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I

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

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

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

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.

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,

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

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

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

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.

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

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

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.

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

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 *Nicomachean 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

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

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.

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

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.

2

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

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.

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

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.

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

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.

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.

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

the Koran. At one point the emir banished him from Marrakesh, and his many books on Greek philosophy were burned.

Perhaps the point where Averroes departed furthest from Aristotle was in his treatment of money. Aristotle had recognized three functions of money: means of exchange, measure of value, and a store of value for future transactions. To these, Averroes added that of being a reserve of purchasing power: unlike other goods that could also serve as a store of value, money could be spent at any time without having first to be sold. He also took a different view from Aristotle on the question of whether money is a commodity like any other. Writing in the twelfth century, Averroes took monetary transactions for granted in a way that Aristotle did not: the economy could not function without it. Money was thus unique. Furthermore, the value of money had to be unchangeable, for two reasons. One was that money is used to measure all things. Like Allah, also the measure of all things, it must be unchangeable. The other was that, if money is used as a store of value, changes in its value are unfair. The money a ruler makes by reducing the amount of precious metal contained in coins is pure profit that he has done nothing to earn, similar to interest on a loan, and is as such unjustifiable. Averroes thus broke with Aristotle's view that the value of money is a convention that the ruler might alter at will.

In the thirteenth century the situation changed. Following the Mongol advance into Europe, much of Persia and Asia Minor fell to the Seljuk Turks. The Catholic princes of Aragon, Castile, Navarre and Asturias managed to reclaim much of Spain from the Moors. This was the background to the writings of Ibn Khaldun (1332–1406), who came from a Moorish-Andalusian family but who migrated to North Africa after the fall of Seville to the Catholics. He pursued a varied career as a civil servant, jurist and historian – at one point he accompanied the Sultan of Egypt to negotiate a peace treaty with the Mongol conqueror, Tamerlane. He was well educated in the science and philosophy of his day. But though he was a member of the ruling class, with close connections to emirs and sultans, his Spanish upbringing gave him the attitude of an outsider to North African civilization.

Ibn Khaldun's major work is a history of civilization in which he wove together economic, political and social changes. It was a work

in social science, or the science of culture, in which his aim was not to derive moral precepts, but to explain the organization of society. He was familiar with Greek philosophy, but became sceptical about very abstract theorizing, on the grounds that it could lead to speculation and a failure to learn lessons from past experience. Inquiries had to be exhaustive if their results were not to be misleading.

Civilization, according to Ibn Khaldun, went through a series of cycles. His theory has been summarized by one historian as follows:

A new dynasty comes into being and as it acquires strength, it extends the area within which order prevails and urban settlement and civilization can flourish. Crafts increase in number and there is greater division of labor, in part because aggregate income rises, swelled by increase in population and in output per worker, and provides an expanding market, a very important segment of which is that supported by governmental expenditure. Growth is not halted by a dearth of effort or by a shortage of demand; for tastes change and demand rises as income grows, with the result that demand keeps pace with supply. Luxurious consumption and easy living serve, however, to soften both dynasty and population and to dissipate hardier qualities and virtues. Growth is halted by the inevitable weakening and collapse of the ruling dynasty, usually after three or four generations, a process that is accompanied by deterioration of economic conditions, decline of the economy in complexity, and the return of more primitive conditions.⁶

Though this might be seen as a political theory, explaining the rise and decline of dynasties, and though sociological factors (such as the contrast between the values acquired in Bedouin 'desert' life and 'sedentary' city life) are in the forefront of the story, economic factors are nonetheless equally important. Though not discussed separately, concepts such as the effect of division of labour on productivity, the influence of tastes on demand, the choice between consumption and capital accumulation, and the impact of profits (and hence taxation) on production are all analysed as part of the story.

Ibn Khaldun's account of the process of economic development is a remarkable achievement. When taken together with the other Muslim literature of this period, it shows how great an understanding of

economic phenomena existed among certain circles of Islamic society in the fourteenth century. Trade and science both flourished in the Islamic world, and men such as Ibn Khaldun, involved in the legal and administrative systems, were able to use their own experience and the traditions handed down to them to amass a large stock of economic knowledge. Ibn Khaldun's work had little lasting influence in the Islamic world, however. It was in western Europe, not North Africa, that the next major developments in economic thought were to arise.

FROM CHARLES MARTEL TO THE BLACK DEATH

The golden age of Islam was the dark age of Christian Europe. In the south, Muslims controlled most of Spain and were at the gates of Constantinople, while in the ninth century Vikings dominated the north. Flows of gold into much of Europe ceased, and there was a lapse into rural self-sufficiency. Yet Christian Europe survived, primarily through the development of two institutions. One was the monastic cell, in which Christianity was kept alive. By 700, Benedictine monasteries in the rest of Europe had fallen to invaders, but Christian learning, including knowledge of Latin and Greek classics, was kept alive in monasteries in Ireland and Northumberland. By the time these were sacked by the Vikings, Christianity had spread back to France and Germany.

The second vital institution was the system, sometimes referred to as 'feudalism', by which grants of land were linked to military service. ('Feudalism' is a term invented many years later, and meant different things in different parts of Europe, so it has to be used with great care.) The invaders threatening Europe were horsemen. To defeat them it was necessary to follow the Persian and Byzantine example and use heavily armoured men on horses specially bred for their strength. The problem of how to support such horsemen, which had imposed a serious economic drain on the Persian and Byzantine empires, was solved by Charles Martel (ruler of the Franks in 719-41), who used lands confiscated from the Church to endow a new class of

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