**ANCIENT ECONOMIC THOUGHT**

Ancient economic thought is characterized by the contribution of Greek philosophers, Roman school, Church fathers and scholastics.

**GREEK PHILOSOPHERS**

Many concepts and questions that are still important in economics are found in ancient authors such Xenophon (c. 430 BC - c. 354 BC), Plato (427 BC - 347 BC), and Aristotle (384 BC - 322 BC).

The term “economics” was introduced by Xenophon and Aristotle. The Greek philosophers wrote about the division of labour, money, exchange, value, and just price. They are also important to have introduced, in particular with Aristotle, the deductive method to validate various arguments.   
  
**The Deductive Method**The approach consists in developing a fully deductive, logical system of proofs based on a priori axioms that holds over the entirety of a closed domain of discourse, narrowing the range under consideration until only the conclusion is left. This method inspired all social sciences and school of thought in the period before Middle Ages. We have a change in the method of reasoning with the advent of Bacon and other empiricists who introduced the inductive approach based on empirical evidence.  
  
**Social-Economic Background**  
Greek philosophers lived in a period of slave-based economy and, therefore, tried to justify this kind of economy and defend the status quo, emphasising the role of the government, which is at the centre of the Greek philosophers’ contribution.

enice)

enice)

They tried to present an efficient government and an efficient functioning of the state. In doing so, they paid attention to the justification of the existing economic system, maximising the efficiency of the state while maintaining the slave-based economic system.

**Politics**The importance of the role of government can be found in the *Republic* of Plato and in the *Politics* of Aristotle, both aimed at describing an efficient state and justifying the economic system. According to Plato, there are politicians and philosophers at the top of the social scale and slaves at its bottom: slaves are denied importance. Aristotle agreed with Plato about slaves, who had to be excluded from society life. Politics was the main body and the study of men and their behaviour (ethics) was a subfield of politics. Both philosophers give prescriptions about moral behaviour, since these concepts were necessary for an efficient functioning of the state.

**Economics**  
Economics, present in ancient thought in form of just price ecc, is present in ethics as a part of human moral behaviour: in this sense, economics is a subfield of ethics, which in turn is a subfield of politics (economics = sub-subfield of politics).

Economics, as we can notice, was not so important for Greek philosophers: it was considered the study of the individual behaviour of the family, an unimportant part of politics. From the meaning of the term economics, we can understand how marginal it was for Greek philosophy. As a result, there was a **normative approach** to economics: it was studied in terms of what it should be rather than what it is 🡪 result of its belonging to ethics.

1. Division of Labour  
   The first description related to economics is the **division of labour**: in the *Republic*, Plato states that the division of labour leads to **high productivity**, suggesting that everyone should specialize in the task in which he is best qualified. The division of labour leads to a better social organization and, for this reason, the state is based upon it (idea recalled by Adam Smith).
2. Exchange and Private Property  
   Another important concept is **exchange** of commodities, which depends on the existence of **private property**, strongly supported by Aristotle, who thought that it increases **efficiency**. In a society based upon division of labour, different goods are likely to be exchanged, so exchange becomes pivotal and natural if it satisfies human wants. Exchange must be **fair**, namely the **value** of the goods exchanged must be **equalized** (reciprocity in exchange): when we observe this equalization, we can talk about **just/fair exchange** and **just price**. But how to derive value? According to Aristotle, value derives from **utility**: when a good satisfies human utility, then it embodies a value. But how to measure human utility?
3. Money  
   **Money** is the instrument to measure utility and it implies that two different goods can be measured in the same way and equalized in their value. Human wants are transformed in money value and, after this transformation, it is possible to equalize their value and fairly exchange these goods. Aristotle never specified how to operate this transformation, yet he stated that the value of every human commodity has an upper limit. The exchange is subject to limitations because human needed are limited. If one gets an extremely large quantity of a thing, it may be harmful or at any rate not be useful. The same idea returned in neoclassical thought at the end of nineteenth century (the concept of diminishing marginal utility).  
   Exchange involving money is unnatural. However, if one sell something in order to acquire money needed to buy another good, this form of exchange is accepted. **Trade** for raising profits is **condemned**, since it is money lending to get more money and it represents the most unnatural form of trade. Money must be used as a **medium of exchange** to facilitate the exchange of goods but is not productive, so it cannot be used to raise money using loan strategies. Plato supported the use of common Hellenic currency to be used by ambassadors, visitors, travellers ecc.   
   Aristotle introduces other functions of money, namely store of value and measure of all things. He believes money should be used to commensurate goods and services (**measure of all things**).  
    The other property of money (**store of value**) is a consequence of money’s use as a medium of exchange. In order to function as a means of exchange, money should keep its value over time and it should permit the storage of wealth.   
   Aristotle also introduces a distinction between value in use and value in exchange (e.g. a shoe can be used for wearing and it is its use value; it can also be sold or exchanged for another good and it is its value in exchange). This distinction can also be found more than 2,000 years later in the classical economists Smith and Marx.

enice)

enice)

**ROMAN SCHOOL**

Roman empire was characterized as well by a slave-based economy and Roman philosophers focused on the study of the meaning of **laws** to understand the organization of society.   
  
**Natural Law**The **origin** of laws lies in **God**, who is the only who can establish what is right and what is wrong. Therefore, the meaning of laws in God’s reason and the term **natural law** (centre of Roman jurisprudence) refers to a law based on moral standards in the mind of God that suggests what ought to be done and what is forbidden.

It follows a deductive approach because it starts from a priori principles and then deduce the right course of action in a particular situation. Therefore, natural law is suggested by God’s reason and is unchangeable. So how can we individuate these laws? Cicero and Roman school suggest that natural law is also in the mind of the so-called **wise man**, namely the philosopher: in fact, reason is present in both God and humanity, so there is a partnership between divine and human reason. This law, in harmony with nature, is above space and time.

**Just Price**Natural law is at the basis of many roman prescriptions, such as the freedom to bargain, limited by the ***laesio enormus***, the application of which is based on natural law. The exchange between seller and buyer happens at a given price: if we do not respect the *laesio enormus*, transactions cannot proceed. This limitation states that the price cannot be higher than twice the value of the good and this is an application of natural law. If the price respects the *laesio enormus*, then it is a **just price**. But how can we know if the price is just or not? The **judge** has the last word on it, since he is able to evaluate the fairness of the price. But are we sure that he is able to understand exactly which is the just price? The roman school suggests some standards to identify the just price, defining it as the **price commonly observed in the market**.

**CHURCH FATHERS AND SCHOLASTICS**

The Bible (Old and New Testament combined) illustrates the Christian path to salvation.Although a formal articulation of economic theories is not set out, certain prescriptions for right economic conduct (normative economics) are described. The Bible introduced two main economic concepts:

enice)

* **Usury (interest taking):** Usury, in its ancient and medieval context, referred to charging interest on borrowed money. The Old Testament supports the prohibition of usury. The law applied only to the Hebrews. Lending of money at interest to strangers was allowed. The Hebrews were asked not to collect interest from poor people because the poor borrowed money mainly for consumption purposes.
* **Scarcity:** The problem of scarcity is the central economic problem and concerns how people and societies coordinate their activities given the reality of scarce resources. This point is resolved in the Bible in three ways:   
  by **faith** (e.g. during Exodus, God tells Moses to strick the rock with sticks for satisfying the thirst),   
  by **setting your mind on God’s kingdom** (if you search for God, all the things will be provided for you) or   
  by **observance of the law** (If you observe the ten commandments, God will favour your land productivity).

Church Fathers comprise the “second generation” of Catholic writers. The Church Fathers differ significantly from earlier writers (such as Ignatius and Polycarp). Their focus of discussion moves away from simple presentation and exegesis of the stories of Jesus and the Apostles. Their aim is broadly to provide assistance in dealing with the new and baffling range of problems with which the Church of their day was confronted. When Church Fathers speak of the law, they normally mean the Roman school. Some early Church Fathers, especially those in the West, seek to incorporate natural law into Christianity. Of considerable importance amongst the issues which the Fathers faced was the problem of acutely unequal distribution of wealth, the slavery, the private property, and usury.

enice)

**Church Fathers**Church Fathers’ aim was **interpreting** the meaning of **Holy Scriptures** and **translating** it in **modern terms**, so that it could be applied in their times. There is an important shift in the contributions of Church fathers, since those operating **before** **325** (Council of Nicea) were prosecuted by the Roman Empire, leading to some **homogeneity** between the **prescription** and their **application** of it. Year **325** represents the end of persecution of Catholics thanks to an agreement between Constantine and the chief of the church, so Catholicism and Roman Empire became partners. This year represents also the beginning of a **discrepancy** between **prescriptions** and **application**, since the Church Fathers became land owners and began to accumulate wealth and land.

They focused on some concepts:

* **Private property:** they were against the concept of property,5 but they defend it for the sake of the individual such as for that of society. Private property is a prerequisite for the existence of society and it is the result of human rather than natural law.
* **Wealth:** the pursuit of luxury and wealth is condemned as it diverts men from the search for eternal salvation.
* **Slavery:** Church Fathers considered slavery to be part of God’s punishment for sin (St. Augustine – 354 AD - 430 AD) and slaves to be a form of property. Slavery was recognised as a fact, part of the existing social system, and as such not condemned.
* **Usury:** they vehemently condemned interest taking, a view that will be maintained by the medieval scholastics such as Aquinas.

**Scholastics**A group of Catholic writers, living from 12th to 16th century (under **feudalism**), are called **scholastics** (model based on the intellectual life of the schools), whose aim was giving prescriptions regarding morality by searching them in the Holy Scriptures.

Scholastic thought is considered as an amalgamation of three different intellectual traditions: Aristotle’s philosophy, Bible and Church Fathers and Roman school. St Thomas Aquinas (1225 AD - 1274 AD) is the main representative of this school of thought. The scholastics were theologians and philosophers, and they expressed opinions on economic arguments such as just price, interest-taking, and natural law. The method of analysis is based on deductions of rules of conduct from first principles that amounted to articles of faith.

enice)

Some economic concepts were included in their study and can be considered an interpretation of **natural law**, defined as a set of moral principles independent from any legislative body.   
Following the Roman scholars, they stated that the **meaning** of different **prescriptions** lies in the **mind** of **God**, who is the only one able to understand and interpret various situations. For example, the existence of private property could be understood only in terms of natural law: private property is not fair, but its existence can be understood by referring to God’s mind and only the **wise scholar**, by means of the power of reason, can understand such concepts.

The concept of natural law, inherited from the Roman school, was influential for some philosophers of 17th century (e.g. Hobbes) and for classical economists like Adam Smith.

Also **just price** was analyzed by these scholars and was considered the price applied in a **free market** **without** monopolistic interventions and **violations** (fraudulent behaviour).

**Usury** and **interest-taking** were condemned, so money lending was considered an **unnatural use of money** because it was considered a medium of exchange and making it multiply was unnatural. However, several scholastics presented exceptions: for example, if a borrower did not repay his debt in due time, the lender could claim interest in overdue payment.

A final remark about the contribution of scholastics concerns the discrepancy mentioned before: this **discrepancy** grew **larger** with the **Church** becoming a **big land-owner**, the first in Europe.

To conclude, we can say that the contribution of all these groups of scholars uses the **deductive method** of reasoning, going from general to particular (e.g. natural law, general prescription in the mind of God from which they derived particular cases), and tries to justify the status quo.