insisted, in short, that money-making, if not free from spiritual dangers, was not a
danger and nothing else, but that it could be, and ought to be, carried on for the
greater glory of God.34

A critical result of the Reformation was the promotion of a more individualis-
tic society. By successfully challenging the authority of the church that for so long
held people in rigid places in society, the Reformation allowed individuals to seize
this new freedom. As historian George O’Brien explains,

The Reformation attacked the unity and integrity of the Church, and, in so far as it
succeeded in that attack, it undermined the foundations of the only power which was
strong enough to keep in check the unbounded avarice and selfishness of man, and
thus opened the way to the conception of a society of individuals, all guided simply
by their own self-interest, indifferent alike to the welfare of the community and to the
dictates of the moral law. . . . Wherever the Reformation prevailed, it had the result of
annihilating the institutional side of Christianity, and henceforward, in Protestant
countries the faithful were bound together simply by the loosest ties. The ancient
moral power of the Church to regulate the transactions of everyday life in accordance
with Christian ethical ideas had disappeared; and men were left at liberty to act
morally or immorally as they pleased, with no responsibility but that of satisfying their
own conscience.35

34 Tawney, Religion, 239–240.
The Reformation, with its message that people are justified by faith and not by works, undermined the moral fabric of society. Catholicism had provided a set of moral laws that rapidly eroded with the Reformation. This weakening of morality had a significant impact on economic activity and thought.

The economic importance of the tendency of the Reformation to lower the moral tone of society and to weaken the respect in which morality was held, can only be realized when we remember the essentially ethical nature of economic teaching in the Middle Ages. Protestantism substituted an individualistic for a corporate conception of man’s economic relation to society, and the idea of Christian solidarity disappeared with the destruction of the old Church.36

The Reformation and Public Finance

The Reformation brought significant changes to relief (welfare) systems, both structurally and in terms of normative views. Prior to the Reformation, the Roman Catholic Church had an elaborate system of charitable activities to help those in need. These activities were well funded by the alms of the property owners, and strict religious directives kept people “charitable.”

With a rejection of the structures of the Catholic Church came a reduction in alms giving, and the new Protestant churches were unable to match that effectiveness in providing for the poor. Add to that the beliefs that emerge from the Reformation. As work became more virtuous, idleness fell into disfavor and poverty lost its “badge of honor.” The joint biases against government intervention and poor relief, although clearly normative views, continue to affect the shape of policy today.

Martin Luther, perhaps the best known of the Protestant reformers, is often credited with creating the government-provided welfare we see today. However, as historian George O’Brien asserts,

It was principally because the old springs of charitable activity were dried up by the Reformation that it is correct to say that Luther was the parent and originator of the modern system of public relief of the poor—a claim which is often put forward by his admirers as one of his greatest claims to admiration.37

SUMMARY

The Protestant Reformation provided no more “economic thought” than did the Bible or St. Thomas Aquinas. All produced moral and theological conceptions of right economic conduct. Although there may have been an underlying comprehension of fundamental economic concepts, there were no formal, well-articulated explanations of economic theory. Even so, the evolution of biblical ideas through

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the centuries, and particularly the Reformation, clearly influenced economic thought. The Reformation changed attitudes toward economic activity, promoting hard work and individualism—ideas that would be picked up later in the more formal schools of economic thought.

Questions for Study and Discussion

1. What economic ideas can be found in the Bible? Why aren’t these ideas considered a school of economic thought?
2. What modern theoretical concepts can we connect to (1) valuations (Leviticus), (2) manna in the wilderness, and (3) jubilee?
3. How does the biblical treatment of accumulation relate to economic theory and activity?
4. What forces combined to inhibit the development of economic thought during the Middle Ages (A.D. 500 to 1500)?
5. What is usury? How was it viewed biblically and by St. Thomas Aquinas? How did the prevailing views on usury prior to the Protestant Reformation affect economic activity?
6. Does the slow development of economies prior to the Protestant Reformation explain why economic thought was also slow to develop? Why or why not?
7. What is meant by the just price? According to St. Aquinas, what were the three forms of an unjust price? Identify one or more modern applications of the just price.
8. Martin Luther and John Calvin were both important figures in the Protestant Reformation. To the extent that the Reformation contributed to capitalist development, did Luther and Calvin make similar contributions? Explain.
9. What effect did the Protestant Reformation have on economic activity and thought?
10. How did the Protestant Reformation contribute to the modern welfare state?
11. Modern economic activity is much less influenced by religious considerations than it was in ancient times or in the Middle Ages. Why is that, and to what extent is the Reformation to “blame” for religion’s diminished role?

Selected Readings


