International Review of Economics (2019) 66:233–248
https://doi.org/10.1007/s12232-018-0307-x

RESEARCH ARTICLE

Martin Luther and the making of the modern economic mind

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Received: 20 February 2018 / Accepted: 19 July 2018 / Published online: 7 August 2018
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Abstract

Martin Luther has, in the modern economic as well as historian's literature, often been portrayed as a mediaeval ignoramus helplessly shouting against the forces of modern capitalism, with little meaningful economic insight or contribution made to modern economic reasoning. In my paper, I would like to challenge this view. A first section provides a brief sketch of the evolution of economic knowledge in Europe during the centuries of capitalism's ascendancy, 1250s–1850s. I would like to suggest that what today is claimed as having been the past "mainstream" does not necessarily correspond to what the mainstream way of thinking about the market process really was in the past or the centuries of European capitalism in its ascendancy, 1250s–1850s. A second section then discusses the intellectual origins of Martin Luther's theology and market theory in the light of the remarks made in section one. It argues that to fully understand Luther's economics also means we have to engage with the origins of his theology, not only because his economics and theology were intrinsically related and built upon one another, but because in a historical context it makes little sense to analytically disentangle theology from economics. A third section provides a sketch of Martin Luther's economics, also demonstrating how Luther fits into the genealogy of modern economic knowledge. The fourth section concludes.

Keywords Martin Luther · History of economic thought · History of political economy · Reformation economics · Renaissance economics · Scholastic economics · Pre-classical

JEL Classification B10 · B11 · B110 · N00 · N010

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Martin Luther has, in the modern economic as well as historian's literature, often been portrayed as a mediaeval ignoramus helplessly shouting against the forces of modern capitalism, with little meaningful economic insight or contribution made to modern economic reasoning (e.g. Brandt and Lehmann 1962, introduction to "On Trading and Usury", or Schilling 2012 for an historian's view). Whilst earlier economic traditions such as the nineteenth-century German Historical School in Economics[1] had treated Luther as one of their own and his contributions to economic reasoning as a matter-of-course (e.g. Roscher 1874; Schmoller 1860), later he would be all but forgotten. Only in recent decades have historians and economists picked up on select aspects of Luther's economic reasoning (e.g. Langholm 2009; Peukert 2010; Singleton 2011; Rössner 2015a, b, 2016). In my paper, I would like to challenge older notions of Luther being the pitiful economic ignoramus which he never was, by pointing out to what essentially is a double-fraction in the modern economic mind. First, what is commonly defined as "modern" or "economic" or "modern economic" knowledge depends on whether we truncate the development of modern economic analysis and limit the label "modern" to what emerged, in some parts of the western world, as the Anglo-Saxon mainstream after 1776. Economics has often claimed Adam Smith's *Wealth of Nations* (1776), French Physiocracy and nineteenth-century Anglo-Saxon classicism and marginalism as its heritage, or the beginnings of political economy (but see Backhaus ed. 2009). However, during the nineteenth and the first half of the twentieth century in most European countries, the economics canon looked different from either Anglo-Saxon or French contributions in key regards (e.g. Schefold 1998, 2014). The continental tradition in turn drew on longer lines of continuities, an *alteuropäische Tradition* (Burkhardt and Priddat 2009) or "Other Canon" (Reinert 2004, 2007; Reinert et al. 2016, 2017), which had been formed since the Renaissance. It built on Scholastic analysis and was, in subsequent centuries, refined in the mercantilist-Cameralist visions of the market process. These visions saw the market as a human-dynamic process framed by, and framing in turn, economic change, spatial economics, economic growth and development. Within this longue-durée canon, Martin Luther's vision of the market process appears far less out of line and in many ways even modern. The second fraction is that Martin Luther's forthcoming as a Reformer in 1517 has often been framed by historians against an expanding economy when capitalism, finance and urban life suddenly grasped momentum, which left—if the proposition is accepted and pushed to its limits—young Luther helpless and perplexed with the new forces of the new times. But if we acknowledge that capitalism had long been there, especially within the central European mining region, where Luther grew up and spent most of his active life, and that during Luther's time and age this economy contracted rather than expanded (Rössner 2015a), we can say that Luther understood the working mechanism of the contemporary market economy as well as anybody else. His economic model was as sophisticated as could be, and well-adjusted to the conditions and specific requirements of Luther's times and age.

[1] There also was an Historical School in the discipline of history which began to form as an academic discipline since the later eighteenth century.

In my present paper, I would like to focus on the first fraction only—Luther's "economics" or vision of the capitalist market process, leaving aside the historicized frame provided by the economic history of the Age of Reformation as an age of crisis, which I have dealt with elsewhere (Rössner 2012: ch. II). A first section provides a brief sketch of the evolution of economic knowledge in Europe during the centuries of capitalism's ascendancy, 1250s–1850s. I would like to suggest that what today is claimed as having been the pas "mainstream" does not necessarily correspond to what the mainstream way of thinking about the market process really was in the past or the centuries of European capitalism in its ascendancy, 1250s–1850s. A second section then discusses the intellectual origins of Martin Luther's theology and market theory in the light of the remarks made in section one. It argues that to fully understand Luther's economics also means we have to engage with the origins of his theology, not only because his economics and theology were intrinsically related and built upon one another, but because in a historical context it makes little sense to analytically disentangle theology from economics. A third section provides a sketch of Martin Luther's economics, also demonstrating how Luther fits into the genealogy of modern economic knowledge. The fourth section concludes.

1 I

Modern economic analysis has tended to focus on distribution rather than production; on ideas of equilibrium and the economy as a self-contained system and self-regulating mechanism. This system worked according to its very own mechanistic "laws" that could be analysed using an increasingly formalized language and mathematical analysis. Since the eighteenth century, the idea gained ground of what Seabright has called "cooperation with no one in charge" as an ideal state of market economy (Seabright 2004).[2] The role of the state extended mainly to setting and enforcing an external framework or rules of exchange, within which this "natural" interplay of economic forces would be allowed to freely unfold. This would allow maximizing the allocation of productive resources in a Pareto-optimal way, avoiding Nash equilibria and other sub-optimal features (e.g. Mokyr 2009, ch. 4). Adam Smith's absolute advantage and Ricardo's comparative advantage argument added to this vision of the market process as free trade and laissez-faire. There had been predecessors of this tradition in the early modern *doux commerce* discourse and Natural Law theory, and free trade ideas—however crudely defined—can be found as early as Antiquity (Irwin 1998). But until very recently such notions remained heterodox. Only post-1800 economic discourse would accept and them as mainstream and then depict as eternal truths, or "normal" conditions in the market process.[3]

[2] This is a development of the famous (and much-abused) "invisible hand" metaphor which Smith, in his *Theory of Moral Sentiments* and the *Wealth of Nations*, even when taken together, used less than a handful of times.

[3] Scholars have also pointed out that neither laissez-faire nor free trade ever represented empirically fully verifiable conditions in world economic history. They were, most of the time, powerful propositions, around which history and human agency unfolded, and most of modern market theory, including

There existed, however, an alternative theory or philosophy of the market process. This theory agreed with later laissez-faire visions that free markets were principally good ways of maximizing welfare. But such conditions were never thought to obtain spontaneously. They were never to be found as the natural state of things. Rather equilibrium and equality in market exchange had to be created by design, established from outside. This arbiter in the market process, setting and enforcing the rules of good economic behaviour in the market place, was the prince, ruler, and—in the later visions—the state. This state was considered as proactive since it had to constantly supervise the market process and intervene where disequilibrium, rent seeking, usury prevailed, or any other injustice or unlawful exploitation. The state had to set rules of good market behaviour, be ready to enforce good governance in the market; set the rules of exchange by currency and monetary regulation, supervision of market exchange, price and quality controls for essential products, such as grain, meat, sometimes cloth. The state or ruler was also called to intervene where disequilibrium prevailed on the international-competitive stage, e.g. when a domestic industry failed to export or compete on interregional markets. Then, the ruler had to take proactive means to stimulate the market process by improving the quality of the goods manufactured for the market, employing rewards, bounties and other encouragements, as well as tariffs or import (and export) bans. These measures have been commonly called "mercantilism", and particularly for the German-speaking countries, "Cameralism".[4] Both are misnomers, first because central elements of the so-called mercantilist vision of the market process had been known to mediaeval economic thinkers of the Scholastic spectrum, long before the mercantilist or early modern period. This included market regulation, and the prohibition of some manufacturing imports when they harmed the common weal. In the same way, they continued to be applied by the capitalist nations of the West long after the early modern or mercantilist age had ended and the first, second and third industrial revolutions were in full swing (1770s–1970s). Price controls, import bans, tariff protection and other such "mercantilist" tools have belonged and still belong to the key tools of economic policy or "Governing the economy" in the capitalist nations of the West post-1945. Moreover, as new research on the crossroads between history of ideas and the history of economic analysis has shown, Cameralism was by no means chiefly or exclusively German. The cameralist genre can be found in seventeenth- and eighteenth-century Sweden, Italy, Denmark-Norway, Finland, even Russia (Seppel and Tribe eds. 2017).

The European heritage in modern economic analysis has in many ways been focused on classical Anglo-Saxon liberalism which, as scholars in the nineteenth

Footnote 3 (continued)

nineteenth-century institutionalism, twentieth-century neo-institutionalism, game theory, development economics and market design were built as tools dealing with the situation most common on markets: market failure, market imperfections, or rent seeking.

[4] I am currently working on a long-term empirical study of capitalism and markets in Europe, attempting to demonstrate the shortcomings of such concepts, as well as the long-term continuities and ramifications of "mercantilist" market theory and governance. On "mercantilism" and Cameralism, see Coleman (1969), Stern and Wennerlind (2014), Isenmann (2014), Magnusson (2015), Rössner (2016), Seppel and Tribe (2017).

century realized, never really represented mainstream thinking outside the Anglo-American economic episteme. Adam Smith, John Locke and the French Physiocrats all represented beginnings of modern economic analysis, but not *the* beginnings. The idea goes that it was during the eighteenth century that thinkers first began to develop the idea of abstract models and the economy as a mechanism of circulation that could be analysed by studying its basic principles and working mechanisms that were thought to hold true and be eternally valid regardless of circumstances, context, time and space. The tools to be used in this analysis were abstraction, reductionism, ideal-type, ceteris paribus clause and an increasing degree of mathematicizing (Morgan 2012). But new research strongly disagrees with the proposition that the invention of modelling and abstract economic analysis was original or peculiar to the Lockean and then Physiocrat and classicist tradition in economic analysis, suggesting instead that the writers of the mercantilist-cameralist ilk were no strangers to abstract models and thinking of the economy in aggregates (Elmslie 2015). In many ways, the reconfiguration of the global political landscape after 1945 meant that for the first time in history Anglo-Saxon economic analysis would become the mainstream in the western world. The history of economic analysis would accordingly be written in similar fashion and tone post-1945. This was also the time when Luther's and other continental authors were either forgotten or depicted in decidedly derogatory terms of a binary primitivism versus advanced economic knowledge approach, manifested in the idea that the history of economic analysis could be written as a history of progress (e.g. Mokyr 2009; but see Magnusson in Rössner ed. 2016; Schefold 2014).

2 II

Luther was born in 1483 at Eisleben in the County of Mansfeld, one of the numerous smaller principalities in the Holy Roman Empire (Germany) with significant copper mining and smelting industries. His father Hans Luder had been a mining entrepreneur; he bequeathed a fortune of more than 2,500 Rhenish florins at his death (Brecht 1994, I, ch. 1). At that time, silver was mined chiefly in the Tyrolean Alps, mainly at Schwaz in Tyrol near Innsbruck; in the Saxon and Bohemian parts of the Erz Mountains, as well as in Hungary/Slovakia near Kremnitz. Output in the Saxon Erzgebirge had witnessed a boom between 1470 and 1477. Before the 1550 s, more than 50 per cent of silver available for global trade was produced here (Munro 2003; Westermann 1971; Blanchard 2009, ch. 1). The boom in the Tyrol lasted from about 1470 to 1485. In Tyrol, Thuringia and the Saxon Erzgebirge, minor towns and hamlets such as Schwaz, Schneeberg and St Annaberg demographically exploded from a handful of people into the tens of thousands towards the 1490 s, when this boom ended. A rapidly growing share of non-agrarian producers needed to be fed. This required significant imports of foodstuffs and commerce on a grand scale, which brought these areas into larger contexts of inter-regional division of labour, integration and structural change (Rössner 2015a, ch. 2; Straube 2015). To the southwest of the Erz Mountains, in the Thuringian Forest, a supplementary source of silver had been opened since the later fifteenth century. This was the *Saigerprozess* or liquation process, which operated under a different production function compared to the mining enterprise that was characterized rather by small-scale units (Blanchard 2009, ch. 1). The *Saiger* huts (liquation plants) were large proto-factories employing hundreds of workers sometimes, using prodigious amounts of capital inputs such as wood, charcoal and lead for the separation of the argentiferous raw copper into its components of pure copper (*Garkupfer* in German) and silver (Blanchard 1995, introduction). Here, Luther grew up and spent most his later life. It profoundly shaped his outlook.

The Thuringian Saiger huts were financed by large Upper German merchant consortia of Nuremberg and Augsburg, headed by high financiers such as Jakob Welser, the Fuggers, the Höchstetters and many more (Westermann 1971, 94–137). The copper was distributed along the African coastline. The silver went as far east as the Indian Ocean and into the Chinese Sea. Martin Luther, with his father a stakeholder in the mining industry, had a considerable share of first-hand evidence of these dynamics. He was even a shareowner in a silver mine (Treu 2000). Luther's sermons and writings are full of metaphors and analogies drawn from mining technology and practice (Wenner 2000). He was initially set to train as a lawyer and for a career in business administration upon completing his liberal arts degree at the University of Erfurt in 1505 (Brecht 1994, Vol. I) before—after nearly being struck by lightning in a thunderstorm 1505—turning into the ardent religious believer and later religious reformer for which he is most commonly known. As late as the 1530 s and 1540 s, long after his spectacular career in theology had unfolded to full extent, he became repeatedly involved as an expert in the business of restructuring the Thuringian-Mansfeld Saiger industry (Westermann 2000). And by means of his exhaustive study of Scholastic theology at Erfurt and Wittenberg, 1505–1512, he would have read all the important economists of his age, from Aquinas and Oresme to Gabriel Biel, including lesser-known contributions by the mediaeval Schoolmen to the evolving body of mediaeval economic knowledge (Langholm 1992, 1998, 2009; Wood 2002).

Recent biographies and research on Luther's theology (Schilling 2012) have stressed Luther's deep roots in mediaeval mysticism and the role played by Johann Staupitz (c.1460–1524), Luther's teacher, confessor and fatherly friend, from his early beginnings until later in life, when Luther had already emerged as the powerful public figure that he was. The fourteenth-century "Theologia Deutsch" from an unknown member of the *Deutsche Orden* at Frankfurt-on-Main had highlighted, in chapter nine, the virtues of salvation that came only from an inward-looking faith and direct relation between the individual and God, something which Luther developed more fully into the idea that good works, worldly deeds and material objects could never provide a road to salvation in the way practiced by the Church around 1500, particularly by way of marketing indulgences. Regardless of the authorship for this work, which is difficult to ascertain, its impact on the theology of Luther and contemporaries in the early Reformation era was formidable. The *Theologia Deutsch* remained one of the foundational texts of later dissident-heterodox versions and streams of the protestant faith, including spiritualists, Chiliasts and Pietists. It was put on the index, finally, by Pope Paul V in 1612. Texts of similar rank and prominence included Johann von Staupitz's *Von der Liebe Gottes* and his *Von unserem hl. Christlichen Glauben*; both works remained in print into the early decades of the seventeenth century (Wallmann 1995: 11–13). The *Theologia Deutsch* spoke about Christs “two eyes”, the left eye looking at the temporal and corrupted world of human miserly, lament and toil (“Trübsal, Jammer und Arbeit”), the right one into eternity, pure perception, perfect bliss and eternal peace in God. It called for the true Christian to let go of everything worldly, “word, deed, habit, art and craft”, meaning that only the mortal human being would need such things to live and survive. None of it would bring salvation or matter in the eternal order of things (*Theologia Deutsch*, ch. 7). Staupitz, in *Von der Liebe Gottes* (1516) emphasized the same thing: true love of God must come from within and nowhere else; a true God-loving Christian would, in consequence, disregard the virtues of possessing earthly goods but contemporaries were venerating “gold and silver, timber and such.”[5] This was a familiar trope in modern Protestant doctrine and church practice (Rössner 2015a, b, 2016).

Ironically, these passages could well be turned, by the way they were handled by Martin Luther, his contemporaries, as well as posterity up to the Ordoliberal tradition around Hayek, Röpke and Rüstow (Manow 2001; Kolev 2017), into powerful justifications of bounded laissez-faire capitalism and economic development. We may see both the *Theologia Deutsch* as well as Staupitz’s works as foundations for Luther’s vision which carried a decided mystical-spiritual undertone, absconding from the formalistic reasoning and formalized interpretation of Scripture taught and practiced by the late mediaeval Scholastics. This pertains especially to Luther’s theory of indulgences and the idea that *payment* for indulgences, accompanying good works in the process of the sinner’s way from repentance to salvation, should be given up. His Two-Swords Doctrine directly drew upon the mediaeval tradition of mysticism. The Two-Swords Doctrine, which became characteristic of the Lutheran vision of the state in the social and economic process, kept a strict line of separation between the here and there and the afterlife, between the perfect Christian community in the model and the harsh reality in profanity where lives were, to use a later phrase by seventeenth-century political philosopher Thomas Hobbes, “nasty, brutish, and short.” Two other epistemic cornerstones of his thinking were the *simul iustus et peccator* or Righteousness of God doctrine, where righteousness was conveyed to the sinner as a gift from God; and, finally, the *Sola Fide/Sola Scriptura* doctrine, which saw no intermediaries between the individual, her salvation, and God.

This all explains, to an extent, why some of Luther’s teachings on economy can be considered, in fact, quite laissez-faire, if not modern—if such an anachronism is appropriate at all. The role of the state extended mainly to setting the framework of good governance, maintaining a safe and well-spirited Christian common weal. Within this framework, market economy could unfold according to principles that come close to competitive equilibrium conditions, or laissez-faire capitalism in the modern vision. It is little wonder then that some later proponents of the Ordoliberal and neoliberal spectrum, such as Friedrich Hayek or Wilhelm Röpke would happily claim Luther as a source of inspiration (Manow 2001).

[5] https://download.digitale-sammlungen.de/pdf/1504607310bsb10989547.pdf.

3 III

The key points of Luther's economic reasoning—one should refrain from the obvious anachronism of calling "business ethics" what was effectively a mode of economic analysis—can be gleaned from Roscher (1874), Schmoller (1860), Barge (1951), Fabiunke (1963), Strohm (1983), Prien (1992), Rieth (1996), Scott (2001, 2013), Pawlas (2000); Koch (2012) and more recently the present author (Rössner 2015a, b, 2016). Luther's major economic treatise was *On Commerce and Usury* (1524), a pamphlet that incorporated whole chunks of an earlier treatise on usury published in 1519 and 1519; in 1540, he would publish another such treatise (Luther 1540). Many elements of his model of the market process he had sketched in his big political economy text *Address to the Christian Nobility of German Nation* (1520), in which he had expanded, inter alia, on indulgences, alms-giving and other rudiments of public welfare, but also public administration as well as the role of the state in general, which at his time was manifested mainly in the shape of the nobility and territorial rulers. *On Commerce and Usury* included a detailed discussion of a set of contemporary market manipulations and market distortions such as engrossing, forestalling, monopoly, usury, ruinous competition etc. But to portray this treatise, as some have (e.g. Strohm 1983, Prien 1992; Rieth 1996) as a treatise in "business ethics" means mis-portraying economic analysis in the pre-classical mercantilist age: a holistic vision of the market process, where market theory was not exclusively concerned with price formation but incorporated wider questions of ethics and a well-governed Christian Common Weal (Ger. *Christenstaat*) as a fundamental component of creating and establishing laissez-faire, i.e. capitalism. Luther allowed for a maximum interest rate on some loans of up to 6 per cent per annum. Only those charging more than that, *seven, eight, nine, ten per cent* should be prosecuted, he said (Luther 1524). This suggests that financial markets even in Saxony and Central Germany these days (on which we still lack a major study) were fairly differentiated, with types or segments of such transaction ranging from state finance and loans to the Saxon duke and elector, down to urban rents and annuities, which could, at the time being, bear legal interest rates of as much as ten per cent per annum. In fact, late mediaeval theory had become relaxed on interest-bearing credit, and theologians of the Spanish School of Salamanca were perfectly happy with loans to carry interest, if they were used for productive investment representing *capital* in the modern sense, for instance to run a business (Boldizzoni 2008). *Lucrum cessans* (a foregone alternative profit or investment opportunity), *damnum emergens* (an emergent risk), or delay in repayment had, by the later middle become perfectly legitimate or 'extrinsic' titles or entitlement to interest (Wood 2002: 188–190; Munro 2012; Gilomen 2015; Schmoeckel 2017). As Schmoeckel and Roover and others have noted, rather than representing prohibitive commandments hewn in stone, late mediaeval Scholastic usury doctrine provided a flexible and malleable framework of normative order that was remarkably well-adaptable to *promoting* rather than hindering capitalism (Schmoeckel 2017; Roover 1955). Usury Law represented admonitions and were considered, by the late middle ages, to apply mostly to the micro-credit spectrum and consumptive loans, i.e. situations in which borrowers were forced to take credit simply to physically survive (Gilomen 2015).

Moreover, Luther made a clear distinction between his ideal Christian state as a model and capitalist reality as it unfolded during his own life and age. He wrote in his *Letter to the Councilmen of Danzig* in 1525, how interest was something entirely normal and permissible, if certain rates and boundaries were not exceeded. *On Commerce and Usury* was more of an economic *model*, a programmatic text, an axiomatic pamphlet of how a perfect Christian common weal—economy and society—would look, if configured according to God's will. On markets, he was fairly laissez-faire, suggesting on the one hand that there existed, in principle, something like a true "just" price, dictated by Christian judgement and God's chosen order. What happened in reality, however, was different:

> the best and safest way would be for the temporal authorities to appoint over this matter wise and honest men who appraise the cost of all sorts of wares and fix accordingly the target price at which the merchant would get his due share and have an honest living, just as at certain places they fix the price of wine, fish, bread and the like. But we Germans are so busy drinking and dancing that we cannot bear any such regulation. Since, then, we cannot hope for such an institution or edict, the next best thing will be to hold our wares at the price which they fetch in the common market, or which is customary in the neighborhood. In this matter we can accept the proverb: "Do like others and you are no fool." Any profit made in this way, I consider honest and well earned, since there is risk of loss in wares and outlay, and the profits cannot be all too great.

In many ways, this supports a Hayekian reading of Luther that is not averse in principle to markets, competition, usury, and competitive price formation. Luther never advocated price regulation, let alone price fixing, or any intervention in the market process beyond establishing and maintaining rules of good behaviour in the market place.

Earlier Scholastic models even appear more refined than Luther's, and part of his sneer at Scholastic theology and philosophy may simply have entailed a general aversion towards economic sophistry. The late mediaeval theologians known by the name of "Scholastics" seem to have developed a rather laissez-faire vision on the market process, sometimes evoking the sense of God's chosen order. Aquinas and Augustinus had, in the thirteenth century, defined a good's price as something that was determined by utility (*indigentia omnia mensurat*). Petrus Johannes Olivi (d.1298) and Buridanus or Bernardo di Siena would define it according to *virtuositas*, *complacibilitas* and *raritas*, considering factors such as relative scarcity (supply and demand), the costs, troubles and expenses incurred by the merchant in procuring and vending goods, as well as individual appreciation and utility—all factors which have, to a degree or another, also influenced modern price theory and microeconomics. Konrad Summenhart (1450/60–1502) listed a total of sixteen factors, such as first cost or purchasing price, labour cost, transport and storage cost, costs for "Sorgfalt and Achtsamkeit bei Herstellung" (something like: diligence, which Adam Smith picked up in chapter one of book I of his *Wealth of Nations* 1776); search and information costs, for the merchant buying goods with the intention of reselling them; risk, transaction type, type and nature of the good under consideration, scarcity, utility, complacibility, *lucrum cessans*, added value, conspicuous nature of its consumption or prestige, and only if applicable governmental price maximums. Slightly earlier than Summenhart, the jurist Johannes Nider (d.1438) had basically argued that the main factor influencing price formation on the market was the relationship between a good's demand and its supply. The moral norms provided by the Canon and private law jurists since the later fifteenth century provided a mix of normative regulation with increasing flexibility within the bounds of the normative. Roman Law (*Corpus iuris civilis*) had known *multitudo civilis, prout scilicet in civitate sunt multa artificial ad quae una domus sufficere non potest*. Here the connection was made between economic differentiation, specialization and division of labour. Once a community had expanded beyond a threshold size, i.e. had turned into society, exchange became a necessity. And where there were many goods and buyers, there would have been some sort of competition, which would influence price formation.

Martin Luther was, what regarded markets and price formation, not radically far-off the late Scholastic mainstream of his age. But there was one fundamental epistemic difference, however. One powerful derivation of Luther's axiomatic "not-in-this-worldliness" (*Weltfremdheit*) that shines through many of his programmatic writings and which considerably drew on late mediaeval Mysticism, was that whatever you did in material terms, for example, regardless how much gold and silver monstrances, chalices, ceremonial cloth and other luxury items you spent on church ritual or by donating it to monasteries, churches and cloisters—where these items frequently ended up in the dead hand, on the altar, liturgical equipment etc.—it would make you none the better before God. What mattered was your inner life. If you reversed this argument, this could be turned into a powerful plea for capitalism. It meant nothing else than that the market economy could well be left to unfold according to its own rules, within the boundaries of good and just Christian government. Luther's Reformation also disentangled materiality from spirituality and salvation. It thus freed considerable resources for the capitalist market process. In the consequence of the Reformations and Counter-Reformations, protestant and some Catholic countries of Europe experienced a considerable reduction in holy days and thus a boost in total hours worked—or rather potential of working—for the market.

On the other hand, and in consequence of the dissolution of the monasteries in the wake of the Reformation and the breaking-up of institutionalized charity, Luther's New Deal would likely increase the number of "undeserving" poor and vagrants. The mercantilist work house was a consequence of this (and clearly a Dark Side of mercantilism), in the same way as a labour market that was somewhat more flexible than before: the road towards salvation by means of lavish alms-giving was now closed. This, coupled in many instances with medical relief, was now put in the hands of the emerging European states (e.g. Rijs 1997: 127f.).[6] Nevertheless, Luther, in his writings constantly stressed the virtues of manual labour "in the sweat of one's

[6] See also Ole Peter Grell and Andrew Cunningham, "The Reformation and changes in welfare provision in early modern Europe" in ibid., 1–41.

brow", elevating work into a service for god and the spiritual community of believers. And whilst this, somewhat ironically, represented a profoundly anti-capitalistic stance (Luther never trusted the merchants of his age), it was picked up two centuries later by Adam Smith and subsequent value theories of labour in the modern economic sciences. Without doubt by this discursive elevation, human industriousness received a renewed propagandist boost during the age of the Reformation(s).

With the conception of the Common Chest (*Gemeiner Kasten*), coupled with a reframing of begging and alms-giving as outlined before, Luther and fellow reformers also laid some of the intellectual foundations of the modern welfare state by prescribing where the funds for poor relief had to come from: the dissolved cloisters and monasteries within the cities that adopted the new faith as a cultural, political and social programme, and how they were to be re-allocated in the future (Lehnert 1935: 35f., 44; Stupperich 1989: 622–671; Bog 1974/5). Pre-1517 Europe had seen a colourful, varied and impressive culture of poor relief; definitions of poverty, "good" versus "bad", "strong" versus "weak" beggars had varied and adjusted to changing material conditions of times and ages before 1500. The beggar had attained a crucial place in mediaeval social theory, as someone which Christian charity commanded to be helped and supported, but also someone who would, by accepting alms, bestow potential chances of salvation and grace to those who gave, who shared their wealth with those who were, for some reasons or another, incapacitated. Later conceptions, especially under the early modern mercantilist paradigm, saw begging as a burden to society, rather than source of salvation. The transformation of poor houses into work houses as places where beggars and vagrants would be coerced into forced labour drew upon the new social and welfare relief formula developed by Luther in the 1520s. Some of these re-conceptualizations had pre-dated the Lutheran Reformation. Never, however, had this programme been formalized so clearly as Luther would, by setting a template for Leisnig (*Leisniger Kastenordnung*, 1522) and Wittenberg in the early 1520s. Similar common chest schedules were adopted throughout the empire during the 1520s.

Luther also laid another important foundation for the emergence of the modern state. His *Two-Swords Doctrine* theoretically invested the state with powers of authority—legislative, judicative, but above all, executive—which later early modern "reason of state" theory, as well as modern institutionalism, including public choice, New Institutional Economics, Political Economy or development economics in the wake of Thomas Hobbes, Jean Bodin, or Giovanni Botero would claim to rest naturally within the hands of the state. Later conceptions of coordinated capitalism or economic reason of state theory that developed during the mercantilist age, especially the continental European variations in Germany, Sweden and elsewhere usually known as "Cameralism" built upon Luther's *Two Sword Doctrine*. But they would increasingly disentangle reason of state from its soteriological and religious framings. Leviathan rested upon Lutheran shoulders, and even those rulers and states that remained Catholic throughout the early modern period, adopted Lutheran rationales of state and governance. By highlighting, as Luther did in *On Commerce and Usury* (1524), the state's role "to keep the roads open and secure a good level of highway police and public governance", as well as enforcement of law and order, Luther emphasized framings of the market process which much later visions identified as an important for economic growth and development (e.g. North et al. 2009; Acemoglu and Robinson 2012). Societies where government could credibly enforce the "rules of the game" have historically tended to be more economically dynamic than others, albeit causal mechanisms are not always straightforward (Epstein 2000). In European history, the example par excellence was post-1660/88 England, but in continental states and nations such as France, Sweden or the Germanic states, where commercial litigation and the rule of law were placed on ever more secure feet in the centuries after 1500, especially after 1800 and the abolition of absolutism and feudal repression, developments went into similar direction. "The last decades of the sixteenth century saw the first wide-spread appearance of territorial police ordinances (*Polizeyordnungen, Landesordnungen*), which contained not only regulations for such things as weights and measures, coinage, dress, and care of the poor, but also sections banning such things as cursing, swearing, drunkenness, fornication, adultery, gambling, indecent dances, and so forth." (Estes 2005: 4; Iseli 2009). Anyone who has ever worked with sixteenth-century government sources knows about the great swelling which government documentation and recording experienced, especially in regards of the totally new field of confessional politics opened by the *Causa Lutheri*, on the imperial level as well as the level of individual German territorial states, as well as the rise of the *Landeskirchen* (territorial churches). More profane aspects including coinage and monetary policy on the other hand had a mediaeval prehistory long predating Luther. Here the "Reformation 1517" sometimes simply opened and sometimes considerably extended the menu of choices and strategies available to the temporal authorities and states that were in the making. In subsequent centuries, this would influence how states would act within, and interact with, the economy and the market process.[7]

Luther was far from a "modern" understanding of the state determining, by its choice of exclusive or inclusive political and economic institutions, whether the way forward would lead into development or underdevelopment. Luther's state was strong and idealized, derived from the need to make the Gospel work within a world that was utterly un-evangelical. Another interesting side remark was his famous comment on the Frankfurt Trade Fairs in *On Commerce and Usury* (1524). Frankfurt was, in Luther's words, the "silver sink" that drained the Empire of money spent on superfluous imports. This remark has earned him the somewhat dubious classification as an early mercantilist (Fabiunke 1963). A mercantilist he clearly wasn't, but his remarks bear close resemblance to a general bullionist stance which would have been shared by most contemporary thinkers on political economy during Luther's days. He only saw a strong need for the ruler or temporal authority to intervene where the market would not automatically resolve problems of unjust distribution. This was something later cameralist and mercantilist authors would have shared, in the same way as neo- and Ordoliberalism around 1945; not even Adam Smith was a general advocate of free markets, reserving a role for the state when markets went over the top. And in many ways, and with every commendable pinch of salt, we can call his vision of the market process "laissez-faire."

7 On monetary governance and market regulation in historical perspective, see Rössner (2015c, 2018).

4 IV

Luther did not usually acknowledge the Scholastic pedigree in his analysis of the market process. And whilst his theology and vision of church, faith and salvation were very different from Scholastic interpretations, his model of economy and the market process shared some of the salient features with Scholastic economic analysis, especially regarding interest rates, financial markets and price formation. Here, he can be shown to have been an advocate of a hands-off or "laissez-faire" model. Regarding the role of government in the economic process, he made some interesting departures, based on his Two-Swords Doctrine and his *Weltfremdheit* or "not-of-this-worldliness" theology. Luther also discussed or mentioned aspects that shaped the emergence of modern political economy during the subsequent centuries of modern capitalism's ascendancy. And in many ways, he prefigured some of the analytical problems that have remained at the heart of economic analysis and political economy to the present day.

Compliance with ethical standards

Conflict of interest Author declares that there is no conflict of interest.

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