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Introduction

ANCIENT AND MEDIEVAL ECONOMIC THOUGHT

Ancient Period

Greek Thought

In ancient Greece, "economics" did not mean what it means today; rather, it embraced everything pertaining to household management. Political economy, or economics in the present sense of the word, was not regarded as an independent discipline but was an integral part of ethics or politics. Socioeconomic questions were the province of ethics insofar as they dealt with private business contracts and of politics insofar as they touched upon public policy and affected social arrangements. It is not surprising, therefore, that Aristotle discusses economics in his books *Nicomachean Ethics* and *Politics*. The Greek philosophers did not go beyond fundamentals and trite observations. Yet, their contributions are important because, as Joseph A. Schumpeter (1954) remarks, their economics is the fountainhead of practically all further work They raised all the crucial questions, from value and price to economic organization, with which economists are still concerned at the present time.

Plato

Plato (427–347 b.c.) started in his *Dialogues* from the premise that no individual is self-sufficient and stated that cooperation and mutual intercourse are therefore the basis of the state as well as of the economy. Division of labour creates efficiency because, according to Plato, diversity of innate talents prompts individuals to specialize in what they are best fitted for, a fact that is sometimes overlooked or even denied—for example, by Adam Smith. States also are not self-sufficient, and rarely do they possess such a variety of resources that they can get along without commerce. The existence of an exchange economy is taken for granted, since Plato stated that each community will need a market place and a token money for purposes of exchange. Contrary to what is often asserted, Plato was not really an advocate of communism. In his scheme, communism was limited to the warrior class, whose members were forbidden to own property and were expected to share common meals and to live together like soldiers in a camp. Nevertheless, Plato was taunted by his pupil Aristotle for making this impractical proposal.

Aristotle

Like Plato, Aristotle (384–322 b.c.) assumed from the outset the existence of an exchange economy based on the division of labour and the institution of private property. He justified the latter on grounds of efficiency—people take better care of what is their own than of what is held in common. Money is necessary to obviate the inconveniences of barter. Besides being a medium of exchange, money is a measure of all things and "a guarantee of exchange in the future," since it can be stored until needed. Although money, Aristotle recognized, varies in purchasing power, its value tends to be rather constant and more stable than that of other commodities. Therefore, Aristotle, unlike Plato, did not favour a token currency, but required money to be made of a substance, such as silver, that is "really valuable itself" as well as easy to carry.

According to Aristotle, the source of value is *need*, for no exchange will take place without need; and the basis of exchange will differ as needs differ. Although in his *Topica* Aristotle referred to the marginal principle, there is no evidence that he ever thought of applying it to demand theory. Instead, he developed the concept of *value in use* and *value in exchange*, which much later involved Adam Smith in inextricable difficulties. Medieval and later commentators have tried in vain to elucidate the obscure passages that Aristotle devoted to price determination in Book V of his *Nicomachean Ethics*. While remaining silent about the virtues of competition, he mentioned monopoly as a device for exploiting the public. Aristotle was definitely of the opinion that economic relations ought to be ruled by justice, of which there were two kinds: corrective, or commutative, justice, which applied to such private transactions as buying and selling; and distributive justice, which regulated the distribution of wealth. Corrective justice rested on the principle of equivalence; distributive justice was based on merit, the criteria of which might vary from one society to another. This whole concept of justice was later taken over by Thomas Aquinas and the Scholastics, almost without modification, and is still accepted by Roman Catholic social scientists.

Aristotle cited the story of Midas to emphasize the point that money is not identical with wealth. Agriculture and household management were honorable, but he frowned upon "krematistics," or such wealth-accumulating activities as trade. Above all, he deplored money lending because it involved usury—"money bred of money" is unnatural because money was invented to serve as a medium of exchange. These views, too, were adopted by the Scholastics.

Roman Thought

In contrast with the Greeks, the Romans were not strong in speculative philosophy and made no significant contributions to economics, with the possible exception of treatises on agriculture which were practical rather than theoretical. The Romans, being administrators, excelled in legislation; and their great contribution is the body of law codified by Emperor Justinian, who reigned from 527 to 565. To be sure, Roman law is a compilation of legal texts containing nothing that even remotely approaches economic analysis; however, because of the use made of it by the Scholastics, it is very important to the evolution of economic thought.

Medieval or Scholastic Thought

Scope and Method

Scholastic economics is often regarded as a medieval doctrine; but this, strictly speaking, is incorrect. Although it had its roots in the Middle Ages, it outlived this period by more than two centuries. Far from dying around 1500, scholastic economics continued to flourish throughout the sixteenth century with the famous school of Salamanca, founded by the great jurist Francisco de Vitoria, o.p. (c. 1480–1546). It reached its zenith of refinement and elaboration in the great works of synthesis and vulgarization of the seventeenth century and still had some vigor left in the eighteenth century, when Pietro Ballerini (1698–1769) and Daniel Concina, o.p. (1687–1756) took a last stand to defend the church's traditional doctrine on usury against the insidious attacks of Marchese Francesco Scipione Maffei (1675–1755) and Nicolas Broedersen (c. 1690–1772).

Even then scholastic economics did not die. It left its imprint, although unacknowledged and even disavowed, on the works of Abbé Ferdinando Galiani (1728–1787) and Abbé Antonio Genovesi (1712–1769), both Neapolitan forerunners of the classical school. Adam Smith (1723–1790), if Schumpeter is correct, owed more to Scholasticism than to mercantilism or physiocracy. In any case, scholastic doctrines were transmitted to him by Hugo Grotius (1583–1645) and Samuel von Pufendorf (1632–1694), whose works were used as textbooks when Smith attended the course in moral philosophy taught by Francis Hutcheson (1694–1746) at Glasgow College. This is a fact not to be denied. Regardless of controversies about who influenced whom and to what extent, there was continuity—not a sudden break—a point that should be stressed.

Like the Greek philosophers, the scholastic Doctors did not consider economics as an autonomous subject, but as a branch of moral philosophy (or moral theology). This is significantly the subject taught by both Smith and Genovesi, the former at Glasgow College and the latter at the University of Naples. However, Smith made economics into an independent science governed by expediency rather than by ethics. In building their philosophical system, of which economics was a part, the scholastic Doctors combined elements from five different sources: the Bible, patristic literature, Greek philosophy, canon law, and Roman law. Greek philosophy, especially that of Aristotle, and Roman law were perhaps the most important for their economics. Canon law supplied only the canons outlawing usury and those denouncing trade as a sinful occupation. The scholastic writers took from Roman law the classification of contracts, which provided the framework for their whole doctrine. For example, the just price was discussed in connection with the *emptio-venditio*, or sales contract; and usury, in connection with the *mutuum*, or straight loan.

The medieval mind was legalistic. The question asked was not how the economic system functioned, but whether this or that was licit or illicit, just or unjust. In other words, the scholastic approach to economic problems was legal and ethical rather than mechanistic. The overemphasis on usury by many scholastic authors may have given the impression that this one question was the core of their doctrine, but this is not so. According to the Schoolmen, the scope of economics was to determine the rules of justice that applied to the exchange of goods or services (commutative justice) and to the distribution of income and wealth (distributive justice). This distinction between commutative and distributive justice was, of course, borrowed from Aristotle. Social justice is a new concept added by neoscholastic writers in recent times. Like Marxian dialectics, the scholastic method follows a set pattern. One is certain to find economic questions discussed in any scholastic treatise dealing with moral theology or entitled *De contractibus* ("Concerning Contracts") or *De justitia et jure* ("Concerning Justice and Law"). Often it will be unnecessary to go beyond the title page or the table of contents in order to identify a treatise as belonging to the scholastic school.

The scholastic Doctors, following Aristotle, assumed that man was unable to minister to his own needs without assistance from his fellow men. According to Thomas Aquinas, o.p. (1225?-1274), the division of labour was ordained by a divine providence that endowed men with greater inclinations for one profession than for another *(Summa contra gentiles iii,* 134).

In accordance with canon law, the community of goods was regarded as Utopian, except when practiced on a small scale in monasteries or convents. While not an institution of natural law, private property, Thomas Aquinas declared, was an addition thereto devised by human reason (*Summa theological* ii-ii, 66, 2, ad 1). He justified its existence on the same grounds that Aristotle did: first, because common property is apt to be neglected and, second, because public ownership only engenders confusion and discord. In the absence of planners, a planned economy was still inconceivable. Although property was privately owned, the use of it was common, and superfluities ought to be given to the poor. However, people were entitled to live as befitted their station in life. A knight, for example, was not required to give away his horses, because he might need them to fulfill his feudal obligations. Only in case of extreme necessity did all things revert to common ownership. Thus, a poor man on the point of starvation did not steal when he took a piece of bread without the permission of its owner.

The scholastic Doctors extolled agriculture as an occupation leading to virtue, but shared all the prejudices of Aristotle and of the Church Fathers against trade. Did not the canon law proclaim that merchants could scarcely, if ever, please God (*Decretum* Dist. 88, c. 11)? The attitude of the theologians mellowed only gradually. Thomas Aquinas approved of manufacturers and of importers who brought needed commodities from abroad. Later, the warehousing function was also recognized as legitimate, but retailing had to wait until the sixteenth century before receiving approval.

The scholastic doctrine centered on two main problems: the theory of the just price, and usury. Both have given rise to a great deal of misunderstanding.

Value Theory

The scholastic Doctors were almost unanimous in recognizing utility as the source of value. In the words of Schumpeter, their analysis "lacked nothing but the marginal apparatus" (1954, p. 1054). Value was not regarded as an intrinsic quality, but as something dependent upon the mental process of valuation. To illustrate this point, the Schoolmen often cited St. Augustine (354–430), who stated in *The City of*

God that, human superiority notwithstanding, a horse or a gem was often worth more than a slave. Some even turned this argument into a paradox by insisting that, if value were a matter of natural dignity, a living creature, such as a fly, would be more valuable than all the gold in the world. Value, in other words, was a function of utility. The other element of value—scarcity—was not overlooked. Perhaps one of the best scholastic expositions of value theory is found in the sermons of St. Bernardino of Siena, o.f.m. (1380–1444). However, he is not the original author of the passage, which he appropriated, without acknowledgment, from a manuscript—still unpublished—of Pierre Olivi, o.f.m. (1248–1298). He felt free to do this because Olivi had been accused of heresy. According to Olivi and Bernardino of Siena, there are three sources of value: scarcity *(raritas)*, utility *(virtuositas)*, and desirability *(complacibilitas)*. Scarcity does not call for comment; utility is an objective quality: want-satisfying power; *complacibilitas* can only have one connotation: a subjective desire to gratify a want. This interpretation agrees with that of Schumpeter (1954, p. 98) who, however, wrongly regards St. Antoninus of Florence, o.p. (1389–1459) as the originator of this conception. It is regrettable that this line of thought was not pursued further. The Scholastics were certainly on the right track, although they did not quite succeed in solving the riddle of value.

The Just Price

Next to value comes price determination. Roman law had left this matter to the haggling and haggling between contracting parties. The medieval glossators added the phrase *sed communiter* ("but it must be commonly") to the principle that goods are worth as much as they sell for *(res tantum valet, quantum vendi potest)*. Thus, price became a social phenomenon to be determined by the community. How can a community set a price? There are two possibilities: either spontaneously, by the chaffering of the market, or authoritatively, by public regulation. The first later became known as the "natural" or "vulgar" price; the second, as the "legal" price. In the absence of regulation, the market price was presumed to be just. This was the theory of both the civil law and canon law jurists.

Among the theologians, only the Thomists acquiesced and arrived in their own way at the same conclusion; the Scotists and the nominalists dissented. Thus the Scholastics were divided and supported three rival, and partly conflicting, theories of the just price.

Albertus Magnus (1193–1280) stated unambiguously that the just price is set by the estimation of the market at the time of the sale. His pupil Thomas Aquinas was less specific and precise. Aquinas told a story (borrowed from Cicero) of a merchant who brought wheat to a country where there was a dearth. The question raised is whether this merchant may sell his grain at the prevailing price *(pretium quod invenit)* or whether he is bound to disclose that additional provisions are on the way. Thomas Aquinas answered his own question by stating that this merchant was not bound to do so by the rules of justice, but would act more virtuously if he did tell, or if he lowered his price. This answer, it seems, leaves no doubt as to the position of Thomas Aquinas.

The same point of view was taken by St. Bernardino of Siena, John Nider (1380–1438), and the majority of the theologians: the just price is set by "common estimation," which means the appraisal of the market place—with the reservation that they never questioned the right or even the duty of the public authorities to set and regulate prices in an emergency. Nothing has been said thus far about the cost of production as a price determinant. Albertus Magnus and Thomas Aquinas, however, did not overlook this point entirely, and stated in their comments on Aristotle that arts and crafts would be doomed to destruction if the producer failed to recover his outlays in the selling price of his product.

Albertus Magnus gave the example of a carpenter who will cease making beds if the price he receives does not compensate him for his expense and workmanship. In other words, according to Albertus Magnus and Aquinas, the market price cannot fall permanently below cost. Unfortunately this idea was lost; and the later Thomists focused all their attention on the market price, disregarding cost of production as if the two concepts were antithetic.

The champion of the importance of cost of production was John Duns Scotus (1265–1308). Starting with the observation that the merchant performs a useful function, he drew the conclusion that a just price should cover all the merchant's costs, including a normal profit and a compensation for risk. The weakness of this theory is, of course, that Scotus did not ask himself whether the merchant would be able to sell his wares above the market rate if his costs were too high. Scotus had very few followers; the best-known are another Scot, John Mayor (1469–1550), and a Portuguese, Johannes Consobrinus, also known as João Sobrinho (d. 1486), who taught for some time at Oxford.

Price regulation found strongest support among the nominalists. Jean de Gerson (1363–1429), for a while chancellor of the Sorbonne, even suggested entrusting to the public authorities the fixing of all prices—under the pretext that no one should presume to be wiser than the lawmaker. Since this scheme proved impractical, it found little support. Another nominalist, Henry of Langenstein the Elder (1325–1397), formulated the rule that if the authorities failed to set a fair price, the producer was allowed to set it himself; however, he ought not to charge more than would maintain him and his family suitably in his social condition. If he should overprice his wares in order to enrich himself or to better his status, he committed the sin of covetousness. The question whether such a producer would be able to obtain a price above that of his competitors was not raised by Langenstein. First published in 1874 by Wilhelm Roscher, Langenstein's rule received a great deal of publicity and was hailed by many, including Max Weber, Werner Sombart, R. H. Tawney, Heinrich Pesch, and Amintore Fanfani, as a typical formulation of the theory of the just price.

There is, however, not the slightest justification for this enthusiasm. Far from being representative, Langenstein was a relatively minor figure; and his views were those of a minority group that exerted little influence in his time except perhaps in the German and Polish universities, which in the fifteenth century were bastions of nominalism. Although the Schoolmen were unable to agree on a criterion of the just price, they were