

## **ANCIENT ECONOMIC THOUGHT**

According to J.F. Bell, "It is the study of the heritage left by writers on economic subjects"

Evolution of economic thought is the study of economic ideas of eminent thinkers from the earliest time's to the present day.

### **IMPORTANCE OF THE STUDY OF EVOLUTION OF ECONOMIC THOUGHT**

- a. It demonstrates a continuous development of economic ideas
- b. Economic ideas influenced the shape of economic and political policies of different countries.
- c. This study provides solution to the modern problems with past experience.
- d. It brings the truth of the past, which give us impetus to develop new ideas.
- e. It provides knowledge about the mistakes committed by the early thinkers in the past. This emphasizes the critical examination of modern theories.
- f. This study provides a broad basis for comparison of different ideas.

### **Characteristic Features of Ancient Economic Thought**

- (1) The predominance of ethics, religion and philosophy undermined the importance of economic ideas and no value was attached to an independent study of economic problems.
- (2) 'State' was the supreme authority. Economics could only develop as a hand-maid of politics.
- (3) The pursuit of material objects, gratification of sensual desires and the acquisition of wealth were not considered as sources of eternal happiness. Good and moral actions were taken to be the essence of virtue and the summum bonum of life.
- (4) The value and significance of labour and the dignity of physical labour were not properly appreciated.
- (5) The problems of international trade and commerce and of public finance, especially public debt, did not engage the attention of early writers.
- (6) Conquest of territories, appropriation, forced labour etc., were the recognised means of increasing wealth and property.
- (7) The wants of man are limited. Economic organism being simple.
- (8) State did not encourage individual liberty, choice and decisions in the absence of which the economic structure could not grow in a natural way.

### **Significance of the Study of Ancient Economic Thought**

- (1) Such a study will be of inestimable value in gaining an understanding of and insight into the development of economic thought in its proper logical sequence.

- (2) No theory, however wrong it may appear at first sight, is completely discarded and denied forever.
- (3) The study of ancient economic thought not only provides the necessary bridge and bulwarks between ancient and modern but also between occidental and oriental economic thought. Its importance lies not only in providing a continuity of ideas but also in an understanding of the interaction of these ideas in their proper relationship.

#### CONTRIBUTION OF THE EARLY THINKERS

##### The Hebrews

- The Hebrews were a nation of ancient civilization whose history dates back to 2500 B. C.
- The main source of their history and ideas is the writings of the Hebrew prophets.
- Their ideas are contained in the rules of conduct and laws enunciated and formulated by the sacerdotal class.
- These injunctions or commands were the standard of all thought and action.
- The Old Testament is the most important and original source of information regarding the economic thought of the Hebrews.

##### Economic Thought of Hebrews

- **Usury or Interest:** They **prohibited the usury**. If the thing accepted in return was more in value than what was given to the borrower, it was considered to be an act of usury.
2. **Commerce and Just Price:** The Hebrews exercised great care in formulating **laws against false weights and measures and adulteration** of articles of consumption.
  3. **Labour:** The Hebrews regarded all kinds of labour as dignified. but
  4. **Agriculture and Industry:** The Hebrews held **agriculture in high esteem** while they looked down upon trade. The Hebrews did not encourage manufacturing of goods and commerce to any considerable extent.
  5. **Seventh and Jubilee Years.** The Hebrew prophets evolved a peculiar method of regulating and restricting the alienation of land by instituting the seventh and Jubilee years. The seventh year was one in which the land lay uncultivated, **i.e.**, after tilling it for six continuous years, the land was not to be cultivated for one year. it was designed to conserve the fertility of the soil.

The **Jubilee Year meant the fiftieth year**. According to this provision **the land transferred** to some one, was to **revert to its first owner** in the fiftieth year. Thus, sale of land really amounted to no more than lease.

Characteristic features of Hebrew economic thought:

1. The social philosophy was over-simplified.
2. Religion, ethics, law, economics, philosophy-all were inextricably bound together, but there was a predominance of religion and ethics.
3. Their everyday life was strictly regulated by the rules of conduct and laws formulated by the dominating class of priests.
4. One of the most striking characteristics of their economic thought was the conflict between economic stimuli and ethic-religious ideas. There were many factors which retarded economic progress.
5. Another characteristic feature was the fixity of their ideas.
6. 6. The Hebrews had a concept of society and social welfare but it lacked the necessary dynamism and passive in nature.

### **Greek Economic Thought:**

- The Greek economy was never treated as a separate subject. It was inextricably bound-up with political science and ethics.
- Religion was part of the machinery and the mystery of the state.
- The economic ideas of ancient Greeks are contained in the teachings of Greek philosophers - Plato and Aristotle; and in the writings of the contemporary historian-Xenophon and Epicurus.

Plato (427-347 B.C):

Economic ideas of Plato

- **Origin of State:** He stated that a state arose, out of the needs of mankind; and as people had many wants, many persons were needed to supply them; and when helpers and partners lived together in one habitation, the body of inhabitants was termed a state.
- **Regulation of Population** The ideal size of a state, according to him, should be such as it can be conveniently administered and in which all citizens may know each other. A city state comprising 5,040 citizens was considered an ideal organization
- **Division of Society:** The ideal city state which was to be ruled only by an intelligent and planned government (he was against democracy) should have classes.

Among the ruling class were included philosophers, aristocrats and warriors.

Among the ruled class were included menials, workers, agricultural labourers and craftsmen.

- Property and Governance: For each class of people Plato had suggested ideal property arrangements. Only farmers and artisans were allowed to work to profit; and accumulate property. The rulers and auxiliaries could not enjoy property rights. He realized that the city was divided into two parts-city of the poor and city of the rich-always at war with each other.
- Division of Labour: Plato's division of labour or his concept of specialization and exchange depended upon two things; diversities of natures and aptitudes.
- Slavery : Plato regarded slavery as a permanent factor in the civilization of mankind

### **Aristotle (322B.C):**

#### **Economic ideas of Aristotle**

- ❖ Origin of State: According to him, the state was a natural organism. He viewed economic problems from a political state was a natural organism. He viewed economic problems from a political standpoint.
- ❖ He did not agree on a community property as it would lead to disputes; but advocated private property.
- ❖ Natural Economy and Chrematistics: Aristotle divided economy into two parts; (a) natural economy or household management and (b) chrematistics or artificial or wealth-getting economy.
- ❖ Money: He said that money came to be introduced to facilitate commercial dealings.
- ❖ Value and Exchange: Aristotle clearly distinguished between value-in-use and value-in-exchange. Condemning exchange.
- ❖ Usury: Money was intended to be used in exchange but not to increase at interest.
- ❖ Property: In the opinion of Aristotle, property was part of a household and the art of acquiring property was part of the art of managing a household. Property did not include slaves. In contrast with Plato, he criticized communism; and favoured private property.
- ❖ Finance: Aristotle recognized the art of finance which developed as a natural consequence along with the introduction of money

Xenophon (c 434-c 355 B.C.)

Xenophon was the third in the chain of the great Greek writers. His economic ideas are:

- **Primarily an Agricultural Writer:** In his writings, Xenophon was primarily concerned with the problems of agriculture
- **Factors of Production:** According to Xenophon there were only two factors of production — land and labour.
- **Laws of Returns:** Xenophon showed an understanding of the operation of the laws of returns. He held that agriculture was an industry subject to the law of diminishing returns while silver mining yielded increasing returns.
- **Joint Stock Companies:** Xenophon favoured the organisation of joint stock companies for the mining of silver.
- **War and Peace:** Xenophon attached great importance to the economic advantages of peace. Peace is constructive, while war is destructive. It is only when peaceful conditions exist that wealth can flourish.
- **Population:** Xenophon was not in favour of limiting the size of the population in the State. In fact he supported a large population for Athens.

#### The Greek Stoics and Epicureans

Any account of the contribution made to economic thought by the Greeks will remain incomplete without a mention of the economic views of the Stoics and Epicureans. The **Stoics were idealists and spiritualists**, while the Epicureans were hedonists and materialists.

**Stoicism** had two main tenets: **(1) Naturalism** or the "**rule of nature**", and **(2) optimism**, i.e., the **individual has an inherent sense of justice** and can be fully relied upon.

The **Epicureans**, on the other hand, **considered pleasure seeking as the goal of life**.

#### General Features of the Greek Thought

**1. Passive Idealism:** The doctrines laid down by the Greeks lacked dynamism and power to change either the established institutions or the environmental influences on current thinking.

**2. Subjective Standards:** The Greeks set subjective standards for evaluating economic phenomena, e.g., just price, utility, etc.

**3. Subordination of Individual to State and inclination towards Communism:** The State was considered as a whole and the individual, a part of it. The interests of the individuals were subservient to those of the State. The Greek philosophers had unmistakable leanings towards Communism in spite of the broad division of society suggested by them between privileged and under-privileged classes and castes, e.g., the rulers and the ruled.

4. Normative Economics Mixed up with Politics: The Greek thinkers laid down certain norms of conduct for individuals and expected them to attain the highest ideals.

Economics was thus subordinated to ethics and politics and could not flourish as a body of independent doctrines on its own rights.

### **Roman Economic Thought**

Romans were the men of action.

They approached the economic problems of the day from the political standpoint; thus their specific contribution to economic thought is very little.

#### **Contribution of Roman thinkers:**

**Agriculture:** Cato, Varro, Pliny and Columella praised agriculture and were chiefly interested in **the improvement of agricultural technique.**

**Value:** According to them, price was **determined by the forces of demand and supply.** In due course of time the concept of just price developed which showed some regard for ethical considerations.

**Money and Interest :** Pliny the Elder favoured barter because to him, gold was the cause of the ruin of mankind.

**Commercial Regulations:** The Roman State interfered with economic matters and commercial regulations in difficult times.

**Division of Labour:** In his writings Cicero laid emphasis of division of labour in economic activities as it conferred several advantages.

### Roman Jurists

Roman jurists were chiefly concerned with the framing of laws and evolving doctrines to regulate the commercial mechanism of Rome. They were the most original Roman thinkers. Although they did not take up any economic question and did not enter into economic discussion and for them ethical or political considerations were more important than the economic ones, their view were of immense economic importance as their influence on the later method of approach to economic questions has been the profoundest.

**Natural law:** The Roman jurists evolved two bodies of law—jus civile and jus gentium. The former was the law applicable to the citizens of Rome. It was a natural law. The latter was applicable to all the foreigners.

**Private property:** Their views concerning private property and contract had great effect upon the development of economic thought; they discarded the communal ownership of property.

**Non-personal elements:** Roman jurists attached great importance to the non-personal elements in law and they had completely separated them from the personal elements. They

thus separated law from religion and helped the development of the Roman legal system in a more scientific way.

## ECONOMIC THOUGHT IN ANCIENT INDIA

India has a glorious past and ideas on economic subjects, even in the fourth century B.C.

Development of Indian Economic Thought:

The history of the development of economic thought in Indian can be traced back to the times since man started recording his ideas.

According to Indian philosophy, there are four ideals of life: **Dharma** (the doctrine of duty); **Artha** (material prosperity); **Kama** (Worldly Pleasures); and **Moksha** (Salvation). These ideals have been the regulator of human life and activities in this country since times immemorial.

Economic Thought in Ancient India:

**The main sources of information** regarding the economic thought in ancient India are **the Vedas, the Upanishads, the Epics (the Ramayana and the Mahabharata)** and some treatises, especially Kautilya's **Arthashastra**. Thiruvalluvar's 'Thirukkural' .

### **Kautilya's Arthashastra:**

Kautilya's name was Vishnu Gupta. He is known by the name of Kautilya because he was an expert in diplomacy and political strategy. He was the chief minister of Chandra Gupta Maurya.

Kautilya has given vivid description of the administrative procedures, of the duties of kings, ministers and government officers, in his book Arthashastra.

His Arthashastra is based on earlier treaties and is divided into fifteen chapters covering about 430 pages. It covers almost every aspect of the theory and practice of economics. It also deals with the government of town and villages, law courts, rights of women, maintenance of the old and helpless, marriage and divorce, public finance, maintenance of army and navy, diplomacy, agriculture, spinning and weaving and a number of other subjects. His book contains ample ideas on a welfare state.

### **The Ideas of Kautilya:**

(a) Nature and Purpose of Material Wealth. The term Artha (wealth) occupied an important place. Wealth include, during those days, cattle, especially cows and horses. In ancient India, individuals were free to earn and accumulate wealth but only to the

extent it was necessary for the satisfaction of one's wants and those of the members of one's family.

(b) Varta. The term Varta which means the science of national economy, has been most commonly used by the ancient thinkers. Kautilya include agriculture, animal husbandry and trade in Varta.

(c) Agriculture and Animal Husbandry. Agriculture and animal husbandry formed important components of Varta. These were regarded as the basic sources of new wealth.

(d) Dignity of Labour: He did not recommend slave labour. Kautilya laid down a code of discipline for labour in which he prescribed penalty for those who refused to work after receiving wages. In certain cases, labourers also were entitled to leave. The worker and the employer may also enter into a written contract.

(e) Trade. The ancient thinkers approved of trade, whether internal or foreign, only when a surplus, after meeting reasonable domestic or local needs was left over. Broadly speaking, the exchange of commodities of internal trade was considered superfluous.

(f) Public Finance. Taxation was one of the most important sources of revenue of the state. It was known as 'Raj kar'.

The rate of tax was determined in accordance with the dictates of Hindu Religion.

According to Kautilya, the tax receipts can be divided into three parts: (a) income earned through taxes on goods produced within a country; (b) income earned through taxes on goods produced in the capital and (c) through taxes on imports and exports.

The main **principles of taxation** were, thus as follows: (i) a tax should be levied once a year and should not prove a burden to the taxpayer; (ii) rich persons should be taxed according to their ability to pay or richness.

Kautilya's ideas are more or less confined to the organization of central finance.

He did not touch the problems of local finance.

Kautilya included the following items in **public expenditure**; (i) national defence; (ii) public administration; (iii) salaries of the ministers and expenditures on government departments; (iv) expenditure on government storehouses, etc; (v) expenditure incurred on the maintenance of national storehouse and granaries; (vi) expenditure incurred on the maintenance of armies; (vii) expenditure incurred on the acquisition of valuable gems, stones and ornaments. Whatever was left was deposited to the war chest and the treasury.

(g) **Population**. A large population was considered as source of strength.



(h) Slavery. In ancient India a slave was a member of the family and was not required to do menial jobs. He used to be a hereditary domestic servant without any rights of accumulation of wealth and private property. He was, in any case, better than a hired worker.

(i) Welfare State. The ancient Indian thinkers had a very clear concept of welfare state. Wages were determined on the basis of equality and justice. There was no exploitation of labour by the employers or of the cultivators by the landlords and the capitalists. Manu and Kautilya were against high rates of interest. Manu has given instructions in Dharma Shashtra for the regulation of the rates of interest. He even forbade the charging of compound interest. According to Kautilya profits are the rewards of purely entrepreneurial function.

Kautilya's concept of state is founded on industrial edifice. According to him, there are three guiding principles for the state: first, the state should undertake those industries which help directly in making the nation self-sufficient and self-reliant, e.g., gold, silver, diamonds and iron and other to farming, spinning, and weaving, livestock farming, arts and crafts, etc., should be the state should see that the activities relating to production, distribution, and consumption are carried out efficiently and in accordance with the rules framed by it. It, thus, implies a perfect domination of the state on the individuals but with the sole object of augmenting their welfare.

(j) Social Security. During the time of Kautilya, the system of social security was not so elaborate as it is found today.

(k) Interest. Kautilya proposed regulation of the rate interest.

(l) Price Control. The main object of price control was to protect the consumers against the malpractices of the shrewd and dishonest traders.

(m) Socio-Economic Institutions. The laws of religion governed every walk of life, family and social relations, economic activities and spiritual life

(n) Town Planning. The villages were grouped together from the point of view of economic necessities and for national defense. Town planning included the reorientation of main streets, the subdivision of the city area, and the widening of the main streets. The capital was established after careful planning.

Elaborate rules were laid down for prevention of the fire and maintenance of sanitary arrangements.

#### **Economic Ideas of Valluvar:**

No account of the economic thought in ancient India would be complete without a reference to the economic ideas of Valluvar.

Valluvar was a sage and seer, a poet and a scholar whose book Thirukkural is one of the most important works of the Sangam era. It is an undying classic and a work of ethics par excellence.

It deals with the fundamentals of life. The exact period during which Valluvar lived is not certain but it is believed that it was in the first or the second century A.D. that he produced the Kural.

Valluvar's teachings were an appeal to the people at large. He was not merely a scholar but a prophet exhorting his countrymen to a course of action which he considered the most important for a prosperous life. In the tradition of the Sangam Age he chose the couplet verse as the medium of communication.

Thus, the four cardinal principles on which an orderly and a prosperous society's superstructure should be built, according to Valluvar are: (i) faith in God; (ii) economic resources; (iii) spiritual leadership; and (iv) observance of the moral law. He has not given any order of priority and, therefore, he considers them as the four wheels of an automobile. These principles are the key to the understanding of the rest of the Kural, comprising 129 chapters and in all 1330 Kural stanzas.

The Concept of an Economic Society:

His economic ideas are mostly found in the second part of the 'Kural' which he names as the Porutpal, i.e., the part dealing with wealth for Valluvar Porutpal was the same as Arthashastra was for Kautilya. Porutpal literally means 'things, substances, objectives, values, wealth, etc., i.e., all material things, all tangible objects, that can be acquired, enjoyed and lost and which a man requires in daily life for maintaining his family and for the fulfilling of his life's obligations'.

Poverty and Begging as Social Curses:

Valluvar **condemns the evils of poverty.**

Accumulation of Wealth:

Valluvar **deals with the importance of accumulation of wealth.**

**Economic Society:**

He prescribes certain moral and spiritual qualities for the citizens of an economic society which is **free from poverty, begging and hoarding and which encourages accumulation, consumption and better distribution of wealth.**

Importance of Agriculture: Stress the **importance of Agriculture.**

**Balanced Spending:**

He believed in balanced spending.

Constituents of an Economic Society:

Like modern economists he does not classify factors of production into land, labour and capital.

**Public Finance:**

Valluvar assigned **four essential functions** to the State, namely, the **creation of revenues, collection of revenues, management of revenues and public expenditure.**

Valluvar was **not in favour of any undue compulsion in taxation.**

**Customs** were the next and the tribute paid by **vanquish enemies** was the third **source of revenue.**

Welfare State:

By what he said, it can be inferred that he was an **advocate of a welfare state**, and he wanted the king to be a sound administrator. He considered knowledge as an essential factor of production;

### **Economic Thought in Medieval Ages**

The period between 470 A.D. to 1453 A.D. covering about 1000 years is generally known in history as the Medieval period or the Middle Ages. It is the most ill defined period in the world history, and roughly it has been put between the years 400 A.D. to 1500 A.D. This period has been dubbed as the Dark Ages. It is believed that during these years, economic thought has moved at a very slow speed, when compared with the rapid progress it has made in later years.

#### **Characteristics of the Early Medieval Social Order**

In the early middle ages, especially during the years from 500 A.D. to 1200 A.D., economic ideas were influenced by the customs and traditions of the German society.

The village community was the economic unit with families as the self-sufficient sub-units. There was complete freedom of opinion.

The spirit of brotherhood was dominating.

Barter was the prevailing form of exchange and profit earning through exchange was prohibited.

They attached more importance to individual rights in land.

**The Church and the moral teachings of Christianity had also their share in moulding the early medieval economic thought.**

Most of the ancient institutions were shattered to pieces under the influence of Christianity, which pleaded for (a) spirit of brotherhood, (b) equality of rights, (c) abolition of slavery, (d) dignity of labour, (e) purity of family life, (f) generous help to the downtrodden, (g) communal ownership of property, etc. Consequently, profit and interest were despised, agriculture was given the pride of place.

Characteristics of the Later Medieval Society

The later medieval social order was characterised by the **division of society into lords and serfs. The dominance of and the part played by the Church was the most important unifying factor.**

### **CHIEF FEATURES OF MIDEVEL THOUGHT**

- Feudalism and the dominance of the Church were the two characteristic features of the medieval social Structure.
- **Manual labour was considereo exalted and noble.**
- Economic problems and practices, were considered in the context of moral and spiritual considerations.
- Idea of justice pervaded all human relations and conduct of life.
- Spiritual well-being was the end and hence the rules were framed and executed by the Church.

### **St. Thomas Aquinas (1225-1274 A.D.)**

- Most renowned scholastic philosopher.

His Economic Views or Scholasticism:

**Individualism.** Schoolmen in general despised individualism and scorned the idea of laying emphasis on human personality as the basis for economic decisions

**Property.** St. Aquinas did not uphold the exclusive and unrestricted rights in private properly..

**Trade.** St. Aquinas regarded trade neither good nor natural. It was unnatural and graceless

**Value** was considered as an objective quality inherent in every commodity. Its measure was dependent upon a process of estimation of the cost of production which covered labour.

**Just Price** something like value was absolute and was associated with the common usefulness of the commodity.

**Usury and Money-lending.** Money-lending, as a means of gaining wealth was considered by the Church Fathers as the **most degraded act.**

**Division of Labour.** Division to labour was accepted as **useful.**

**Economic Functions of the State.** The state was likened to a private economy and the office of the ruler was regarded as private property. Aquinas believed that by money the king could purchase food for his subjects, in times of war. The king, thus, **possessed the right to control and regulate the monetary system** and to make laws for the prevention of counterfeiting and clipping of coins. The regulation of currency was thought necessary, because a slight change in its quantity might affect its price.

**Nicole Oresme (1320-1382 A.D.)**

His Economic Views:

Oresme's main concern was with the **study of the origin of money** and the use of precious metals.

He was in favour of establishing such a **bi-metallism** in which the proportion of the market value of the two metals should determine the ratio of their monetary value. It, thus, means that the value of money is to be derived from the value of the money commodity. In this respect he was the forerunner of the later monetary theorists.

He recognised that the **right of coinage should rest with the king**, but that he will only act on behalf of the community

He defended trade and advocated **protection of the merchant class against the oppressive practices of the king**, which, none of the thinkers before him ever thought.

Oresme's thoughts were, thus, much ahead of his time.