

*MONEY, BANK CREDIT  
AND ECONOMIC CYCLES*  
(Jesús Huerta de Soto)

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In the midst of the current monetary crisis, I find it useful to review Jesús Huerta de Soto's *Money, Bank Credit, and Economic Cycles* (2<sup>nd</sup> Edition, Auburn, AL, Ludwig von Mises Institute, 2009). Jesús Huerta de Soto is professor of political economy at the King Juan Carlos University in Madrid, and has presented several papers to Mont Pelerin Society meetings. At 885 pages, the book is encyclopedic, and as Jean-Claude Trichet said: «It is indeed a remarkably stimulating and thought provoking summa.»

In 1979 a regional meeting of the Mont Pelerin Society was planned for Madrid. F.A. Hayek, founding president of the MPS, said he would only present a paper in the Great Hall of the University of Salamanca some distance north-west of Madrid in Old Castile. Indeed, the MPS members travelled in buses to visit the ancient university town. A particular memory was of a small group accompanying Hayek descending from the newer Gothic Cathedral down a circular stairs to the older Romanesque Cathedral and encountering a small group accompanying Lord Lionel Robbins ascending the stairway. Hayek and Robbins engaged in a conversation, and then the respective parties continued their tours of the cathedrals. The cover of this book displays a color picture of a cloister in Salamanca. (The photo reminds me of the several cloisters from Spain and southern France which were reassembled by the Metropolitan Museum of Art on a hill top in Washington Heights in northern Manhattan overlooking the

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George Washington Bridge and looking across at the Palisades in New Jersey. Well worth a visit if you can go by car and not the subway.)

Hayek spoke in the Great Hall of the University of Salamanca on the 16<sup>th</sup> and 17<sup>th</sup> Centuries School of Salamanca and their contribution to early market theory. A further elaboration was made in the paper of Hayek's former student, Marjorie Grice-Hutchinson, professor of economics at the University of Malaga. Grice-Hutchinson authored: *The School of Salamanca: Readings in Spanish Monetary Theory, 1544-1605* (Oxford, Clarendon Press, 1952); *Early Economic Thought in Spain, 1177-1740* (London, George Alien and Unwin, 1978); also, *Economic Thought in Spain: Selected Essays of Marjorie Grice-Hutchinson* (Laurence C. Moss and Christopher K. Ryan, eds., Aldershot, England, Edward Elgar, 1993).

Jesús Huerta de Soto begins with a very valuable analysis of loan and deposit contracts in Roman law. He then reviews the contribution of Abbott Payson Usher's classic work, *The Early History of Deposit Banking in Mediterranean Europe* (Cambridge, Mass., Harvard University Press, 1943), and the books on Florentine banking by Cario M. Cipolla and Raymond de Roover.

The School of Salamanca was formed of a number of professors writing on legal matters at several Iberian universities, including the University of Coimbra in northern Portugal. Francisco de Victoria, a Dominican, returned to Spain from the University of Paris where a revival of study of Thomas Aquinas had begun in the early 16<sup>th</sup> century. Successive Dominicans and the newly formed Jesuits studied the implications of various business activities, including banking. Jesús Huerta de Soto presents a detailed study of the various positions taken by these scholars. He examines the Bank of Amsterdam as operating on sound banking principles, followed by others than did not, from the Bank of England and John Law to modern banks. He presents the 19<sup>th</sup> century debates on banking in England and France. (Interestingly, when Hayek went to lecture at the London School of Economics, he had been studying the conflicting English banking schools and made a major impression at LSE because the English economists had not studied these predecessors. Hayek put aside the four lectures: «history of monetary theory in England; money in eighteenth

century France; evolution of paper currency in England; and the controversy between the Banking and Currency Schools. It was at this point he decided to hand over the work he had completed thus far, as well as the notes for fifth and final chapter, to one of his most brilliant students, Vera C. Smith (later Vera Lutz), who as a doctoral thesis, expanded on them and produced, «The Rationale of Central Banking and the Free Banking Alternative (introduction by Leland B. Yeager, Indianapolis, IN, Liberty Press, 1990). Jesús Huerta de Soto continues: «Fortunately Hayek's original manuscript was recovered by Alfred Bosch and Reinhold Weit, and an English translation by Grete Heinz has been published as chapters 9, 19, 11, and 12 of volume 3 of *The Collected Works of F.A. Hayek*.» The book provides an extensive and deep examination of the issues of money, credit and banking. It represents a major accomplishment by a dedicated scholar.