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# History of Economic Thought

## I. Introduction

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# I. Introduction

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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



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



# 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

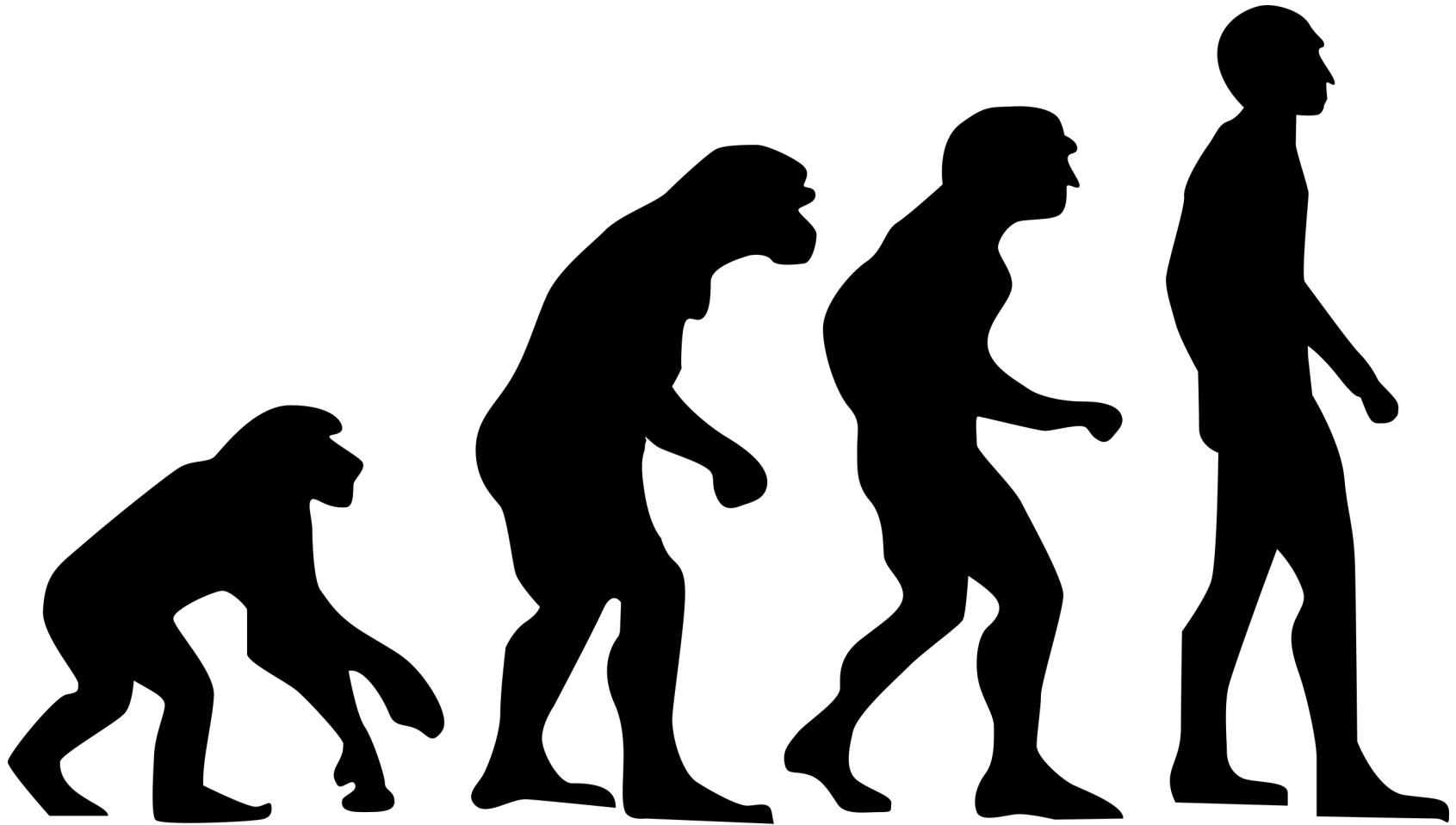
- Select 5-10 figures as the great men of economics
- Aristotle over Adam Smith to Keynes
- Basically whiggish



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# The “Great Men” of Economics

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## 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
4. Adam Smith
5. Classical Economics
6. 19<sup>th</sup> Century Money & Banking
7. The Historical School
8. The Marginal Revolution
9. Marshall, Walras, & Böhm-Bawerk
10. Socialism I – before Marx
11. Socialism II – Karl Marx
12. Socialism III – the Socialist Calculation Debate
13. Mises and Keynes, Money and Crises
14. Fascist Economics
15. 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

- 5<sup>th</sup> and 4<sup>th</sup> 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 5<sup>th</sup> 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)

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- 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.



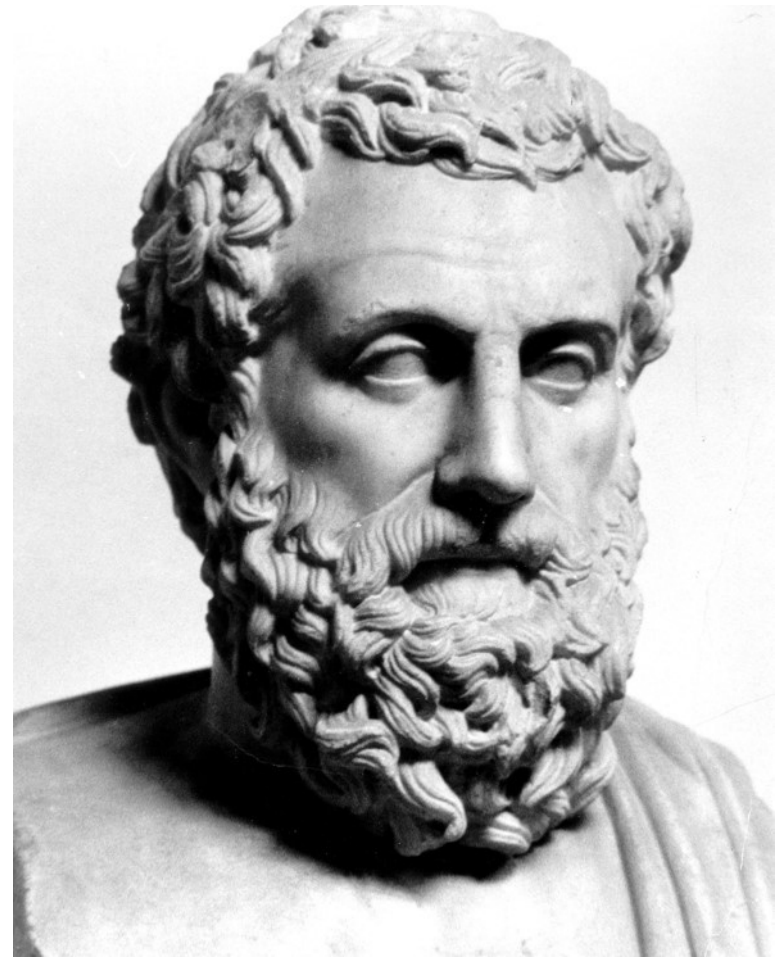
# Aristotle (384-322 BC)

## 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
- 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 (3<sup>rd</sup> 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

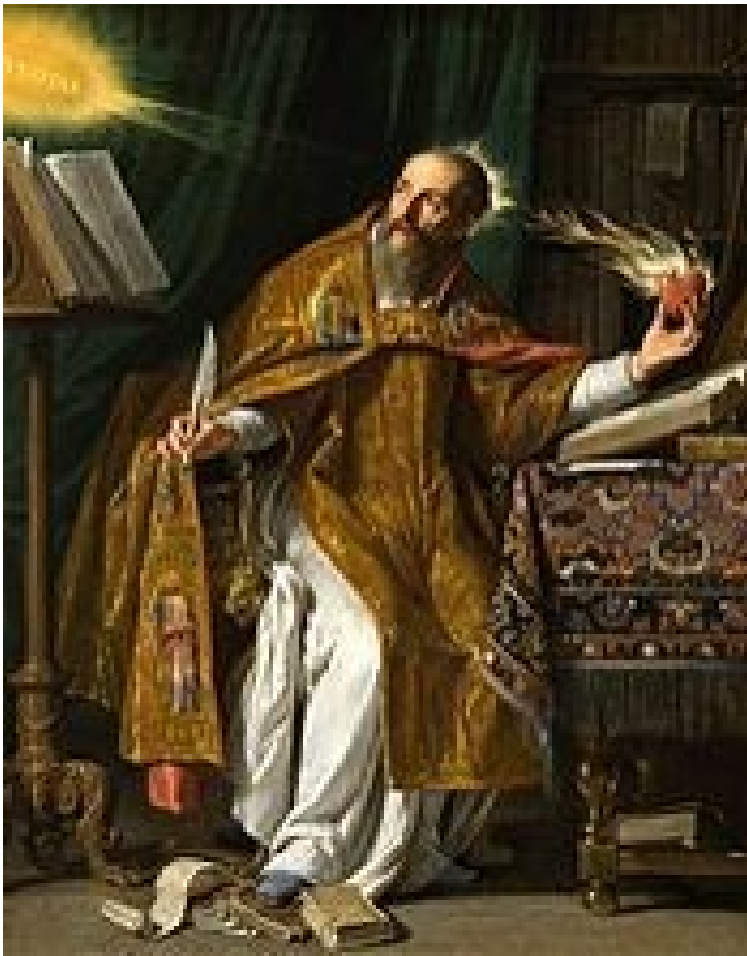
- Main issue theological: the nature of Christ
- Called and presided by the emperor Constantine

## 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

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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 5<sup>th</sup> century
- Germanic invaders set up own kingdoms
- Justinian's partial reconquest in 6<sup>th</sup> 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



## Pirenne Thesis

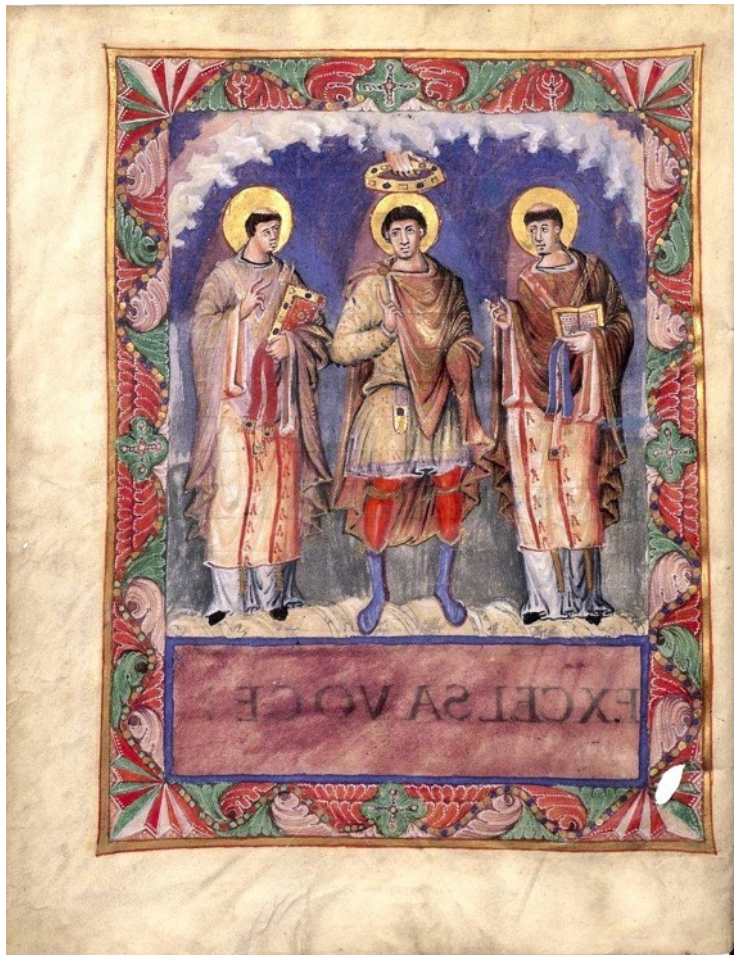
- Muslim conquests 8<sup>th</sup> century
- Frankish kingdom

## 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