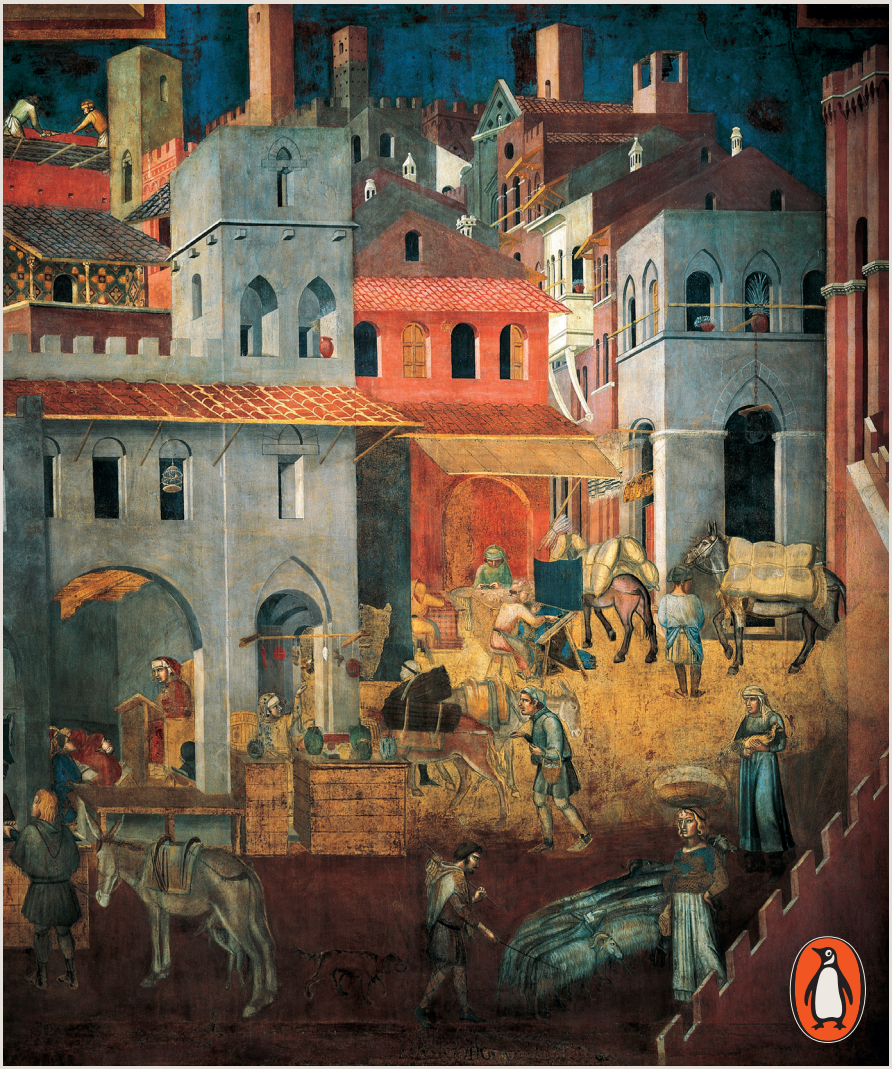
The Penguin History of Economics

ROGER E. BACKHOUSE

NEW AND REVISED EDITION



PENGUIN BOOKS

THE PENGUIN HISTORY OF ECONOMICS

Roger Backhouse is Emeritus Professor of the History and Philosophy of Economics in the Department of Economics at Birmingham Business School.

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Contents

Preface to the First Edition		vii
Preface to the Second Edition		ix
Prologue		1
1	The Ancient World	13
2	The Middle Ages	31
3	The Emergence of the Modern World View – the Sixteenth Century	53
4	Science, Politics and Trade in Seventeenth-century England	67
5	Absolutism and Enlightenment in Eighteenth-century France	93
6	The Scottish Enlightenment of the Eighteenth Century	119
7	The Emergence of Political Economy	143
8	Mid-Victorian Political Economy	165
9	The Split between History and Theory in Europe, 1870–1914	185
10	The Rise of American Economics, 1870–1939	207
11	Money and the Business Cycle, 1898–1945	235
12	Quantitative Economics	265
13	From Marshall to Mathematical Economics	281
14	Welfare Economics and Socialism, 1870–1945	301
15	The Second World War and After	321
16	Markets and the State since 1945	347

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17 Macroeconomics and Policy, 1939–2008 369
18 Economics in the Twenty-first Century 391

Epilogue 413
A Note on the Literature 421
Notes 447
Index 459

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Preface to the First Edition

Most of this book was written during my tenure of a British Academy Research Readership from 1998 to 2000. I am grateful to the British Academy for its support, and to several colleagues who read various drafts of the manuscript and whose detailed comments have helped me remove many errors and improve the argument. These are Mark Blaug, Anthony Brewer, Bob Coats, Mary Morgan, Denis O'Brien, Mark Perlman, Geert Reuten and Robert Swanson. I also wish to thank those subscribers to the History of Economics Society's email list who answered my requests for bits of information (usually dates) that I could not find myself (Bob Dimand proved a mine of information). I am also very grateful to Fatima Brandao and Antonio Amoldovar for inviting me to teach a course at the University of Oporto, which helped me to sort out my ideas on how to organize the material in the second half of the book. Stefan McGrath, at Penguin Books, encouraged me to embark on this project, and was patient when I overshot the initial deadline by a long time. He also provided helpful suggestions, as did Bob Davenport, whose editing of the final draft was exemplary and saved me from many mistakes. None of these people, of course, bears responsibility for any errors that may remain. Last, but definitely not least, I would like to thank my family: Alison, Robert and Ann.

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Preface to the Second Edition

The new edition of this book reflects the enormous increase in the literature in the twenty years since it was first published. Mark Blaug, an early inspiration, once expressed the view that after the millennium there would be a sharp increase in interest in what had happened to economics since the Second World War. His prediction turned out to be correct. Although the book's basic structure and many of its assessments have held up well, the first edition therefore no longer reflects the latest scholarship. Not only has the history of economics increasingly been brought much nearer to the present day, often by young scholars, but the way in which the subject is approached has changed, often for the better. There has been much greater engagement between economists studying the history of their field and other historians who have developed an increased interest in the discipline, reflecting the increased prominence of economic arguments in society. The list of scholars from whom I have learned is too long for it to be possible to acknowledge them all. I would like, however, to pick out a few who were particularly important but who are no longer with us: Mark Blaug, mentioned earlier; Denis O'Brien, from whose vast knowledge of economics I learned much, Donald Winch, who did more than anyone else to persuade me that, especially in earlier periods, the history of economics should not be considered in isolation from the societies in which economists worked; Craufurd Goodwin, with his interest in policy and the unconventional aspects of economics; Tony Brewer, a former teacher who remained a continual source of encouragement; and Antonio Amoldovar, with whom I had long conversations on my repeated visits to Portugal to teach the courses he oversaw.

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The bulk of the revisions relate to the twentieth and twenty-first centuries, though there are changes throughout the book. For example, economic thinking is now related to eighteenth-century debates on luxury and the incredibly widely read *Telemachus* by Fénélon. More attention is paid than in the first edition to the way Adam Smith was interpreted (arguably misinterpreted) in the early nineteenth century. The coverage of the twentieth century has been reorganized and expanded, emphasizing the application of economics to policy, including ideas of market failure and government failure, as well as the development of economic theory. There is a new chapter on economics in the twenty-first century, something obviously not possible in the first edition, published in 2002. As well as discussing how economists' methods have changed, it focuses on a sample of topics widely considered to be of great importance, namely globalization and inequality, the financial crisis and the environment. Throughout the book I have tried to be more alert to women who have made significant contributions to the discipline, from Jane Marcet to Esther Duflo. There is an entire section on Joan Robinson, whom I inexplicably overlooked in the first edition.

As with the first edition, I am indebted to friends and colleagues who have read draft material, providing advice and helping me to avoid errors that I would otherwise have made. The revisions also reflect many of the things I have learned from co-authors with whom I have worked since the first edition. Though only some of them have seen the revisions, the list of people to whom I am indebted includes Bradley Bateman, Antoinette Baujard, Mauro Boianovsky, Ivan Boldyrev, Beatrice Cherrier, Philippe Fontaine, Verena Halsmayer, Lars Jonung, Steven Medema, Tamotsu Nishizawa and Keith Tribe. I list them purely in alphabetical order, but two people need to receive particular thanks: Keith Tribe, with whom I taught a course for several years and wrote a textbook, and whose ideas changed the way I thought about several topics; and Steven Medema, who has offered advice on virtually everything I have written over the past few years, including the revisions to this book.

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Prologue

THE HISTORY OF ECONOMICS

This book is about the history of attempts to understand economic phenomena. It is about what has variously been described as the history of economic thought, the history of economic ideas, the history of economic analysis and the history of economic doctrines. It is not, except incidentally, concerned with the economic phenomena themselves but with the ways in which people have tried to make sense of them. Like the history of philosophy or the history of science, this is a branch of intellectual history. To illustrate the point, the subject of the book is not the Industrial Revolution, the rise of big business or the Great Depression – it is how people such as Adam Smith, Karl Marx, John Maynard Keynes and many lesser-known figures have perceived and analysed the economic world.

The story told here is largely a story of Western economics – of ideas developed in Europe and North America. There are several reasons for this, in addition to my lack of knowledge of non-Western economics. The main one is that the economic ideas that are dominant today, due above all to the economic, political and cultural dominance of the United States, stem from that tradition. There was economic thinking in China, India, Iran and other societies with rich cultural traditions, but they have not had the same worldwide impact that Western ideas have achieved. Thus the book starts with ancient Greek thought, not because it was superior to ideas being developed at the same time (or earlier) in other parts of the world, but because that is where the roots of the economics discussed in the book lie. A

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book such as this has, of necessity, to be selective in its coverage, and developments outside the Western world have been discussed only where they feed into that story.

Writing the history of economic ideas involves weaving together many different stories. It is clearly necessary to tell the story of the people who were doing the thinking – the economists themselves. It is also necessary to cover economic history. Natural scientists can assume, for example, that the structure of the atom and the molecular structure of DNA are the same now as in the time of Aristotle. Economists cannot make comparable assumptions. The world confronting economists has changed radically, even over the past century. Maybe there is a sense in which 'human nature' has always been the same, but the precise meaning and significance of this are not clear. Political history matters too, for political and economic events are inextricably linked, and economists have, as often as not, been involved in politics, either directly or indirectly. They have sought to influence policy, and political concerns have influenced them. Finally, it is necessary to consider changes in related disciplines and in the underlying intellectual climate. Economists' preconceptions and ways of thinking are inevitably formed by the culture in which they are writing. The history of economics has therefore to touch on the histories of religion, theology, philosophy, mathematics and science, as well as economics and politics.

What makes the problem difficult is that the relationships between these various histories are not simple. There is no justification for claiming, for example, that connections run solely from economic or political history to economic ideas. Economic ideas feed into politics and influence what happens in the economy (not necessarily in the way that their inventors intended); the three types of history are interdependent. The same is true of the relationship between the history of economics and intellectual history more generally. Economists have sought to apply to their own discipline lessons learned from science – whether the science of Aristotle, Newton or Darwin. They are influenced by philosophical movements such as those of the Enlightenment, positivism or

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postmodernism, as well as by influences of which we are completely unconscious. However, links also run the other way. Darwin's theory of natural selection, for example, was strongly influenced by the economic ideas of Malthus. In short, economic ideas are an integral component of culture.

One factor that contributes to the interdependence of economics and other disciplines and intellectual life in general is that, at least until recently, economics was not an activity carried out by a group of specialists called 'economists'. Modern disciplinary boundaries simply did not exist; also, the role of universities in society has changed almost beyond recognition. The people responsible for developing economic ideas included theologians, lawyers, philosophers, merchants and government officials. Some of these held academic positions, but many did not. For example, Adam Smith had an academic position, but only for a small part of his career, his main work being done later in life. Moreover, he was not primarily an economist: he was a moral philosopher, and his economic ideas formed part of a much broader analysis of society, rooted in moral philosophy. Furthermore, the people who wrote the conventional canon of economic literature occupied various positions in the societies in which they lived, which means that comparisons across time have to be made with great care. When Thomas of Chobham wrote about trade and finance in the early thirteenth century, he was offering guidance for priests taking confession. Perhaps the present-day counterpart to his work should be sought not in modern academic economics but in papal encyclicals. Gerard de Malynes and Thomas Mun, both of whom wrote in seventeenth-century England and are considered to have contributed to our understanding of foreign trade and exchange rates, were respectively a government official and a merchant. Perhaps they should be considered the forerunners of people like the late Dutch economist Jacques Polak at the International Monetary Fund, or the businesspeople and financiers who contribute to the *Economist* or the *Wall Street Journal*. This book is based on the assumption that we should not treat past writers as though they were modern academic economists but should try to understand what they thought they were doing.

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WHAT IS ECONOMICS?

The discussion so far has rested on the assumption that we know what economics and economic phenomena are. But economics is notoriously difficult to define. Perhaps the most widely used definition of the subject is the one offered by Lionel Robbins: 'Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.'[1] According to this view, the phenomena we associate with economics (prices, money, production, markets, bargaining) can be viewed either as consequences of scarcity or as ways in which people try to overcome the problem of scarcity. Robbins's definition goes a long way towards capturing features common to all economic problems, but it represents a very specific, limited view of the nature of such problems. Why, for example, should the operations of multinational corporations in developing countries, or the design of policy to reduce mass unemployment, be seen as involving choices about how to use scarce resources? It is perhaps ironic that Robbins's definition dates from 1932, during the depths of the Great Depression, when the world's major economic problem was that vast resources of capital and labour were lying idle.

A different type of definition is that of the great Victorian economist Alfred Marshall, who defined economics as the study of mankind in the ordinary business of life.[2] We know what he means by this, and it is hard to disagree, though his definition is very imprecise. It could be made more precise by saying that economics deals with the production, distribution and consumption of wealth or, even more precisely, is about how production is organized in order to satisfy human wants. Other definitions include ones that define economics as the logic of choice or as the study of markets or the business system.

Perhaps as important as what these definitions say is what they do not say. The subject matter of economics can include more than the buying and selling of goods, markets, the organization of firms, the stock exchange or even money. These are all economic phenomena, but there are societies in which they do not occur. It is possible, for example, to have societies in which money does not exist or performs

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only a ceremonial function, in which production is not undertaken by firms, or in which transactions are undertaken without markets. Such societies face economic problems – how to produce goods, how to distribute them, and so on – even though the phenomena we normally associate with economic life are missing. Phenomena such as firms, the stock exchange, money, and so on can better be seen as institutions that have arisen to solve more fundamental economic problems common to all societies. It is better, therefore, to define economics in relation to these more fundamental problems, rather than in relation to institutions that exist in some societies but not in others.

Anyone writing a systematic 'principles of economics' has to decide on a specific definition of the subject and work within it. This is, however, a dangerous approach for the historian because, even if we can settle on a precise definition that fits today's economics (and even that may be difficult), such a definition may not fit the thinking of previous generations. If we are to take past ideas seriously, we must make some effort to understand how they were understood at the time. Even the term 'economics' may be inappropriate. Faced with this problem, given that our aim is to understand how economics got where it is today, a good strategy is to take a more pragmatic approach.

When asked to define economics, the eminent economist and intellectual historian Jacob Viner is reputed to have quipped, 'Economics is what economists do.' This suggests that we should start with the ideas that make up contemporary economics – ideas that are found in economics curricula and are being developed by people recognized as economists. These, however, do not provide a precise definition, for the boundaries of the discipline are indistinct. Academics, journalists, civil servants, politicians and other writers (even novelists) all develop and work with economic ideas. The boundaries of what constitutes economics are further blurred by the fact that economic issues are analysed not only by 'economists' but also by historians, geographers, ecologists, management scientists and engineers. Such writing may not be what professional economists would consider 'good' or 'serious' economics, and it may be riven with fallacious arguments, but that is a different matter – it is still economics. Approaching the subject in this very pragmatic way might seem less desirable than defining

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economics in terms of its subject matter. In practice, however, it is a workable approach and probably corresponds with what most historians actually do, even if they profess to work within a tight analytical definition of the subject.

Having decided on what constitutes contemporary economics, it is possible to work backwards, tracing the roots of the ideas that are found there, as far as it is decided to go. Some of these roots will clearly lead outside the subject (for example, to Newtonian mechanics or the Reformation), and the historian of economics will not pursue these further. Others will lead to ideas that we see as antecedents of modern economics, even though their presentation and content may be very different from those of modern economics, and these will be included in the history. The result of such choices is that the further we go back into history, the more debatable it becomes whether or not certain ideas count as 'economics'. This means that the book will not be concerned with 'When did economics begin?' because there is no reason to think that economics began at a specific moment. Our choice of where to begin is essentially arbitrary and to see the subject as beginning with a particular individual or group is to misunderstand the process through which it emerged.

The significance of this approach is best seen by thinking about where economics might have begun. Some scholars would argue that economics does not begin until we enter the modern world (say the fifteenth or sixteenth century, though this is a controversial claim), or even until the eighteenth century, when Adam Smith systematized so much of the work of his predecessors. Economics, the argument runs, is about analysing human behaviour and the way people interact through markets and respond to changes in their economic environment. Early writers, it is claimed, had quite different concerns, such as moral and theological issues about the justice of market exchange or lending at interest, and their work should not be classified as economics.

There is, however, a big problem with this argument: it is simply not possible to draw a clear dividing line between what constitutes economic analysis and what does not, or between what constitutes 'proper' or 'real' economics and what does not. For example, the

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moral and theological arguments of medieval theologians about the justice of commercial activities presuppose an understanding of how the economy operates. The economic content of such writing may, to our eyes, be half hidden or obscure, but it is there. The view underlying this book is that economic ideas were present even in antiquity, and that those ancient ideas are relevant in trying to locate the origins of modern economics. Furthermore, even today, economics deals with normative questions (questions about what ought to be done), some of which parallel those tackled by the ancients. Economists are forever arguing that this policy or that will improve the welfare of society. It may be unfashionable to think of this as involving ethics, or morality; nonetheless, ethical presuppositions underlie modern economics just as much as they underlay Aristotle's thinking about the market. The Old Testament contains many economic ideas, as does the poetry of Homer. In a general history of economics, it may not be necessary to dwell long on these texts, but they are part of the story.

The book starts with ancient Greece and the world of the Old Testament, not because this is where economics began, but because this is as far back as the written records out of which modern (Western) economics emerged can be taken.

UNDERSTANDING THE PAST

The approach outlined above, focusing on what has been termed 'the filiation of economic ideas', is now unfashionable. In a postmodern world, the fashion is to stress the historical relativity of ideas and to decry any attempt to view past ideas from the perspective of the present. However, anyone who writes a history of economic thought necessarily views the past, to some extent, from the perspective of the present. Simply to focus on 'economic' ideas is to select past ideas according to a modern category. However much we try to do so, we can never completely escape from our preconceptions attached to the questions we are trying to answer. It is better to state these preconceptions as explicitly as possible rather than to pretend that they do not exist.

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A common approach is to write a history that covers the accepted canon of 'important' writings on economics. However, to do this is to rely on judgements that others have made in the past. It does not avoid the problem of one's choice of material being influenced by one's interests. What usually happens is that historians start with a conventional canon – a list of the works, figures or movements that are considered to represent the economics of the past. They then modify this, increasing the emphasis in some places, reducing it in others in response to the questions that interest them and the evidence they find. As economics has changed, so too have views about what constitutes the appropriate canon.

Writing the history as a story of progress from crude beginnings to the 'truth' reached by the historian's friends, contemporaries or other heroes results in what has come to be called 'Whig history', after the nineteenth-century Whigs who told the story of Britain in this way. This is the approach favoured by many economists, including some who write histories of economics. For example, the eminent mid-twentieth-century economist Paul Samuelson once gave an address titled, 'Out of the closet: a program for the Whig history of economic science'.[3] The main reason for this attitude is that an economist typically finds it hard to accept that their own generation's theories and techniques (to which they may have contributed) are not necessarily superior to those of earlier generations. However, such an approach is likely to misrepresent the views of past economists whose assumptions and purposes may have been different from those of modern economists. Reading past ideas as crude versions of modern economics may result in the creation of caricatures, and readers are right to be suspicious of such histories.

At the other pole, the history can be told as a story of retrogression – as an account of how important ideas were lost – perhaps because they were thought politically inconvenient or because they did not fit conventional ideas about how to do science. Thus Marxists and some Keynesians claim that contemporary economics has lost sight of key insights that are to be found in the writings of Marx and Keynes. Such accounts recognize that history does not necessarily involve progress, but, like Whig history, it involves letting present-day concerns shape

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our view of the past. Like Whig history, such accounts can be enlightening, but they need to be treated with great caution.

However, examining the past in order to understand the present need not mean telling the story as one of progress or retrogression. The reasons why ideas evolved as they did will include historical accidents, vested interests, prejudices, misunderstandings, mistakes and all sorts of things that do not fit into such accounts. The story may involve certain lines of inquiry dying out, or moving away from what is currently considered economics. We may discover, when we look back, that earlier generations were asking different questions – perhaps even questions we find it hard to understand – with the result that notions of progress and retrogression become problematic.

THE STORY TOLD HERE

The story told in this book clearly reflects certain conventional views about what constitutes economics – certain topics are included because it is 'obvious' that they should be there. The publisher (not to mention many readers) would have been unhappy if it said nothing about Adam Smith, David Ricardo, Karl Marx or John Maynard Keynes. It is recognizably a history of economics, as the term is commonly understood. However, it departs from the conventional canon both in the relative importance attached to different figures and in many of the topics that are included. It also tries to place people in an appropriate historical context – hopefully one that the figures discussed would have recognized.

The book is not organized around the 'great figures' of the past, as was once common practice. Chapters typically start with a discussion of the historical context and proceed from there to the economic ideas that emerged. The emphasis on economic, political and broader intellectual history varies throughout the book, and these dimensions of the story generally become less prominent as the story unfolds. The most important reason for this is that when we are discussing periods when economics was less clearly distinguished from other disciplines it is more important to discuss ideas outside economics. Indeed, it may

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not even be clear whether certain ideas should be seen as economics, theology, political theory or philosophy, for academic disciplines as we now understand them emerged only towards the end of the nineteenth century.

The task of distinguishing economics from other types of knowledge becomes easier as we approach the twentieth century because, by then, economics was developing into an academic subject and an economist was increasingly someone who had been trained and had a qualification in the subject. The problems economists tackled were increasingly ones that arose within the discipline, even if they were often motivated by problems in society at large. Throughout the book, there is an emphasis on the communities and circumstances out of which economic ideas emerged, rather than simply on individuals: on what could loosely be called the sociology of the economics profession. Alongside the development of economics as an academic discipline, there have been changes in the position of economists (or, more accurately, the position of people reflecting on economic matters) in society, and this has influenced the way in which ideas have developed. The result is that chapters dealing with early material contain much general history but, as the story develops, there is a narrower focus on economic ideas and general history plays a smaller part, though it is not entirely absent.

So although the book covers the conventional canon, it seeks to go beyond it in many ways. The Islamic world enters the medieval story. Political philosophy and the Hobbesian challenge are an important element in the chapter on seventeenth-century England. Smith is viewed as a moral philosopher and is set in the context of the Scottish Enlightenment and eighteenth-century debates over commerce and luxury consumption. Malthus is portrayed not just as a pure economist, or demographer, but as someone who contributed to contemporary political debates. Theoretical contributions of early-nineteenth-century French and German writers are placed alongside those of their English counterparts. Chamberlin is discussed in the context of US industrial economics, not that of the British cost controversy. A distinction is drawn between the Keynesian revolutions in Britain and the United States. The list could be continued.

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The most significant change, however, is that whereas the traditional canon focuses on the eighteenth and nineteenth centuries, here, the twentieth century is a major part of the story and there is a chapter on the twenty-first century. In covering this period, I have attempted to give as broad a picture of the subject as possible, albeit through discussing some case studies that illustrate what has happened. Given that my main aim is to explain how the discipline reached its present state, developments within its theoretical 'core' (the traditional domain of the history of economic thought) are clearly important. However, they are not the whole story, for a crucial characteristic of modern economics is the collection and analysis of data, especially statistical data. Advising policymakers is, of course, as important as it has always been.

Readers who are familiar with more traditional histories of economics may expect to find discussion centred on 'schools of thought' such as scholasticism, mercantilism, classical and neoclassical economics. However, I have largely avoided such terms. It is useful to use the term 'scholastic' as shorthand for the theologians who, from the thirteenth to the sixteenth centuries, worked in European universities, but the term 'scholasticism' is not used because it might be taken to imply that they all thought in the same way. They did not. In so far as there are common themes in their writings, these can be brought out without artificially packaging them into a school of thought.

The term 'mercantilism' is even more problematic. It is derived from 'the mercantile system', a term used by Adam Smith as a label for policies he believed were misconceived. He was anything but fair to his predecessors and the term fails to do justice to the rich variety of thinking about economic problems that can be found in the literature it is usually used to denote. It is true that arguments during the two to three hundred years before Smith's magnum opus often focused on the government policy, that there was widespread concern with money and trade, and that it was widely believed that economic activity needed to be regulated to ensure prosperity (all features of 'mercantilism'), but this is very little on which to hang a coherent school of thought. Describing several centuries' thinking about economic questions as 'mercantilist' distracts from the many debates that

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took place and the fundamental differences between, for example, English merchants responding to the commercial crisis of the 1620s and Colbert's attempts to use economic policy to underpin the political ambitions of the 'Sun king', Louis XIV.

'Classical economics' is the term used by Karl Marx as a label for the ideas of his predecessors and contemporaries. Again, although he drew on these ideas, he was a critic, believing himself to be proposing a deeper way of thinking. Like 'mercantilism', the term suggests greater homogeneity in the period's economic thinking than was the case. The same is true of 'neoclassical' economics, a term invented by Thorstein Veblen to lambast an economics that, in his view, failed to deal with key aspects of the real world.

An issue of which historians of economics have become much more conscious in the twenty years since the first edition of the book is the role played by women. Saying more about the role of women presents a challenge, as even some female historians recognize. Women were important but, for obvious reasons, until recently, they were unable to have the same influence on economic thinking as were men. To pay the same attention to Adam Smith as to his female contemporaries would therefore distort the history. Notwithstanding that, some women were significant figures and so, in revising the book, I have tried to be alert to places where, in the first edition, I failed to acknowledge the role of women, often as co-authors, and sometimes in the background. I make no claim that the resulting treatment is enough, but I hope it is a significant move in the right direction.

In telling this story, I have inevitably drawn on accounts written by specialists in the various periods the book covers. Any 'innovations' in the book draw on such works. The number of places where I have been able to depart from the conventional story reflects the range of recent work on the history of economic thought. My main debts are acknowledged in the suggestions for further reading at the end of the book.

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1
The Ancient World

HOMER AND HESIOD

Plato suggested that Homer educated Greece, his epic poems providing the values by which life should be lived. In the literary papyri found in Egypt, Homeric scrolls outnumber those by all other authors put together. Even today, stories of Hector, Achilles, Troy and the journeys of Odysseus form part of Western culture. It is not clear whether the *Iliad* and the *Odyssey* should be regarded as the work of a single individual or as compilations of the work of many poets, but in either case they represent the writing down, somewhere around 750–725 BCE, of a long oral tradition. The Homeric epics, together with the poems of Hesiod (*c.* 700 BCE), are as far back as the written record takes us in Europe.

The society described in the *Iliad* and the *Odyssey* probably reflects, in part, the Mycenaean (Bronze Age) world of Troy around 1400–1100 BCE, and in part Homer's own time. It was ordered and hierarchical, based not on market relationships but on the distribution of wealth through gifts, theft, prizes for winning competitions, plunder received in war, and tribute paid by defeated cities to their conquerors. Troy might have fallen earlier, it has been suggested, if the Greek army had not been so intent on pillaging. Trade was viewed by Homer as a secondary and inferior way of acquiring wealth. Heroes were aristocratic warriors, rewarded strictly according to their rank. Gifts were governed by a code of reciprocity, in which it was important that, when gifts were exchanged, those involved should hold the same rank after the exchange as before. Hosts were obliged to provide

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hospitality and gifts for their guests, who in turn had an obligation to provide gifts, perhaps to the hosts' families, at a later date in return.

The basis for this economy was the household, understood as the landowner, his family and all the slaves working on an estate. Owners and slaves would work alongside each other. Prosperity was seen by Homer as the result of being in a well-ordered, rich household. On the other hand, there was suspicion of excessive wealth – households should be rich, but not too rich. There were, of course, traders and craftsmen (we read of Greek soldiers exchanging their plunder for provisions, and craftsmen were brought in to do certain tasks on landed estates), but they were less important than landed estates. Even if he gained his freedom, a slave who lost his place on a landed estate might lose his security. The acquisition of wealth through trade was regarded as distinctly inferior to obtaining it through agriculture or military exploits.

Of the two poems attributed to Hesiod, the one that is seen as having the most substantial economic content is *Works and Days*. He starts with two creation stories. One is the well-known story of Pandora's box. The other, undoubtedly influenced by Mesopotamian creation stories, tells of a descent from the golden age of the immortals, 'remote from ills, without harsh toil',[1] to a race of iron – those living in his own time – for whom toil and misery are everyday realities. Hesiod offers his readers much advice about coping with life under these conditions. *Works and Days* is a poem within an Eastern tradition of wisdom literature, moving seamlessly between advice that would nowadays be seen as ritualistic or astrological and practical advice on agriculture and on when to set sail in order to avoid being lost at sea. Though they fall within the same tradition, however, when compared with the Babylonian and Hebrew creation stories, Hesiod's stories (like those of Homer) are comparatively secular. It is Zeus who provides prosperity, and Hesiod regards morality and pleasing Zeus as the main challenges that men have to deal with, but the stories are the product of the author's own curiosity, not the work of priests.

Hesiod can be read as having realized that the basic economic problem is one of scarce resources. The reason men have to work is that 'the gods keep men's food concealed: otherwise you would easily

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work even in a day enough to provide you for the whole year without working'.[2] Choices have to be made between work (which leads to wealth) and leisure. Hesiod even suggests that competition can stimulate production, for it will cause craftsmen to emulate each other. However, though these ideas are clearly present in *Works and Days*, they are not expressed in anything like such abstract terms. Hesiod describes himself as a farmer, and says that his father was forced to emigrate owing to poverty. The virtues he sees as leading to prosperity are thus – not surprisingly – hard work, honesty and peace. His ideal is agricultural self-sufficiency, without war to destroy the farmer's produce. This is far from the aristocratic disparagement of work and support for martial virtues that can be found in Homer, but the two poets share the idea that security is bound up with land.

Hesiod's poetry provides a good illustration of the earliest writings on economic questions. Economic insights are there, but nothing is developed very far and it is difficult to know how much significance to attach to them.

ESTATE MANAGEMENT – XENOPHON'S *OIKONOMIKOS*

The period from the seventh to the fourth centuries BCE saw great literary, scientific and philosophical achievements. Thales (*c.*624–*c.*546 BCE) proposed the idea that water was the primal substance underlying all forms of life, and the notion that the earth was a disc floating on water. Anaximander (*c.*610–*c.*546 BCE) drew the first map of the known world and composed what is believed to be the first treatise written in prose. We know little of their reasoning, for very little of what they wrote has survived, but the important point is that they were trying to reason about the nature of the world, liberating themselves from mythology. Towards the end of the sixth century Pythagoras (*c.*570–*c.*490 BCE) used theory and contemplation as means of purifying the soul. Though he was engaged in what we would now see as a form of number mysticism, in which numbers and ratios have mystical properties, he and his followers made

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enduring contributions to philosophy and mathematics. The fifth century saw the emergence of playwrights, Aeschylus (*c.*525–456 BCE), Sophocles (*c.*495–406 BCE) and Euripides (*c.*480–406 BCE), and historians such as Herodotus (*c.*485–*c.*425 BCE) and Thucydides (*c.*460–*c.*400 BCE).

These developments form the background to the world of Xenophon (*c.*430–354 BCE) and Plato (*c.* 429–347 BCE). For this period there is virtually no economic data. Our knowledge of it therefore comes solely from political history. But we do know that the economy of this period was, like that of Homer's day, still based on agriculture, with landed estates as the main source of wealth. There had, however, been enormous political and economic changes in the intervening centuries. Among the most important of these were the reforms introduced in Athens by Solon, appointed archon, or civilian head of state, in 594 BCE. These curtailed the power of the aristocracy and laid the basis for democratic rule based on the election, by the property-owning classes, of a council of 400 members. Land was redistributed, laws were codified, and a silver currency was established. The Athenian merchant fleet was enlarged, and there was an expansion of trade. Specialized agriculture developed as Athens exported goods – notably olive oil – in return for grain. The old ideal of self-sufficiency began to break down.

Though intended to bring stability, Solon's reforms resulted in class divisions and political upheaval. Athens and the other Greek cities also became involved in a series of wars with the Persians. In 480 BCE Athens itself fell to the Persians, but the Persian fleet was defeated at Salamis. The following year the Persian army was defeated by the Spartans at Plataea and hostilities came to an end. The legacy of the Greek naval victory was that Athens became the leader of a maritime alliance of Greek states, exacting tribute from them. In effect, Athens was the centre of an empire, her great rival being Sparta. The strengths of Athens were trade and sea power; Sparta's position was based on agriculture and its army. War eventually broke out between the two states in 431 BCE – the start of the Peloponnesian War that ended with the defeat of Athens, in 404 BCE, and the dissolution of the naval league.

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For the fifty years from the end of the Persian Wars until the start of the Peloponnesian War, Athens was essentially at peace. The result was a period of great prosperity known as the Periclean Age, after Pericles, who led the more democratic party from 461 to 430 BCE. Piracy was removed from the eastern Mediterranean, trade flourished, and commercial agriculture and manufacturing developed, along with many of the activities now associated with a commercial society: banking, credit, money-changing, commodity speculation and monopoly trading. One historian has written of Athens being 'a commercial centre with a complex of economic activities that was to remain unsurpassed until post-Renaissance Europe'.[3] The resulting prosperity was the basis for great building projects, such as the Parthenon.

Athenian democracy was direct, involving all the citizens, i.e. adult males of Athenian parentage. Even juries could involve hundreds of citizens, and the fondness of Athenians for litigation – in which plaintiffs and defendants had to speak for themselves – meant that it was important for people to be able to defend their own interests, and argue their case. There was thus a demand for training in rhetoric, which was provided by the Sophists. The Sophists were itinerant, travelling from one city to another, and, though the main requirement was for skills in public speaking, many of them believed that their pupils needed to know the latest discoveries in all fields. The Sophists were thus the first professional intellectuals in Greece – professors before there were universities.[4] The first and greatest of the Sophists was Protagoras (*c.*490–420 BCE), who taught successfully for forty years before being banished for his scepticism about the gods.

Socrates (469–399 BCE) emerged against this background of 'professional intellectuals'. Because they travelled, they could stand back from the laws and customs of individual cities. They engaged in abstract thought, and, though many paid respect to the gods, they looked for non-religious explanations of the phenomena they saw around them. What stands out about Socrates is his method: relentlessly asking questions. It was this that attracted to him pupils as able as Plato and Xenophon. He was, however, the butt of Aristophanes' satire in *The Clouds*, in which his questioning of the gods' responsibility for rain and thunder is ridiculed. As he wrote nothing himself,

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our knowledge of Socrates stems only from Aristophanes and, above all, from the dialogues of Plato and Xenophon. We can be confident about much in their accounts; however, it is often hard to know precisely which ideas should be attributed to Socrates himself and which come from Xenophon or Plato using him as a mouthpiece.

Xenophon came from the Athenian upper classes and, like all Socrates' pupils, was well off. For some reason (maybe linked to his association with Socrates, who was tried and executed in 399 BCE), he left Athens, and in 401 BCE he joined a military expedition to Persia, in an attempt to help Cyrus the Younger take the throne from his brother. The attempt failed, and Xenophon, if we are to believe his account of the event, was responsible for leading the troops back to Greece. From 399 to 394 BCE he fought for Sparta, after which he lived, under Spartan protection, on a country estate, until he returned to Athens in 365 BCE. Most of his writing was done in this more settled period of his life.

Oikonomikos, the title of Xenophon's work, is the origin of the words 'economist' and 'economics'. It is, however, better translated as 'the estate manager' or 'estate management'. Taken literally, it means 'household management', *oikos* being the Greek word for 'household', but by extension the word was used to refer to an estate, and Xenophon's *Oikonomikos* is in fact a treatise on managing an agricultural estate. Familiar Socratic themes such as an emphasis on self-discipline and training people to wield authority are found in the book, but its main theme is efficient organization. Given the Greeks' emphasis on the human element in production (perhaps a feature of a slave society), efficient management translated into effective leadership.

The prime requirement of an effective leader was to be knowledgeable in the relevant field, whether this was warfare or agriculture. Men would follow the man they saw as the superior leader, Xenophon claimed, and willing obedience was worth far more than forced obedience. Though he illustrated this with examples taken from war, Xenophon saw the same principles as applying in any activity. The other requirement for efficiency was order. Xenophon used the example of a Phoenician trireme (a ship propelled by three banks of

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oars) in which everything was so well stowed that the man in charge knew where everything was, even when he was not present. This was how an efficient estate should be run – with stores efficiently organized and accounted for. It was commonly believed that good organization could double productivity.

Seen from this perspective, Xenophon's emphasis on efficiency seems simply an exercise in management, applied to an agricultural estate rather than to a modern firm. His conception of the 'administrative art',[5] however, was much broader than this, extending to the allocation of resources in the state as a whole. He makes this clear when he discusses the way in which Cyrus the Great organized his empire, with one official in charge of protecting the population from attack and another in charge of improving the land. If either failed to do his job efficiently, the other would notice, for neither could perform his task properly if the other was not doing so. Without defence, the fruits of agriculture would be lost; and without enough agricultural output the country could not be defended. Though officials were given the right incentives, it was still necessary that the ruler took an interest in all the affairs of the state – agriculture as well as defence. Administrative authority, not the market mechanism, was the method by which resources would be efficiently allocated and productivity maximized.

It is also important to mention Xenophon's account of the division of labour, with which later writers including Plato, Aristotle and Adam Smith were probably familiar. He observed that in a small town the same workman may have to make chairs, doors, ploughs and tables, but he cannot be skilled in all these activities. In large cities, however, demand is so large that men can specialize in each of these tasks, becoming more efficient. Turning back to the estate, Xenophon argued that division of labour could be practised in the kitchen, anything prepared in such a kitchen being superior to food prepared in a smaller kitchen where one person has to perform all tasks.

Xenophon's model is of men interacting with nature – not with each other through markets. Productive efficiency involves managing the use of natural resources so as to get the most from them. His is a static world in which it is taken for granted that nature is known and

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understood. Trade and markets are peripheral. Given the development of trade and commerce in Athens by this time, it is perhaps surprising that agricultural estates are as central to Xenophon's view of economic activity as they were for Homer's. This can be explained by his position as a soldier and, for thirty years, a landowner under Spartan protection. For some of his contemporaries, such explanations are harder to defend.

PLATO'S IDEAL STATE

The background to Plato's *Republic*, which attempts to provide a blueprint for the ideal state, is the political turmoil that engulfed Athens and the other Greek city states in the fifth and fourth centuries BCE. Experience had taught Plato that neither democracy nor tyranny could provide a stable society. Leaders in a democracy would not do what was just but would use their office to gain support. Tyrants, on the other hand, would use their power to further their own interests, not those of the state as a whole. But without any leadership there would be chaos. Plato's solution to this dilemma was to create a class of philosopher-kings – the 'guardians' – who would rule the state in the interests of the whole society. These would be self-appointed, for they would be the only ones capable of understanding how society should be organized. In the ideal state their whole upbringing and way of life would be designed to train them for their role and to ensure that they fulfilled it properly. To ensure that the guardians would not become corrupt, pursuing their own interests, they would be forbidden to own property or even to handle gold and silver. They would receive what they needed to live as a wage from the rest of the community. Unlike tyrants, they would have to put the interests of the state first.

Plato's vision was concerned with the efficient organization of society – with a just society organized on rational principles. Like other Greek writers, he saw efficiency as involving the human element in production. Men should specialize in those activities for which they were naturally suited and should be trained accordingly. Indeed, the

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origins of cities (states) lay in specialization and the dependence of people on one another. He took the physical endowment of resources and technology for granted. His was a static world, in which everyone had a fixed place, maintained by efficient administration undertaken by disinterested rulers. Though he saw a role for trade, the role for markets in his ideal state was very limited. Consumer goods might be bought and sold, but property was to be allocated appropriately (on mathematical principles) between citizens. There would be no profits or payment of interest.

This view of the state presumed that cities would remain small. In a later work, Plato argued that the optimum number of households in a city was 5,040. The reason for this number was that it was divisible by the first ten integers, and so allowed division into an optimal number of administrative units. The idea that cities should remain small was consistent with the experience of Greek cities, constrained by the availability of agricultural land and resources. When populations rose, a city would organize an expedition to establish a colony. This colony would become a new city in which the Greek way of life would be maintained. Such colonies, which often became independent of the cities from which they stemmed, were to be found throughout the Mediterranean, notably in southern Italy, Sicily and North Africa.

Plato was an aristocrat, involved in Athenian public affairs, who fought several military campaigns. In his early life he had travelled widely, visiting the Pythagorean communities in Italy, from which he probably acquired his interest in mathematics. While in Sicily, he became involved with the ruler of Syracuse, unsuccessfully trying to train Dionysius II for leadership after the death of his father, Dionysius I, in 367 BCE. In around 375 BCE he founded his Academy (in the grove sacred to the hero Academus just outside Athens) in order to train statesmen to become philosophers. Unlike the school founded a few years earlier by Isocrates, which emphasized the teaching of rhetoric, Plato believed that it was more important to teach principles of good government. Several of his students became rulers (tyrants), and Plato saw the task of his Academy as offering advice to such people. In at least one case, a tyrant is believed to have moderated his rule in response to Plato's teaching.

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ARISTOTLE ON JUSTICE AND EXCHANGE

Aristotle (384–322 BCE) was a son of a physician and a student of Plato. He joined the Academy at the age of seventeen, and remained there until Plato's death twenty years later. The influence of Aristotle on subsequent generations was such that, for many, he was simply 'the philosopher'. His writing encompassed philosophy, politics, ethics, natural science, medicine and virtually all other fields of inquiry, and it dominated thinking in these areas for nearly 2,000 years. His contributions to what are now thought of as economic issues are found in two places: Book V of the *Nichomachean Ethics* and Book I of the *Politics*. In the former, he analysed the concept of justice; in the latter he was concerned with the nature of the household and the state.

In the Athenian legal system, men who were in dispute with each other had to go first to an arbitrator, who would try to reach a fair or equitable settlement. Only if the arbitrator's decision was unacceptable to one of the parties would the dispute go to court, in which case the court would have to decide on a settlement in between the limits set by the two parties' claims, or in between that set by the arbitrator and that claimed by the aggrieved party. In Book V of the *Nichomachean Ethics* Aristotle was considering the principles of justice that ought to apply in such disputes. This perspective is important, because it immediately establishes that he was thinking of principles that should apply in judicial decisions, and that he was dealing with cases of isolated exchange (in which individual buyers and sellers negotiate with each other about specific goods). He was not dealing with exchange in organized, competitive markets. Indeed, it is likely that, though trade was well developed in Athens by the fourth century BCE, competitive markets were few and far between. There is much evidence that prices of standard commodities were regulated (even the price of singers; if demand for the services of particular singers was too high, they would be allocated by a ballot), and the quality of manufactured goods was probably sufficiently variable that the price

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of each item would have had to be negotiated individually, as in isolated exchange.

When dealing with exchange and the distribution of goods, Aristotle distinguished between three types of justice. The first is distributive justice. This requires that goods (or honours, or whatever is being distributed) are distributed to people in proportion to their merit. This was a common problem in Aristotle's day, for much was distributed by the state – booty from war, silver from the mines at Laurium, and many other goods. Aristotle's concept of distributive justice was a very elastic notion, for merit can be defined in different ways in different settings. After a battle, merit might be measured by the contribution of soldiers to the victory. Within a partnership, justice would require that goods be distributed in proportion to the capital that each person had invested. Furthermore, different criteria may be used to assess merit: in a democracy it might be assumed that all citizens should receive an equal share, whereas in an oligarchy the oligarchs would be thought to merit larger shares than other citizens. The second type of justice is rectificatory justice – putting right previous injustices by compensating those who have lost out. Rectificatory justice restores equality. Finally comes reciprocal (or commutative) justice, or justice in exchange.

If two people exchange goods, how do we assess whether the transaction is just? One way, commonly understood in ancient Greece, is to argue that if exchange is voluntary, it must be just. Xenophon cited the example of two boys – one tall and with a short tunic, the other short and with a long tunic – who exchanged tunics. The conventional view was that this was a just exchange, for both boys gained from it. Aristotle recognized, however, that in such exchanges justice does not determine a unique price, but merely a range of possible prices in between the lowest price the seller is prepared to accept and the highest price the buyer is prepared to pay. There is therefore still scope for a rule to determine the just price within this range. His answer was the harmonic mean of the two extreme prices. The harmonic mean has the property that if the just price is, say, 40 per cent above the lowest price, the seller will accept; it is also 40 per cent below

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the highest price the buyer is prepared to pay. Justice involves finding a mean between extremes, neither of which is just.

The principle that justice involves finding a suitable mean also applies to the two other forms of justice. Distributive justice involves proportionality, or geometric proportion, and is associated with the geometric mean. (The geometric mean of two quantities is found by multiplying them together and taking the square root of the result.) Rectificatory justice involves arithmetic proportion (compensation should equal what has been lost). We thus find that Aristotle has related the three types of justice to the three types of mean that were known to him: the geometric, arithmetic and harmonic means. This was far from accidental. Aristotle, like Plato, was strongly influenced by the Pythagoreans, who worked out the mathematical relationship between musical notes. It was believed that similar harmonies and ratios could explain other phenomena, and it is therefore not surprising that there were close parallels between Aristotle's theory of justice and the mathematics of ratios and harmonies.

The influence of Pythagorean mathematics on Aristotle's account of exchange extends even further. By Aristotle's time it was widely accepted that all things were built up from common units (atomism). Geometry was based on points, arithmetic on the number 1, and so on to the physical world. It was believed that this meant that different phenomena were commensurable in the sense that they could similarly be expressed as ratios of whole numbers. This was why it had been a great blow to the Pythagoreans to discover that there were irrational numbers like π or $\sqrt{2}$ that could not be expressed as ratios. Exchange of one good for another was important because it made the goods commensurable – shoes could be measured in terms of wheat. But if the shoemaker did not want wheat, or the farmer did not want shoes, exchange would not take place, making it impossible to compare the two goods. How was this problem to be resolved? Aristotle's answer was money. The shoemaker and the farmer might not want each other's produce, but they would both sell it for money, which meant that shoes and wheat could be compared through taking the ratio of their money prices. It is demand that makes goods commensurable, and money acts as a representative of demand.

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ARISTOTLE AND THE ACQUISITION OF WEALTH

However, although money was fundamental to Aristotle's thinking, he believed that there were clear limits to the legitimate role of commercial activity. His argument was based on a distinction between two types of wealth-getting. The first was a part of estate management. People should know things such as which type of livestock would be most profitable, or whether to engage in planting wheat or bee keeping. These were natural ways in which to acquire wealth. In contrast, the second type – getting wealth through exchange – was unnatural, for this involved making a gain at someone else's expense. Unnatural ways to acquire wealth included commerce and usury (lending money at interest). Somewhere in between came activities such as mining.

The Socratic philosophers, including Xenophon, Plato and Aristotle, held that citizens should aim at a good life. This was the life of the polis, or independent city state in which citizens played an active part in civic life. To do this they needed material resources, provided by their estate. Natural ways of acquiring wealth were ones that increased the stock of goods needed to live the good life. Though estate management was fundamental, trading to obtain goods that could not be produced at home and exchanging one's surplus produce for something of which one had greater need were perfectly natural. But an important part of such a life was that wants were limited, and that once a man had enough wealth to live in the right manner he would have no need for further accumulation of wealth. High levels of consumption were not part of the good life. There was therefore a limit to the natural acquisition of wealth.

What disturbed Aristotle about commerce was that it offered the prospect of an unlimited accumulation of wealth. This was something of which Athenians were well aware, for, although the self-sufficient city state was the ideal, there had been several crises when the city had been forced to raise money from traders. Typically, merchants were not citizens, so raising money in this way meant going outside the polis. The puzzle was that, even though they did not do anything

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useful, traders and speculators managed to create so much wealth that they could help out cities in times of crisis. How was this possible? Aristotle's answer was that goods can be either used or exchanged. Of these, the former is a proper, natural procedure, as is exchange between people who need goods different from those they currently possess. On the other hand, exchange simply for the purposes of making money is unnatural, for goods are not being used for their proper purpose. If wealth could be created by exchange, then it could be accumulated without limit, something Aristotle considered impossible. If followed that such activities must be unnatural. Men might be rich in coin, he argued, yet starve through lack of food.

The view that there are limits to the proper acquisition of wealth and the use of exchange simply in order to make money fits in with Aristotle's theory of justice. The essence of natural acquisition of property is that it enables men to live a good life in the polis. It has a clear objective and is not being pursued for its own sake. Similarly, when he turned to the question of justice in the *Nichomachean Ethics*, Aristotle was dealing with the injustice that arises 'not from any particular kind of wickedness, such as self-indulgence, cowardice, anger, bad temper or meanness, but simply from activities for which the motive is the pleasure that arises from gain'.[6] In making this distinction, one can see Aristotle separating out one sphere of life – one that it is tempting to describe as 'economic' – money-making. What is significant, however, is that Aristotle did not see this sphere as covering the major part of those activities that we now think of as economic, for production and the most important types of trade were excluded. Even more significant, he did not see markets and money-making activities as providing a mechanism that could regulate society. Order was produced not through individuals pursuing their own ends, but through efficient administration.

Like Plato, Aristotle was a teacher. In 342 BCE he was appointed tutor to Alexander the Great, and in 335 BCE he returned to Athens to establish his own school, the Lyceum. It was Alexander who finally destroyed the independence of the Greek city states, so weakened by the Peloponnesian War, as he expanded his Macedonian empire to include not only the rest of Greece, but also Egypt and much of the

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Persian empire, right across to India. Though Alexander's empire was relatively short-lived, disintegrating after his death in 323 BCE, its major effect was to spread Greek culture throughout the ancient world. The age of independent city states was over, and the empire's administration was run along lines taken over from the Persian and Egyptian empires that preceded it. Greek became the official language and was widely spoken in the towns (though not in the countryside), and Greek mathematics, science, medicine and philosophy flourished in cities such as Alexandria in Egypt. The writings of the Greek philosophers, though rooted in the Greek city state, reached a far wider audience.

ROME

At the time of Alexander's death, the Roman republic controlled no more than a small area on the west coast of the Italian peninsula. During the following three centuries this grew into an empire that covered most of Europe and North Africa. On the death of Augustus (CE 14) the Roman empire stretched from Spain to Syria, and from the Rhineland to Egypt. It reached its greatest extent in the reign of Trajan (98–117), and, though it lost territories, notably to the Frankish tribes in the north, it retained much the same boundaries until the end of the fourth century. Roads, cities and other major public works were built on an unprecedented scale. Rome was without any doubt the greatest civilization the Western world had seen.

Rome produced armies that conquered this world, and architecture that produced a sense of awe in those who later looked upon its ruins. Latin became the language of the educated classes in Europe. Yet the centre of the empire was always in the East. Rome relied on Egypt for its supplies of grain. The empire's largest cities and much of its population were in the eastern provinces in Asia Minor. In contrast, the Western empire remained largely rural. The cultural centre of the empire was also in the Eastern empire – in Hellenized cities such as Antioch and Alexandria, in which Greeks continued to make advances in science and philosophy. Roman writers readily acknowledged their

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debts to the Greeks, with the result that the Romans themselves are widely believed to have contributed little to economics. They are said to have been doers, rather than thinkers; engineers, rather than scientists. However, while there may not have been contributions comparable with those of Plato or Aristotle, this view is far from justified. Roman writers made a different type of contribution, the explanation for which is to be found in the structure of Roman society.

The Roman constitution linked political power to the ownership of land and to military service. War and conquest were a major source of wealth, and soldiers were rewarded with grants of land, associated with political power. Romans were expected to be willing to endure the hardships and risks of war in order to preserve their wealth. It followed that the rich, who had more wealth to preserve, should face the greatest risks. The poor man gained little from war and should therefore neither pay taxes nor be required to fight. Trade offered a route to wealth, but this wealth had to be converted into land if it were to bring political power. Land, therefore, was the pre-eminent form of wealth.

The philosophies that gained most adherents in Rome, especially among the upper classes, both originated in Greece: Cynicism, founded by Diogenes of Sinope (*c.*410–*c.*320 BCE), and its offshoot, Stoicism, founded by Zeno of Citium (*c.*335–263 BCE). The last great exponent of Stoicism was Marcus Aurelius, Roman emperor from CE 161 to 180. Cynicism, like the later teaching of Epicurus (*c.*341–270 BCE) emphasized the here and now. Freedom from want was to be achieved through reducing one's needs to the barest minimum, living in what ordinary men would consider poverty. The Stoics believed that happiness resulted not from material possessions, but from virtue. Moral virtue was the only good, which meant that a man who had done the best he could had nothing to regret. For both the Cynics and the Stoics, virtue involved following nature. They were thus responsible for the idea of natural law, by which human laws and institutions could be judged.

The concept of natural laws, applying to the whole of humanity, provided the foundation for the field where the Romans made perhaps their greatest contribution to social thought – jurisprudence.

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Roman law has exerted a major influence over subsequent legal systems. More important, many significant economic ideas were articulated in Roman commercial law. The Romans had great respect for property, and the law contained many provisions to safeguard ownership. The idea of the corporation having an existence independent of the individuals involved in it goes back to Roman law. The law on contracts permitted trade, and guaranteed property and allowed it to be transferred. However, though trade was allowed, wealth acquired from trade remained more controversial than wealth from landed estates. There was always a sense that wealth from trade, which appeared almost to arise out of nowhere, was tainted in a way that wealth derived from the land was not. Stoic ideas were the origin of the concept of reasonableness as it later appeared in much commercial law.

Of particular importance was the idea, going back to Aristotle, that if all parties had agreed to a contract voluntarily, that contract must be just. For a contract to be valid, all that was necessary was that the parties had consented to it, not that a particular ritual or formula had been followed. This focused attention on the circumstances under which an action was voluntary – on the point at which coercion rendered an action involuntary. If someone could show that he had entered into a contract under threat, he might be able to have it annulled on the grounds that he had not entered into it voluntarily. In general, however, a threat was held to invalidate a contract only if it were sufficient to scare a man of firm character. It would normally, if not always, have had to involve a threat of physical violence. The need for consent was the reason why wilful fraud rendered a contract invalid. For example, someone did not truly consent to a contract if he was misled about the quality of the goods being offered. Normal bargaining over a contract, however, was allowed.

CONCLUSIONS

The world of ancient Greece and even Rome can seem very remote. However, the ideas developed there are more important than their remoteness might suggest. Greek philosophy has exerted a profound

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influence on Western thought, and the economic thought discussed in this book forms part of that broader tradition. Our way of reasoning goes back to Plato and Aristotle. Plato argued for the existence of universals – ideal, pure forms that could be understood only through abstract reasoning. Aristotle, in contrast, saw concrete facts as fundamental, and general principles had to be derived from these through a process of induction. These two different attitudes still beset modern economics. Roman law has been similarly influential. In addition, the Classics, both Greek and Latin and including many works not mentioned here, formed an important part of many economists' education, at least until the twentieth century, with the result that many of the writers discussed in the following chapters will have been directly influenced by them.

The ancient world was dominated by self-sufficiency and isolated exchange. As the terms of such exchanges were clearly something over which men had control, it was natural that great attention should be paid to whether they were just. However, although there was no market economy in the modern sense, commercial activity was sufficiently developed and sufficiently prominent to provide a significant challenge. On the whole, the thinkers whose views are known to us (we have less evidence of how merchants themselves viewed things) were suspicious of commerce. These two normative themes – justice and the morality of commerce – dominated discussions of economic issues right up to the seventeenth century, by which time the existence of a market economy and a commercial mentality had come to be much more widely accepted.

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The Middle Ages

THE DECLINE OF ROME

The ancient world is conventionally said to have ended with the fall of Rome and the Roman empire. This was a long-drawn-out process, with its end commonly dated to the fall of the Western empire in 476, though the Empire continued in the East, based on Constantinople (Byzantium), for almost another 1,000 years. The modern world is often said to have begun in the fifteenth century. This was the century of the Renaissance, when Europe rediscovered classical humanism and Portuguese explorers discovered the New World and sea routes to the Far East. An important symbolic date was that of the fall of Constantinople to the Turks, in 1453. In between we have the so-called Middle Ages.

Dated in this way, the Middle Ages span nearly a millennium of European history during which profound economic, social and political changes occurred. The way in which men made sense of these changes cannot be understood separately from religion. The key event here was the adoption of Christianity as the religion of the Roman empire. The emperor Constantine (*c.*272/3–337) was converted to Christianity in 312, and under Theodosius (*c.*346–95) Christianity became the official religion, with non-Christians and heretics being persecuted. Religion and politics remained entangled for centuries, with outsiders to the ruling elite often favouring non-orthodox versions of Christianity. For example, Arian Christianity (heretical in relation to the official religion of the empire) was widespread in the

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countryside. After Rome fell and Islam had come into being, the conflict between Christianity and Islam overshadowed the many disputes within Christianity.

Economic problems played an important role in the fall of the Roman empire, even though attacks by waves of barbarian invaders provide the popular explanation of what happened. A critical period for the empire was the third century. Population fell by a third, partly due to plague brought in by eastern invaders. The supply of gold fell, possibly because there were no longer new imperial conquests, a major source of gold in the past. Alternatively, the reason for economic decline may simply be that commerce was failing. With the fall in the supply of gold, trade to the East collapsed. Furthermore, given that the empire was held together only by the army and that there were many people in the cities who needed to be pacified with distributions of food, taxation rose. At times, the authorities had to requisition food directly to feed the army and the poor. Some of the money needed was raised by debasing the coinage. In the time of Augustus coins were pure silver, but by 250 the silver content had fallen to 40 per cent, and by 270 to 4 per cent. Despite attempts at financial reform by a series of emperors, culminating in Diocletian's famous edict of 301 in which he sought to fix prices and wages, inflation continued.

An important economic and social change during the last years of the empire that became even more marked during the Middle Ages was the decline of the towns. Cities in the Western empire were essentially colonial towns, whereas those in the Eastern empire were larger and generated much wealth. As trade declined, so did the position of towns in the Western empire. There was a general retreat from them, symbolized by the fact that for Christian ascetics such as St Jerome (*c.*347–420) abandoning worldly possessions meant retreating into the desert.

To understand the economic thought of the Middle Ages, it is necessary to understand not simply the Greek and Roman ideas discussed in the previous chapter but also two other strands of thought: Judaism and early Christianity. This involves going back to the time of the Old Testament.

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JUDAISM

The economic thinking of the early Christian Church owed much to Judaism. In the Old Testament tradition, it was thought that restricting one's wants was an important way to cope with the problem of scarcity. As in ancient Greece, there was also great suspicion of trade, and hostility to lending money at interest. There were, however, some distinctive features in the biblical teaching on economics. People were seen as stewards, with a responsibility to make the best possible use of what God had entrusted to them. Work was seen as good – as part of the divine plan for mankind. Adam was told to multiply and fill the earth and, even in the Garden of Eden, he was to work the soil and to look after it.[1] Abraham was amply rewarded for his faith. These texts can be read as favouring economic growth – those who follow the Lord accumulate wealth.

The Old Testament also contains many laws that regulated economic activity. Charging interest on loans to fellow Israelites was forbidden. After working for six years, slaves were to be set free and given enough capital to make a new start. Even more radical, all debts were to be cancelled every seventh year (the sabbatical), and in every fiftieth year (the jubilee) ownership of all land was to revert to its original owner. There is no evidence that the jubilee was ever enforced, and certainly by the time of the monarchy (*c.*1000–900 BCE) there was considerable inequality. This was partly due to the king's imposition of taxes, requisitioning of goods, and forced labour. (The state of the poor was a major theme in the writings of the prophets.) The provisions of the law nonetheless helped keep alive the view that men were only stewards, not outright owners, of their lands.

Though wealth was the reward given to the righteous man, the pursuit of individual wealth was criticized as leading people away from God. For Moses, worship of the Golden Calf was incompatible with the worship of God. Similarly, when Isaiah wrote of Israel being crowded with foreigners and traders, and (presumably as a result) being filled with gold and silver, he observed that the land was also

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filled with idols and that people bowed down in front of the work of their own hands.[2]

Throughout the Old Testament, seeking to increase one's own wealth is associated with dishonest business practices and the exploitation of the poor. This attitude was clearly expressed by the prophet Amos (eighth century BCE):

> Listen to this, you who grind the destitute and plunder the humble, you who say, 'When will the new moon be past so that we may sell our corn? When will the sabbath be past so that we may open our wheat again, giving short measure in the bushel and taking overweight in the silver, tilting the scales fraudulently, and selling the dust of the wheat; that we may buy the poor for silver and the destitute for a pair of shoes?'[3]

In the same way, moneylenders were seen, along with traders and retailers, as behaving unjustly – exacting interest in advance and depriving people of essentials such as the cloak under which they needed to sleep.[4]

There was thus a clear distinction between the pursuit of wealth, which was castigated, and the wealth that arose through following God's commands. As obeying God's commands involved working and acting as a responsible steward, this was far from a condemnation of all economic activity. The objection was to bad practices, not to the acquisition of wealth itself. Pursuing wealth was wrong because it encouraged such practices. Thus, so long as they looked after their own people and behaved justly, the Israelites were encouraged in their business activity. The book of Ecclesiastes even encourages people to engage in foreign trade and gives advice on taking (and hedging) risks: 'Send your grain across the seas, and in time you will get a return. Divide your merchandise among seven ventures, eight maybe, since you do not know what disasters may occur on earth.'[5] The Old Testament is not about withdrawing from the world. Money corrupts only when it becomes people's sole motive.

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EARLY CHRISTIANITY

In the New Testament the emphasis is different. Jesus was steeped in the Old Testament, and much of his teaching followed the laws of Judaism very closely. In the parable of the talents, he spoke of stewardship and risk-taking, and he taught that the righteous would be rewarded. But he was a working man, many of whose followers came from the poorest parts of Jewish society and had no hope of bringing about major economic, social or political change. Thus he required his followers to give up their possessions, warned that the rich might find it impossible to obtain salvation, and taught that rewards for righteousness would be found in heaven rather than on earth.

For the earliest Christians, notably St Paul, who was responsible for transforming Christianity from a Jewish heresy into a religion open to all races, Christ's Second Coming, and with it the end of the present world, was imminent. This meant that the idea of economic progress found in the Old Testament was pushed aside. Even the importance of good stewardship of resources was played down. Paul wrote that those who have wealth should not count on keeping it, or even on having time to use it to the full. His advice was that people should carry on as they were, the imminence of the end of the world meaning that there was no point in starting anything new. This was an environment in which economic thought was clearly not going to develop. However, when it became apparent that the end of the world would not happen within the lifetime of the original Apostles (Peter is believed to have died in Nero's persecutions in AD 65), the Church began to think again about economic development. There are some hints of this in the later books of the New Testament, notably the Revelation of St John.

The early Fathers of the Church were therefore confronted with a tension between the views of the Old and New Testaments. On the whole they opted for retreating from the world, possibly influenced by their Cynic and Stoic contemporaries. Poverty and detachment from worldly possessions were encouraged, and we have the examples of hermits and saints who gave up everything, retreating to a life of poverty. The Old Testament injunction to work was explained

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away by arguing that the problem had been that idleness would lead to corruption. Work was desirable because it prevented people from being idle, but if one could resist temptation this was even better.

The outstanding figure of this period was St Augustine, Bishop of Hippo, in North Africa (354–430). His City of God was written to rebut the charge that the fall of Rome to Alaric and the Goths in 410 was retribution for the empire's having adopted Christianity. The book is significant because it looks forward to the possibility of creating a new society, rather than simply looking back to preserve, or re-create, the past. Unlike Plato, Augustine did not seek to establish a blueprint for a new society, for it is impossible to create a perfect society on earth. Instead he saw progress as trying to get closer and closer to a perfect society.

Wealth, Augustine argued, was a gift from God; but, though it was good, it was not the highest good. It should be regarded as a means, not an end. Though he considered it best not to own property at all, he recognized that not everyone could do this. Private property was, for Augustine, entirely legitimate, but it was important for people to abstain from the love of property (which would cause it to be misused). In the same way, Augustine distinguished between the trader and his trade: there was nothing wrong with trade in itself, for it might benefit people through making goods available to those who otherwise would not have them, but it was open to misuse. Sin was in the trader, not in trade. There was, however, an unresolved conflict between this teaching about the legitimacy of private property and the natural-law doctrine of communal property. Private property was the creation of the state, which therefore had the right to take it away.

Augustine took many ideas from Greek thought, but his horizons were incomparably broader. Whereas Xenophon and even Aristotle were concerned with the polis or city state, Augustine dealt with a people defined not by birth or locality, but by agreement on a common interest. Depending on the nature of this shared interest, the community might progress or regress. He broadened out the Old Testament notion of development to make it relevant to Christendom, not simply Israel, and provided a perspective on history that proved influential in the emerging societies of western Europe.

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ISLAM

The Western empire ceased to exist in 476. Though this event was of great symbolic importance, little changed. The barbarian kingdoms that emerged in western Europe sought not to overthrow the Roman empire but to become part of it. They still looked up to the Roman emperor, even though that emperor was now in Constantinople, not Rome. The significant event marking the end of the ancient world was not the fall of Rome, but the rise of Islam and the Muslim conquest of Arabia, the Persian empire, North Africa and much of Spain. The Muslim advance across Europe was stopped only in 732, by Charles Martel at Poitiers. It was at this time that European society was cut off from the Mediterranean and had to reorganize itself. For example, this was when Syrian traders disappeared from western Europe. In contrast, trade flourished in the Muslim lands and a great civilization was established, absorbing Persian culture in addition to the Hellenistic culture brought by Alexander. Centres of learning were established in cities such as Baghdad, Alexandria and Córdoba, and there the legacy of Greece was preserved at a time when it was lost in the rest of Europe. Plato and Aristotle first entered the Latin West through translations from Syriac and Arabic.

The Islamic economic literature of this period falls into two categories: the literature of the 'golden age' of Islamic dominance (750–1250) and that of the crisis years which followed (1250–1500), by the end of which the Moors had been driven out of Spain and the European nations were embarking on voyages of discovery. The background to this literature was the Koran. Like the Old and New Testaments, this contained no systematic exploration of economics, but it did discuss isolated, practical economic issues. It said that income and property should be taxed in order to support the poor. The taking of interest on loans was prohibited. Inheritance was regulated, so that estates had to be broken up instead of being passed on to a single beneficiary. Beyond this there was little. While these rules presented a challenge, given the highly developed urban civilization that Islam had taken over, Islamic society was very traditional, and the role for economics was rather limited.

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In the Islamic golden age, two main types of literature can be found. One is the so-called 'mirror for princes' literature. The mirror books were open letters, usually written by scholars and viziers, which presented rulers with an image of efficient and just government and advised on how commerce and public administration might best be organized. One of the most economically developed examples was by al-Dimashqi (in the ninth century), who explained how the merchant could contribute to the good of the community by linking parties who have surpluses or shortages of particular products. He argued, however, that for the merchant to benefit society he must refrain from speculation and the desire to accumulate wealth. He might take a normal profit, but no more. Another type of writing concerned the organization of either the city or the household. It was written by lawyers and civil servants – sometimes by the sheriffs responsible for ensuring that markets functioned in an orderly manner. They analysed the conflict between free markets (supported in the Koran) and the desire for administrative control of markets and prices – something for which there was great pressure when shortages threatened to make goods too expensive for the urban poor to survive. Such writing frequently discusses economic problems such as pricing, factors influencing consumption, and the supply of goods.

The potential conflict between the Greek heritage and Islamic thought is illustrated by Averroes (Ibn Rushd, 1126–98), writing near the end of the golden age, the last in a line of outstanding Muslim philosophers. His father and grandfather had held the position of chief judge in Córdoba, and in 1169 he was appointed to the same position in Seville. Part of his life was spent in Marrakesh, including a spell late in life as chief physician to the emir. His commentaries on Aristotle were probably written in Córdoba in the 1170s, and are particularly important because it was through these, translated from Arabic into Latin, that Aristotle came to be known in the Christian West.

Though he had sympathies with Plato's ideal of a strong ruler, Averroes followed Aristotle in seeking to establish ethical principles through reasoned argument. This brought him into conflict with religious traditionalists, who were not happy with the way in which he sought to reconcile ethics based on reason with the revealed ethics of

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