

On studying the history of economics.

Some contemporary economists argue that current theory incorporates valid ideas and insights from previous thinkers. While the errors and inconsistencies of previous theories has either been refined and incorporated or, if not salvageable, tossed away to the dust bins of history. It follows that studying the history of economics does not advance knowledge.

Other contemporary thinkers respond by positing that scholars who reject the study of the history of economics have no historical understanding of how contemporary economics has developed. This boundary to their knowledge limits them to a largely unsophisticated framework of analysis. The reason for this critique originates from the recognition that contemporary economics derives from a historical conception about what issues are considered and what methods are used to seek answers.

While economics did not exist as its own discipline prior to the 18th century, there are inquiries, albeit unsystematic and primarily moral pronouncements, sprinkled throughout the intellectual heritage of western civilization. Writings of Aristotle and Aquinas are among the masterworks of human knowledge that contain such inquires.

The philosophical studies of the ancient Greeks and Romans were undertaken in the context of particular issues and problems. From this tradition, contemporary thinkers learned to seek solutions to practical problems.

On the pre-classical legacy

Economics has its origin in the Greek word *oikonomia* which is the art of household management. In studying this art, Aristotle subjected what may be the first economic issue to formal inquiry: what sort of wealth getting activity is necessary and honorable for humans to undertake. Even though this is an ethical and moral question, Aristotle relied on reasoned inquiry to answer it. Seeking knowledge about human relations as they relate to the material environment represents a major intellectual departure.

The intellectual legacy of early pre-classical thinkers concerned with the material environment does not represent general principles about economic matters. The development of a systematic analysis will not begin to appear until the mercantilist thought of the 17th century.

Throughout human history, the growth of knowledge has been accompanied by the development of quantifying concepts and techniques. While “numeracy” was often directed at practical matters like building roads and canals, Socrates, it may be argued, anticipated the reliance of economists on quantification as a learning tool.

On politics, philosophy, and ethics as economic thought

Aristotle accepted the Ptolemaic tradition of studying the reality of ideas. He divided reality into separate subjects, each of which was studied from observable facts. These subjects included physics, biology, ethics, and politics.

While the analysis of economic phenomena of both Aristotle and Aquinas are not analytical, they do express ideas about relationships, objects, and persons in terms of numbers and measures.

Politics as economic thought

Greek thinkers considered the purpose of existence as living a good life which was best achieved in the polis or city-state. The relation of citizens to the state provided individuals with a sense of purpose and importance.

Greek thinkers directed much scholarly activity to political theory; much of their work can be accurately characterized as pluralist, encompassing themes from contemporary ethics, sociology, economics, and political science.

Philosophy as economic thought

The fall of the Greek city-states and the subsequent rise of the Roman empire brought with it a greater separation between the concepts of the good life and the political entity of the good state. The divorce between politics and ethics facilitated an increased appreciation of the individual person as opposed to a conception which emphasizes a social being who is a part of a larger social system.

The dominant view of the post-Aristotean time came from stoic philosophy which dictates that individuals be satisfied with their business and learn to love what they were bred to do, and as to the remainder of their life, be entirely resigned, and let the gods do their pleasure with their body and soul. The essence of the stoic philosophy is at odds with seeking improvements in the production or distribution of material means.

Ethics as economic thought

For thousands of years, the pursuit of wealth was regarded with disdain. Economics did not emerge until the disdain resided and satisfaction of material needs became a desirable goal of human activity. This does not mean that ancient societies like the Greeks thought material goods were disdainful. On the contrary, thinkers like Aristotle considered a certain level of wealth as essential to the good life.

The household (or oikos) existed to satisfy natural wants through production and exchange. However, commercial activity for the pursuit of coin was unnatural; the most unnatural of these activities was usury.

Aristotle's *Politics* remains influential because it shaped the thinking of successive generations between natural and unnatural economic activities and forms of wealth.

In addressing the issue about what sort of individual wealth-getting activity is necessary and honorable for humans to undertake, Aristotle distinguished between the art of acquisition which is necessary for the management of the household from the wealth getting activity of retail trade.

Retail trade and usury were deemed unnatural as they serve only the acquisition of coin and are not useful as a means to any of the necessities of life. Perhaps even more important was that in so doing, Aristotle established that economic questions are often also ethical and moral questions.

Centuries later, Aquinas would extend the principles found in Aristotle to an ethical and religious context. In so doing, Aquinas observed that when buying and selling some members of society engage in cheating or other improper behavior.

Church doctrine as economic thought

It was during the 4th century that Christianity became the official religion of the Roman empire. Shortly thereafter, the empire fell, and the world descended into the Dark Ages. For the next 1,000 years feudalism and the Christian church provided relief.

Feudal lords provided protection on the manor and ensured that every member had a place in society and a function to perform. Custom perpetuated these social relations until about the 12th century when towns started to emerge and trade started to increase, luring both freemen and serfs away from the manors. These developments encouraged the pursuit of material goods through money making activities, including commerce and lending.

Church scholars, like Aquinas, viewed activities directed at chasing coin as compromising people's spiritual lives. Avarice or lust for earthly possessions was considered a deadly sin by the scholastics. The only acceptable economic activity was those which reinforced the existing social hierarchy as dictated by their God.

The churchmen considered it essential that human affairs be conducted in accordance with the principles of commutative and distributive justice.

The *Summa Theologica* confronts the co-existence of ethical and economic questions in human behavior as a seminal issue.

Aquinas was writing in a time during which there was rather significant socio-economic change, primarily expanding commercial activities. The intent of his scholarly activity was to provide guidance for Christian behavior under new economic circumstances. This is in fact a distinguishing feature separating Aquinas and the other Schoolmen from modern economist: contemporary social thinkers direct their attention towards explaining economic phenomena while the scholastics focused on laying out rules of conduct for Christian behavior and salvation. As evidenced in the reading, chief among the conduct rules are those pertaining to cheating in selling or lending.

Aquinas provided a standard for commutative justice to guide interactions amongst society's members.

Like Aristotle, Aquinas believed that interest charged on loans was usury and thus unjust...at least in most circumstances. Much like the Greek thinkers who preceded the medieval scholars, the focus on some combination of theology, philosophy, and politics prevented the development of a systematic body of economic analysis.

Concluding thoughts on the pre-classical thinkers

Every society from time immemorial has confronted the same problem, the economic problem: how to organize a system that provides for the material well-being of society and then how to distribute the product to ensure production continues in the future.

In pre-capitalist societies, the solution to the economic problem was dictated by a central authority and reinforced by custom. The relative standing of society's members was determined by their status in the social hierarchy. While varying degrees of status have been accorded depending on one's function across the different pre-capitalist societies, common to all remains the driving role of custom and

command and this was a reflection of the prevailing philosophical and theological standard for social and moral well-being.

How the economic problem was solved could not be understood by studying individual action or individual acquisition, it was a matter of law and tradition. Further preventing the development of economic analysis was the absence of capital accumulation which would eventually contribute to the abundance of physical goods that would become available starting in the 18th century.

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On the origins of analytical economics

The Renaissance represents a momentous period in which feudal economic, political, social, and religious relations disintegrated. European commerce was revived and town life was dominated by the emergence of a new social class. The church saw its authority decline as rivaling nation-states emerged. The rival between the nation states transpired from a desire to acquire stocks of gold from exploration and conquest of the new world and the pursuit of export trade. Business interests came to be aligned with those of the sovereign; the symbiosis spurred the era of mercantilism.

Mercantilism raised an important question, can the wealth activities of the merchant also enrich the sovereign and promote the economic gain of the nation? We turn to Mun, who was officer of the East India company, for an answer.

Changing circumstances

The end of feudalism

The fall of the roman empire created a power vacuum that was filled by feudal lords. The manors (landed estates of the feudal lords) were self-sufficient economic, social, and political units. The feudal lord's position on top of the social hierarchy was reinforced by tradition. In exchange for servitude, the lord provided protection.

The decline of feudalism was gradual and due largely to increased trade. The institutions that were to become an integral part of capitalism flourished with the expanding commercial activity. One of the most important of these institutions are the financial institutions birthed in Venice; finance most often dealt in bills of exchange, credit transactions, writing maritime insurance, and foreign currency exchange. During the end of the medieval period, banking activities expanded which elucidated the nature of money as debt.

As commercial activity increased, life in cities reacquired an economic base that had been missing since the fall of the roman empire.

The putting out system

The expanding stock of knowledge during the renaissance contributed to greater production and expanding markets. Expanding markets facilitated greater specialization and a division of labor which further increased production.

The advance of the handicraft system was the first step towards industrialization, marks the beginning of the first permanent wage-earning class, and represents the first time that capital becomes completely distinct from labor.

The state and natural law

The monarchy replaced feudal relations. The rise of nation-states necessitated discovery of new and enhancement of existing sources of revenue. This era marks the beginning of modern political economy.

However, during this period of mercantilism, economic decision making had not yet been liberated from the state. The ideas required for this liberation would not come until the 18th century with the works of the Physiocrats, John Locke, and Adam Smith.

Individualism and accumulation

Protestantism considers acquisition as a virtue, not a sin. The pursuit of gain independent of material needs, an emphasis on the virtues of frugality, and individual autonomy are key pillars of the protestant ethic. The protestant ethic provides an ethical justification for capital accumulation and serves the capitalistic system.

Reformation, along with geographic advantage, contributed greatly to the industrial development of northern Europe.

Modern science

Thinkers like Kepler, Galileo, and Newton were influential in the development of modern science. Particularly important was the recognition that the physical universe obeys laws that can be discovered

through experimentation and observation. It would not be too much longer before it was asked whether the same principles can be applied to society to understand social phenomena.

State craft as economics

Greater religious and political freedom gave way to new economic problems requiring explanation. Statecraft was the essence of mercantilism. And mercantilism used economic policy to encourage the growth and development of both the economy and state.

The acquisition of gold remained a national policy for European nations well into the 18th century. Spain maintained an advantage through exploitation of its new world colonies. France and England were not so fortunate, their colonies did not contain stocks of precious metals. Rather, these nations sought to use policy to create a favorable balance of payments on the belief that a trade surplus would generate an inflow of precious metals into the country.

We now turn to Mun, a successful merchant, who is considered the most representative of English mercantile interests. The degree of his influence is reaffirmed by noting that Adam Smith focused his critique of mercantilism almost exclusively in terms of Mun's *England's Treasure by Foreign Trade*.

On Mun and the English mercantilist

The balance of trade is arguably the most important concept developed by the mercantilist. Generating a favorable balance of trade was an important matter of national policy, a policy which would lead to an inflow of specie or alternatively, the acquisition of treasure. The amount of treasure flowing into a country would be enlarged with greater self-sufficiency to reduce imports and frugality (including discouraging the consumption of luxuries) to increase the quantity available for exports.

One of the biggest controversies of this time concerned the export of specie as a means to increase treasure. Mun controversially argued that using gold in trade to further stimulate exports was a better means of increasing wealth and treasure than prohibiting specie outflow. He continued by stating that keeping the gold in England would only serve to raise prices and depress exports.

If using gold in trade could generate an even greater inflow, the role of the merchant is significantly enhanced.

Thomas Mun's essay *England's Treasure by Foreign Trade* reflects two significant changes: protestant reformation justifying individual wealth-getting activities and political nationalism of competing nation-states in pursuit of wealth and power.

If individual wealth-getting also enriches the nation and enhances its political power, then the question arises of how the government can support individualistic pursuit to augment its own wealth and power. Comparing the view of individual wealth-getting held by Aquinas and Mun demonstrates the changes that took place as feudal relations disintegrated.

Mun's argument in favor of England trading with its money represents an early recognition of the interdependence that exists across national economies through trade balances, exchange rates, and capital movements.

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