



UNIVERSITÄT
LEIPZIG

History of Economic Thought

I. Introduction

Leipzig University | April 22, 2024

Dr. Kristoffer J. M. Hansen | Institute for Economic Policy



I. Introduction

1. The Purpose of the History of Economic Thought
2. The Scope of the Course
3. Origins of Western Economic Thought
 - A) The Ancient Greeks
 - B) The Romans
 - C) Early Christian Social Thought
 - D) The End of an Era



Dr. Kristoffer J. M. Hansen

Institute for Economic Policy

Room I 240

Email: mousten_hansen@wifa.uni-leipzig.de

<https://www.wifa.uni-leipzig.de/personenprofil/mitarbeiter/kristoffer-mousten-hansen>

Office phone: 0341 97-33566

Office hours: by appointment

Course page:

<https://www.wifa.uni-leipzig.de/institut-fuer-wirtschaftspolitik/studium/sommer-2023/history-of-economic-thought-1>



| | | |
|-----|------------------------------------------------------------|----------|
| 1. | Introduction Slides | 22.04.24 |
| 2. | Scholasticism Slides | 24.04.24 |
| 3. | Mercantilism and Adam Smith Slides | 29.04.24 |
| 4. | Classical Economics Slides | 03.05.24 |
| 5. | 19th Century Money & Banking Slides | 06.05.24 |
| 6. | The Marginal Revolution Slides | 13.05.24 |
| 7. | Marshall, Walras, & Böhm-Bawerk Slides | 27.05.24 |
| 8. | Socialism I – before Marx Slides | 03.06.24 |
| 9. | Socialism II – Karl Marx Slides | 10.06.24 |
| 10. | Socialism III – the Socialist Calculation Debate Slides | 14.06.24 |
| 11. | Mises and Keynes, Money and Crises Slides | 17.06.24 |
| 12. | Fascist Economics Slides | 01.07.24 |
| 13. | Economics after World War 2 Slides | 05.07.24 |

| | | | | |
|----|-------------------|-------|-------|------------------------------|
| 1 | Mo, 22. Apr. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 2 | Mo, 29. Apr. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 3 | Fr, 3. Mai 2024 | 11:15 | 12:45 | Seminarraum 8 - I132 I1.001 |
| 4 | Mo, 6. Mai 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 5 | Mo, 13. Mai 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 6 | Fr, 24. Mai 2024 | 11:15 | 12:45 | Seminarraum 8 - I132 I1.001 |
| 7 | Mo, 27. Mai 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 8 | Mo, 3. Jun. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 9 | Mo, 10. Jun. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 10 | Fr, 14. Jun. 2024 | 11:15 | 12:45 | Seminarraum 8 - I132 I1.001 |
| 11 | Mo, 17. Jun. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 12 | Mo, 1. Jul. 2024 | 09:15 | 10:45 | Seminarraum 16 - I315 I3.023 |
| 13 | Fr, 5. Jul. 2024 | 11:15 | 12:45 | Seminarraum 8 - I132 I1.001 |



Textbooks

- Murray N. Rothbard, *Economic Thought Before Adam Smith and Classical Economics* (Auburn, Ala. 1995)
- Alessandro Roncaglio, *The Wealth of Ideas* (Cambridge, 2005)
- Lawrence H. White, *The Clash of Economic Ideas* (Cambridge, 2012)

Other literature

- Eric L. Jones, *The European Miracle*, 3rd ed. (Cambridge, 2003)
- Deirdre N. McCloskey, *Bourgeois Dignity* (Chicago, 2011)

More specialized references will be given in the lectures



1. The Purpose of the History of Economic Thought

Lack of prestige in the profession

Positivist attitude widespread

- It's all in the latest textbooks and journal articles
- Therefore history is superfluous

Hegelian influence?

The Whig theory of history



Basic structure of all scientific work

- Most scientists work in dominant paradigm
- A few outsiders outside the paradigm – cranks or prophets?

Problems develop

- Anomalies that cannot be explained within dominant paradigm
- Weight of problems accumulate → crisis situation
- Eventually, new paradigm takes the place of the old

Thomas Kuhn 1962, *The Structure of Scientific Revolutions*

- Note also Imre Lakatos's work on research programmes
- But: nihilistic implications of both!



The Competitive View (Roncaglia)

- Rival paradigms coexist for long periods of time

Economics and Truth

- No clear empirical tests – “philosophical” science
- Conclusions of economics often politically contentious

Crisis Situation(?)

- Disillusion after GFC 2008
- Do economics describe the real world?
- Rise of “big data” to prominence



2. The Scope of the Course

How to study the history of economics?

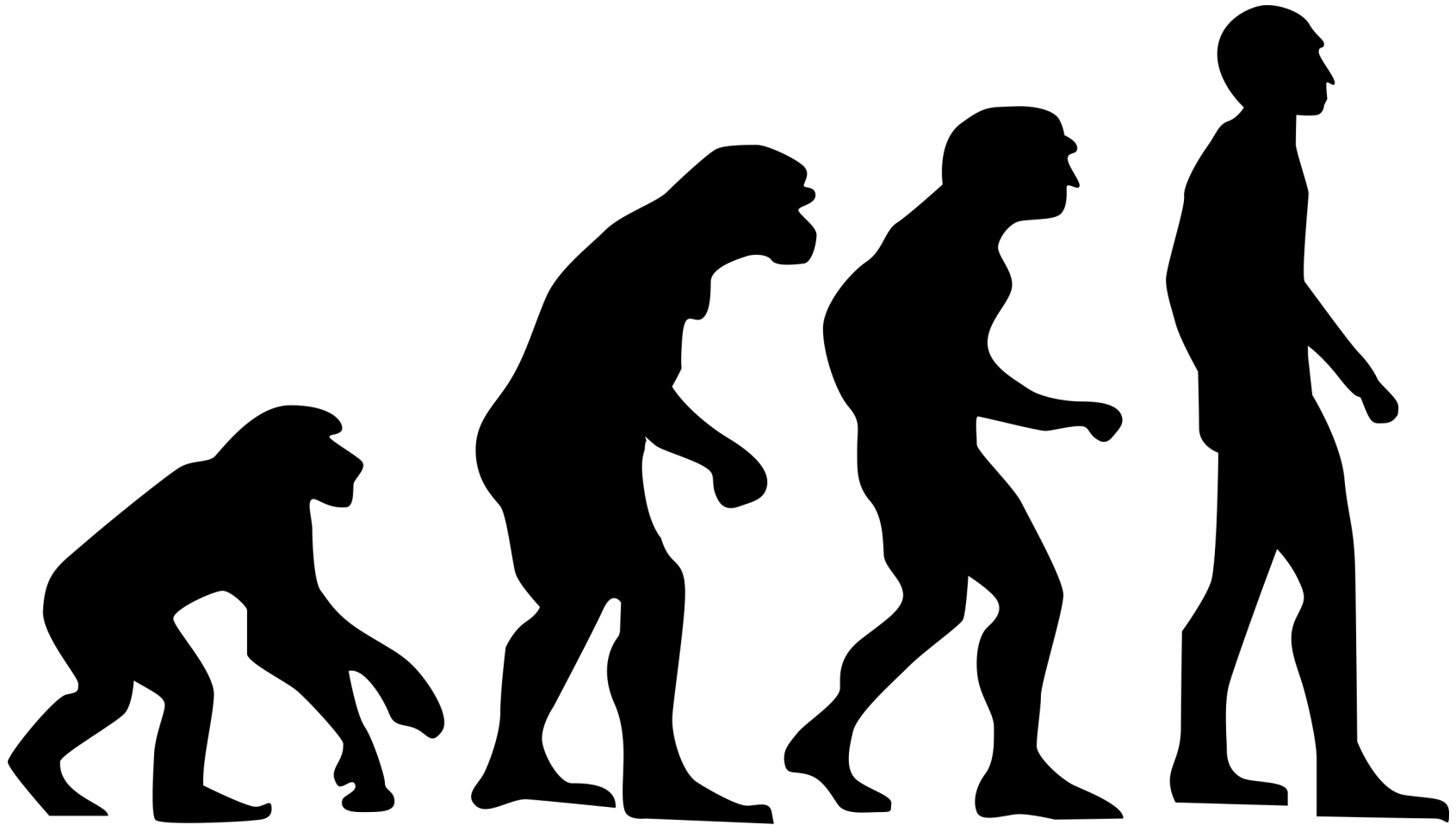
The great men approach

- Select 5-10 figures as the great men of economics
- Aristotle over Adam Smith to Keynes
- Basically whiggish



UNIVERSITÄT
LEIPZIG

The “Great Men” of Economics





Context

- Economic and social surroundings
- Philosophical influences
- Political aims

Chronology

- Often economics developed out of past ideas
- 500 BC to 1980s AD

Great Men

- Unavoidable
- Some truth



Philosophical Paradigm

- Universal laws of economics
- Influence from Aristotle, scholastics, natural law
- Tends towards free-market policy recommendations
- Example: Adam Smith

Empirical-historical Paradigm

- Economics describe facts, tendencies
- Positivism and inductive
- Tends towards interventionist policy recommendations
- Example: Gustav von Schmoller



1. Ancient History to 1200
2. Scholasticism
3. Mercantilism and Adam Smith
4. Classical Economics
5. 19th Century Money & Banking
6. The Marginal Revolution
7. Marshall, Walras, & Böhm-Bawerk
8. Socialism I – before Marx
9. Socialism II – Karl Marx
10. Socialism III – the Socialist Calculation Debate
11. Mises and Keynes, Money and Crises
12. Fascist Economics
13. Economics after World War 2



3. Origins of Western Economic Thought

- A. Ancient Greece
- B. Rome
- C. Christian Economic Thought
- D. The end of an Era



Classical Era

- 5th and 4th centuries BC
- Political disunity
- Commercial economy
- Coinage





The Invention of Coinage

Kings of Lydia

- Alyattes (c. 635-585 BC) and Croesus (585-546BC)
- Electrum: natural amalgam of gold and silver
- Croesus and debasement

Earlier Coins

- Egypt, Babylon, Hebrews
- Silver or gold by weights
- E.g., shekels





Currency Competition

- Every city had its own mint
- Convergence on common standard across Greece, broader Mediterranean world

Debasement in Athens

- Empire of late 5th century – Peloponnesian War 431-404 BC
- Athens imposed its laws, weights and coinage on allies/subjects
- Debasement profitable
- Gresham's law – evidence from Aristophanes's *The Birds* 414 BC



Student of Socrates, Founder of the Academy

- “Reactionary” against Athenian democracy
- Advocated communism – or communal living – for the elite
- Ideal: the life in the *polis*

Economics and Plato

- Understood the importance of the division of labour
 - Springs from inequality of men
 - Leads to greater productivity
- Understood role of money as means of exchange
- Against use of international money (gold and silver)



Xenophon (430-355/4 BC)

- Student of Socrates
- Famous mercenary, general
- First to use the word economics
 - Household management
- First to see and state the relation between the division of labour and extent of market

In small towns the same workman makes chairs and doors and plows and tables, and often the same artisan builds houses...' whereas in the large cities 'many people have demands to make upon each branch of industry', and therefore 'one trade alone, and very often even less than a whole trade, is enough to support a man'. In large cities, 'we find one man making men's boots only; and another, women's only ... one man lives by cutting out garments, another by fitting together the pieces.



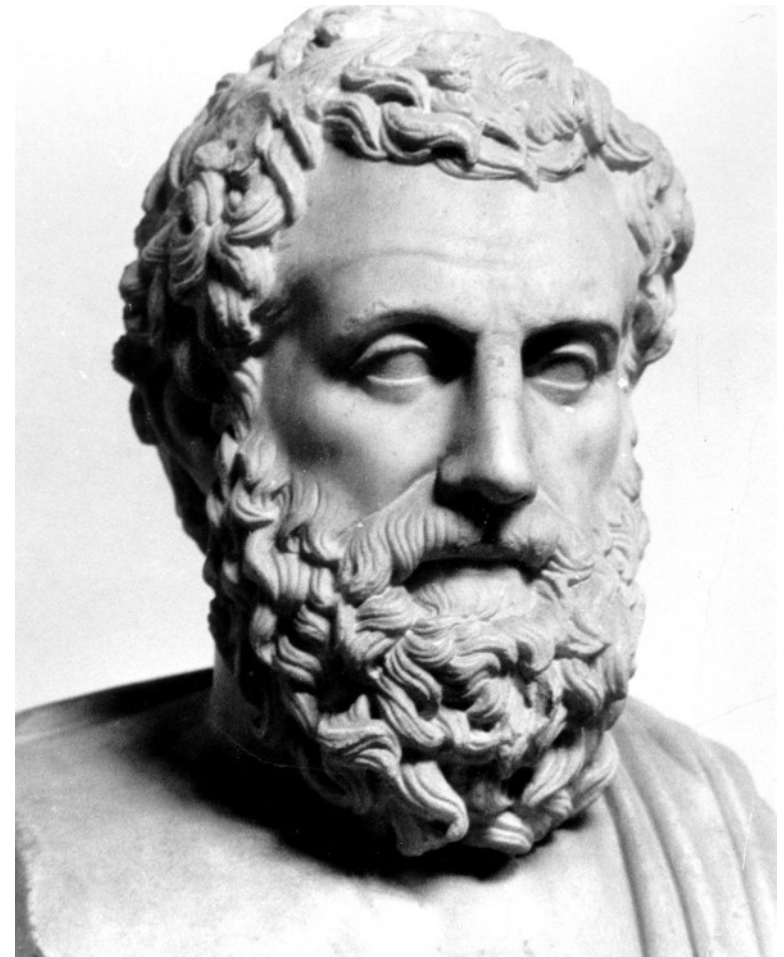
Aristotle (384-322 BC)

Culmination of Classical Philosophy

- Student of Plato
- Draws on pre-Socratics
- Founder of “realist”
philosophy

Aristotle on Economics

- Scattered in *Politics*,
Nicomachean Ethics
- Critical of Plato’s attitude





Private Property

- Superior to communism
- People care more for their own property – no one cares for what is held in common

Exchange

- Use value and exchange value
- Exchange is mutually beneficial
- The value of exchanged goods must be equated – proportional reciprocity
- Money serves as the measure that equates the value of goods



Emergence of Money

- Problem of barter and coincidence of wants
- Money established – market development or convention?
- Money is the means of exchange and store of value

Problems of Exchange Economy

- Money's value is not stable – but stabler than other goods'
- Money serves unnatural ends – potentially endless demand

Usury

- Taking interest – usury – is unnatural
- Money begetting money



Some Clear Ideas

- Private property is socially beneficial
- Benefits from the division of labour and trade
- The Importance of money

Some Fallacies

- Communism as a political-economic ideal (Plato)
- Equality of exchange
- Condemnation of interest/usury



Context

- World empire by 1 AD
- Republican Rome and the Early Empire generally small-state
- Monopoly of coinage
- Growth of army, taxation and bureaucracy over time

Key Issues

- Development of law as a competitive enterprise
- Coinage
- Extensive regulation and state intervention over time (3rd century)



Law as a Competitive Enterprise

- Jurisconsults competed with each other in giving advice
- Lawyers and judges competed in application of principles to specific cases
- Principle of absolute right to private property
- Customary law: e.g., *Lex Rhodia*

Iustum Pretium, the Just Price

- Initially, this simply meant the price arrived at through free bargaining
- Important for future: price regulation



Debasement

- Emperors repeatedly debased coinage to fund armies
- Severely hampered productive economy and exchange

Taxation

- Higher taxes to fund expanding state, army
- Assessed in kind – to avoid debasement

Consequences

- Collapse of productive exchange economy
- Farmers (*coloni*) bound to the land
- Senators remained independent: emergence of “villa autarky”



Diocletian (Emperor 282-305)

- Unleashed final bout of inflation through debasement
- Comprehensive price controls 301 – *Edict on Maximum Prices*
- Dropped within a year

Constantine (Emperor 306-337; sole emperor from 324)

- Restored order, restored a gold coinage, the *solidus*
- Stabilized the state – but the economy fundamentally different
- The late empire as the first Weberian state?



Context

- Roman persecutions
- Focus on faith and morals

Biblical Attitudes to Economic Life

- Creation as such is good
- Be fruitful and multiply
- Work is a good thing: man's share in divine creation
- After the Fall, work is also painful, a burden
- Wealth can be a snare: it is easier for a camel...



The Snares of Riches

- Tertullian: attacked the greed and dishonesty of merchants, the accumulation of wealth
- St. Clement of Alexandria: wealth is good, it can be used for good purposes
- St. Jerome (342-420): riches are no obstacle to moral life – if they are used well

The early Fathers generally did not consider economic questions much



First Ecumenical Council

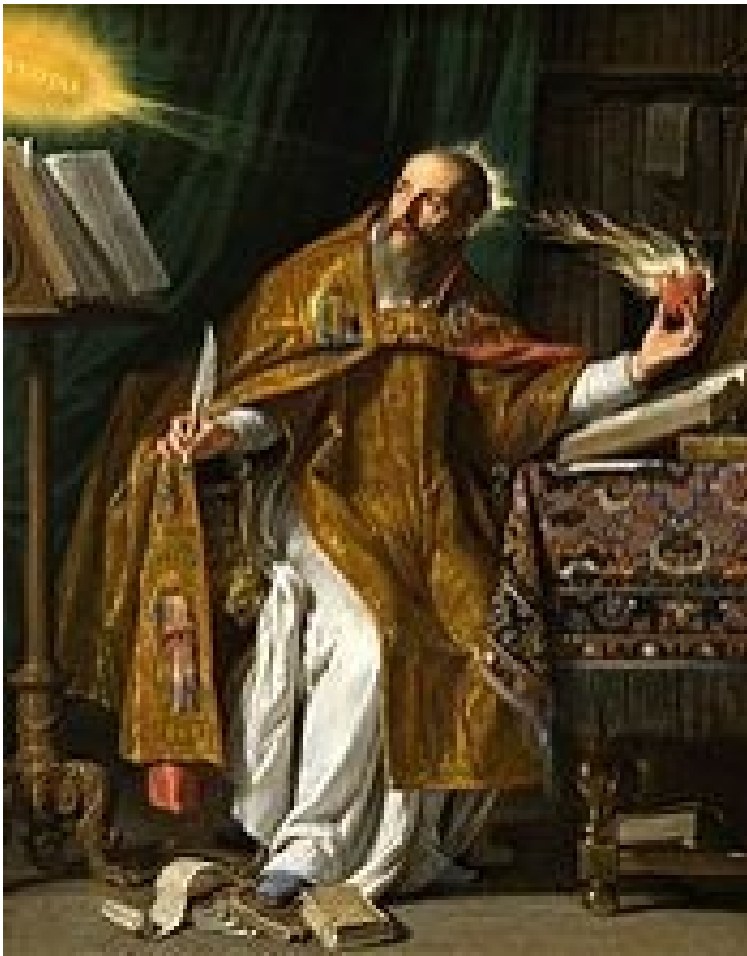
- Main issue theological: the nature of Christ
- Called and presided by the Emperor Constantine

Turpe Lucrum

- Church councils also deal with legal and disciplinary matters
- Canon 17 of Nicaea a disciplinary rule: clergy are forbidden from lending money at interest
- Usury condemned as *turpe lucrum*, filthy gain
- First act in Christian battle against usury – but where did it come from?



St Augustine of Hippo (354-430)



- Greatest theologian of Western Church
- Merchants perform useful services
- Deceit not inherent to trade
- Change in stress of social thought: Greek ideal of the *polis* no longer dominant, rather development (and salvation) of the individual the ideal and focus



Augustine on Unjust Empires

And so if justice is left out, what are kingdoms except great robber bands? For what are robber bands except little kingdoms? The band also is a group of men governed by the orders of a leader, bound by a social compact, and its booty is divided according to a law agreed upon. If by repeatedly adding desperate men this plague grows to the point where it holds territory and establishes a fixed seat, seizes cities and subdues people, then it more conspicuously assumes the name of kingdom, and this name is now openly granted to it, not for any subtraction of cupidity, but by addition of impunity. For it was an elegant and true reply that was made to Alexander the Great by a certain pirate whom he had captured. When the king asked him what he was thinking of, that he should molest the sea, he said with defiant independence: 'The same as you when you molest the world! Since I do this with a little ship I am called a pirate. You do it with a great fleet and are called emperor'.



Disintegration

- Western Empire dissolved in 5th century
- Germanic invaders set up own kingdoms
- Justinian's partial reconquest in 6th century extremely destructive

Continuity

- Germanic tribes (eventually) became Catholic Christians
- Germanic elites saw themselves ruling in the name of emperor

Benedict of Nursia

- Work and pray – *ora et labora*
- Monasteries as islands of culture – agriculture and literary



The Carolingians

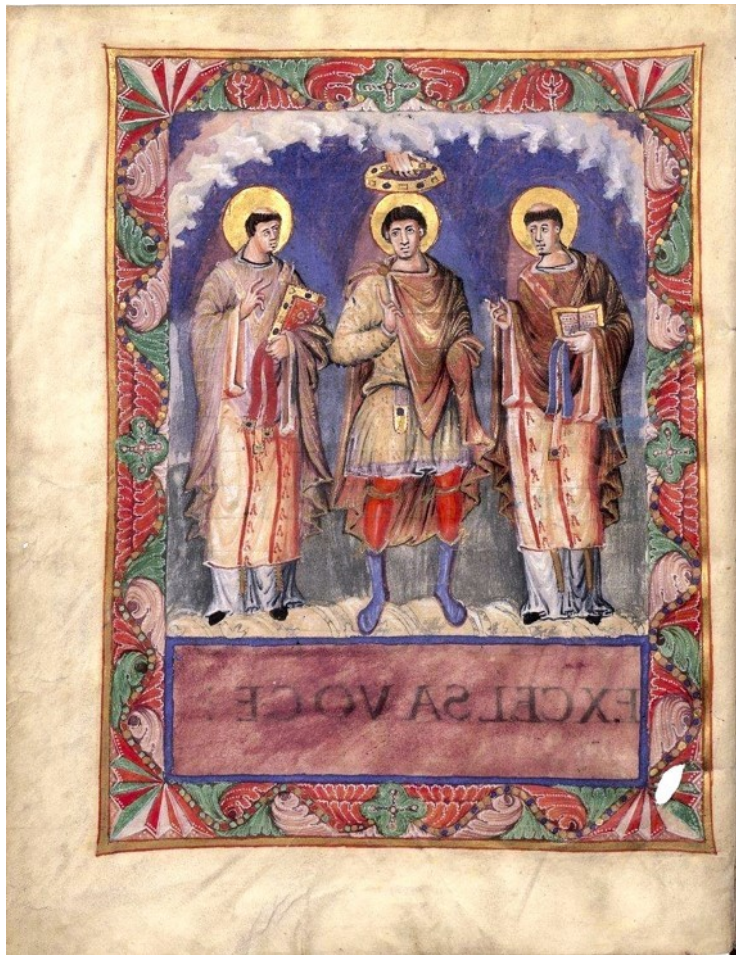
Pirenne Thesis

- Muslim conquests 8th century
- Frankish kingdom

Final Break with Rome

- Charlemagne crowned emperor 800 AD
- Roman ideology carried over to some extent
- But conditions different





Echoes of Diocletian

- Extensive price controls
- Legal price is the just price
- *Turpe lucrum* now all attempts at avoiding price decrees

Capitularies

- Carolingian edicts
- E.g., from the Synod in Nijmegen 806



Breakup of Empire

- Split on Charlemagne's death 814, never reunited
- Roman state finally disappeared: officials and military leaders awarded with pieces of sovereignty
- Political fragmentation ended centralized control

Coinage Reform

- New silver coinage under Charlemagne
- Rights to coin money, regalian rights, alienated or usurped → currency competition reestablished

Feudalism (?)

- Smaller territories meant smaller possibilities for extraction



Cameron, Averil. 1993. *The later Roman empire, AD 284-430*. (Cambridge: Harvard University Press).

Le Rider, Georges. 2001. *La naissance de la monnaie. Pratiques monétaires de l'Orient ancien*. Paris: Presse Universitaires de France).

Pirenne, Henri. 1939. *Mohammed and Charlemagne*. (London: G. Allen & Unwin).