

Ideas in Economics in Ancient, Medieval and Modern Times: Ethical Issues

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Abstract: *Economics was traditionally viewed as part of a wider study of human things, including ethics. Ethics studies values and virtues. The objective of this study to discuss ideas in economics in ancient, medieval and modern times in the context ethical issues. The first attempt to analyze economic problems appear in the writings of the ancient Greeks. Plato recognized the economic basis of social life. Aristotle attributed great importance to economic security as the basis for social and political health. Roman writers such as Cicero, Vergil and Varro gave significant advice about the economic agriculture. The medieval period was marked by the disruption of the flourishing commerce of the ancient world, and its economic life was dominated by feudalism. Mercantile economic system of the major trading nations based on the premise that national wealth and power were best served by increasing exports and collecting precious metals in return. Physiocrats regarded agriculture as the sole productive economic activity and encouraged the improvement of cultivation. Adam Smith introduced 'invisible hand' and all societies' benefits when the economy is free of regulation, 'laissez faire'. Ricardo also concerned with the subject of international trade and for that he developed the theory of comparative advantage. Marx developed a materialistic theory of history as science, ultimately predicting that the triumph of the working class was inevitable. Keynes opened up a whole new range of investigation into business cycle. A principal result of Keynes's teaching has been reflected in governmental attempts to control the business cycle by putting money directly into the*

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economy. Monetarist such as Milton Friedman, believe that the money supply exerts a dominant influence on the economy. This earliest writings were not clearly separated from discussion of ethics, justice and morality. These Ancient Greek philosophers considered the study of economics as a subset of ethics. Ancient Greek ethics by focusing on the Cynics, the Cyrenaic, Aristotle virtue ethics, the Epicureans and the Stoics. Two leading modern ethical approaches are Kantianism and utilitarianism. Allocation of scarce resources was a moral issue to Aristotle. Aristotle discusses justice in distribution and exchange. Chanakya focuses on issues of welfare and the collective ethics that hold a society together. The Scholastics were particularly concerned with: property, justice in economic exchange, money and usury. The early Muslims generally based their economic analyses on the Qur'an and from Sunnah. In those early times and until the industrial revolution, economics was not a separate discipline but part of philosophy. Religious tenets and concern for morality and ethics played a significant role in the views of early theorists. Understood properly, economics is an ethical science, an important branch of applied moral philosophy.

Key Words: *Ancient, Medieval, Modern time, Ethics*

1. Introduction

Economics was traditionally viewed as part of a wider study of human things, including ethics. Ethics studies values and virtues. In the history of economic thought, early economic thought refers to ideas from before and during the Middle Ages. The earliest discussions of economics date back to ancient times, such as Chanakya's Arthashastra or Xenophon's Oeconomicus, and continues through the religious-based ideas of Jewish thought, the Scholastics, and medieval Islamic scholars. In those early times, and until the industrial revolution, economics was not a separate discipline but part of philosophy. Religious tenets and a concern for morality and ethics played a significant role in the views of early theorists.

The concerns of those early economists involved a number of issues which they held in common, the answers to which are the basis of the structure of well-functioning societies today as much as in those early times. These include how to make markets, taxation policies, and other monetary instruments transparent and free from corruption; when is profit permissible (and how much) based on the labors of others, such as in the case of merchants, the charging of interest and when does it become unacceptable usury; and other practices that would otherwise destroy the well-being of ordinary law-abiding people on which strong and unified states were built.

2. Ancient Ethics

Some scholars assert economic thought similar to the modern understanding occurred during the 18th century or the Enlightenment, as early economic thought was based on metaphysical principles which are incommensurate with contemporary dominant economic theories such as neo-classical economics.

Several ancient Greek and Roman thinkers made various economic observations, especially Aristotle and Xenophon. Many other Greek writings show understanding of sophisticated economic concepts. For instance, a form of Gresham's Law is presented in Aristophanes' *Frogs*, and beyond Plato's application of sophisticated mathematical advances influenced by the Pythagoreans is his appreciation of fiat money in his *Laws* and in the pseudo-Platonic dialogue, *Eryxias*. Bryson of Heraclea was a neo-platonic who is cited as having heavily influenced early Muslim economic scholarship. Within the pre-Classical and Classical culture, horses and cattle were considered to be a measure of wealth.

Hesiod

In the opinion of the Austrian School of economics the first economist is thought to be Hesiod by the fact of his having written on the fundamental subject of the scarcity of resources, in *Works and Days*. His contribution to economic thought is at least in his relevancy to the practice of economic activity in the depositing and lending of grain, as his writings are "... the chief resource for details as to Grecian agriculture ..." and that according to Loudon (1825) he provided "... directions for the whole business of family economy in the country".

Xenophon

The influence of Babylonian and Persian thought on Greek administrative economics is present in the work of Greek historian Xenophon. Discussion of economic principles are especially present in his *Oeconomicus*, *Cyropaedia*, *Hiero*, and *Ways and Means*. *Hiero* is a minor work which includes discussion of leaders stimulating private production and technology through various means including public recognition and prizes. *Ways and Means* is a short treatise on economic development, and showed an understanding of the importance of taking advantage of economies of scale and advocated laws promoting foreign merchants. The *Oeconomicus* discusses the administration of agricultural land. In the work, subjective personal value of goods is analyzed and compared with

exchange value. Xenophon uses the example of a horse, which may be of no use to a person who does not know how to handle it, but still has exchange value.

Aristotle

Aristotle's *Politics* (ca. 350 BCE) was mainly concerned to analyze different forms of a state (monarchy, aristocracy, constitutional government, tyranny, oligarchy, democracy) as a critique of Plato's advocacy of a ruling class of philosopher-kings. In particular for economists, Plato had drawn a blueprint of society on the basis of common ownership of resources.

Allocation of scarce resources was a moral issue to Aristotle. He also wrote in *Politics* (book I), that consumption was the objective of production, and the surplus should be allocated to the rearing of children, and personal satiation ought to be the natural limit of consumption. (To Aristotle, the question was a moral one: in his era child mortality was high.) In transactions, Aristotle used the labels of "natural" and "unnatural". Natural transactions were related to the satisfaction of needs and yielded wealth that was limited in quantity by the purpose it served. Un-natural transactions aimed at monetary gain and the wealth they yielded was potentially without limits. He explained the un-natural wealth had no limits because it became an end in itself rather than a means to another end—satisfaction of needs. This distinction is the basis for Aristotle's moral rejection of usury.

Aristotle's *Nicomachean Ethics*, particularly book V.v, has been called the most economically provocative analytic writing in ancient Greece. Therein, Aristotle discusses justice in distribution and exchange. Still considering isolated exchanges rather than markets, Aristotle sought to discuss just exchange prices between individuals with different subjective values for their goods. Aristotle suggested three different proportions to analyze distributive, corrective, and reciprocal or exchange transactions: the arithmetic, the geometric, and the harmonic. The harmonic proportion implies a strong commitment to the subjective values of the traders.

Plato

Plato's works those considered the most important to study of economics are *Nomoi*, *Politeia* and *Politikos* (Backhaus). In his work *Laws* (dialogue) Plato writes on the three things as important to a person of these mind he stated as the most important, then body and lastly estate (*Χρήματα*). In *Phaedo*, Plato makes the first distinction between things which are thought necessary and those thought a luxury (Bonar).

Plato promoted the exercise of temperance in respect to the pursuit of material wealth such that by strengthening moderation a person there-by preserves the order of their psyche. In *The Republic* he gives an account of the manner by which a state is to be formed with the skills (techne) of individuals supporting economic sustainability. With respect to the identification of skill Plato's writing in the *Republic* also deals with the specialization of skills as the concept of division of labour (Wagner 2007).

Roman law

Early Greek and Judaic law follow a voluntaristic principle of just exchange; a party was only held to an agreement after the point of sale. Roman law developed the contract recognizing that planning and commitments over time are necessary for efficient production and trade. The large body of law was unified as the *Corpus Juris Civilis* in the 530s by Justinian who was Emperor of the Eastern Roman Empire from 526-565. In *Institutions*, the principle of just trade is stated as "tantum bona valent, quantum vendi possunt" ("goods are worth as much as they can be sold for").

Ancient India

Chulavamsa records that Parakramabahu I of Sri Lanka had debased the currency of ancient Sri Lanka in order to produce monies to support his large scale infrastructure projects. Parakramabahu I also pioneered free trade during his reign; a war was fought with Burma to defend free trade.

Chanakya

Chanakya (c. 350 BC-275 BC) considered economic issues. He was a professor of political science at the Takshashila University of ancient India, and later the Prime Minister of the Mauryan emperor Chandragupta Maurya. He wrote the *Arthashastra* ("Science of Material Gain" or "Science of political economy" in Sanskrit). Many of the topics discussed in the *Arthashastra* are still prevalent in modern economics, including its discussions on the management of an efficient and solid economy, and the ethics of economics. Chanakya also focuses on issues of welfare (for instance, redistribution of wealth during a famine) and the collective ethics that hold a society together.

The *Arthashastra* argues for an autocracy managing an efficient and solid economy. The qualities described is in effect that of a command economy. It discusses the ethics of economics and the duties and obligations of a king. The

scope of Arthaśāstra is, however, far wider than statecraft, and it offers an outline of an entire civil and criminal code and bureaucratic framework for administering a kingdom, with a wealth of descriptive cultural detail on topics such as mineralogy, mining and metals, agriculture, animal husbandry and medicine. The Arthaśāstra also focuses on issues of welfare (for instance, redistribution of wealth during a famine) and the collective ethics that hold a society together.

Chanakya says that artha (sound economies) is the most important quality and discipline required for a Rajarshi, and that dharma & kama are both dependent on it.

According to Chanakya, a conducive atmosphere is necessary for the state's economy to thrive. This requires that a state's law and order be maintained. Arthashastra specifies fines and punishments to support strict enforcement of laws (the Dandaniti).

3. Medieval Islamic Economic Thought

The possible indebtedness of political economy to fourth-century Greek thinkers has been widely debated, the contribution of Islam, on the other hand, has been consistently forgotten. Islamic economic thought is as old as Islam itself, for the Qur'an and the Sunnah, the sayings and acts of Muhammad, contain economic teachings. However, their contents are considered divine, and thus it is only their interpretation that can be considered Islamic economic thought. The early Muslims generally based their economic analyses on the Qur'an (such as opposition to riba, meaning usury or interest), and from Sunnah. These efforts in Islamic economic thinking are thus ascribed to the writers who made these attempts, rather than to the Qur'an and the Sunnah.

Throughout its 14 centuries there are works in which economic issues are discussed in light of the Shari'ah. However, the vast literature on the exegesis of the Qur'an, commentaries on Hadith, principles of jurisprudence (usul al-fiqh), and law (fiqh) has greatly overshadowed the economic treatises. Nevertheless, a number of writings on economic thought are available.

Persian philosopher Nasir al-Din al-Tusi (1201-1274) presented an early definition of economics (what he called hekmat-e-madani, the science of city life) in his Ethics: the study of universal laws governing the public interest (welfare?) in so far as they are directed, through cooperation, toward the optimal (perfection) (Hosseini 2003: 39).

The concept of *tadbîr* is of significance in this context. There is a slightly different meaning of the *tadbîr* from that of Hellenic *oikonomia*. *Tadbîr* also includes God-determined harmony and rationally organized administration. Thus, it reflects an idealized model of enlightened yet authoritarian administration, rather than the building of an exact notion related to the economy.

Muslim economic thought enriched the Hellenic contribution to economic thought in the areas of government of the kingdom by the caliph, of the city, and the household organization. In rejecting profit, usury, egoism, and monopoly, and in preaching moderation, altruism, the practice of fair prices, and unselfishness, Islam inaugurated an “economic system” which has derived from that of the Greeks and which laid the basis for pre-capitalist thought (Essid 1995).

Zaid bin ‘Ali

Zaid bin ‘Ali (10-80 AH/699-738 C.E.), the grandson of Imam Husain, was one of the most eminent jurists of Medina, whom other eminent jurists like Abu Hanifa held in high esteem. Zaid permitted the sale of a commodity on credit at a price higher than its cash price. Muhammad Abu Zahra discussed a rationale of its permission at some length, which is worth quoting in view of the contemporary relevance of the issue:

Those who disallow the deferred price to be higher than the cash price argue that the difference is *riba* as it is an increase (in payment against time), and every increase against deferment (or payment) is *riba*. There is no difference between saying “Either you pay now or pay more in lieu of deferment,” and selling at a higher (than cash) price because of deferred payment. The essence is the same and it is *riba* (Hosseini 2003: 40).

Abu Hanifa

Abu Hanifa (80-150 AH/699-767 C.E.), was the founder of the Sunni Hanafi school of Islamic jurisprudence.

Abu Hanifa’s concern for the poor and the weak was well known, as was the human values in his juristic method (Hosseini 2003:36) A transaction which was becoming increasingly popular was *salam* or sale of commodity to be delivered in future against a price paid in cash at the time of contract. Abu Hanifa found confusion surrounding this type of contract often led to disputes. He tried to eliminate these disputes by specifying what must be known and stated clearly in the contract, such as the commodity, its kind, quality and quantity, and the date and place of delivery. He laid down a further condition that the commodity be

available in the market during the period intervening between the contract and the date of delivery so that both parties knew that its delivery was possible.

Abu Yusuf

An emphasis on the economic responsibilities of the rulers has been a recurrent theme of Islamic economic thought since the earliest days. This was the focal point of Abu Yusuf (113-182 AH/731-798 C.E.), chief jurist for Abbasid Caliph Harun al-Rashid, for whom he wrote the Book of Taxation (Kitab al-Kharaj).

This book outlined Abu Yusuf's ideas on taxation, public finance, and agricultural production. He discussed proportional tax on produce instead of fixed taxes on property as being superior as an incentive to bring more land into cultivation. He also advocated forgiving tax policies which favor the producer and a centralized tax administration to reduce corruption. Abu Yusuf favored the use of tax revenues for socioeconomic infrastructure, and included discussion of various types of taxes, including sales tax, death taxes, and import tariffs (Hosseini 2003: 34).

Abu Yusuf preferred the state taking a proportion of the agricultural produce from the cultivator rather than levy a fixed rent on agricultural land. This was more just and likely to yield a larger revenue by facilitating expansion of the area under cultivation. In discussing taxation, he laid down certain principles which anticipate those introduced many centuries later by the economists as "canons of taxation." He suggested salaried staff to act as tax collectors, who should be under strict supervision in order to prevent corrupt and oppressive practices.

The main strength of Abu Yusuf's thinking, however, lies in the area of public finance. Apart from the responsibilities of the Islamic state related to welfare of the people, he wrote detailed suggestions on how to meet long term development expenditures like those on building bridges and dams, and digging canals. They speak highly of his foresight, sagacity and concern for the well-being of the population (Hosseini 2003: 38).

Ibn Khaldun

Perhaps the most well-known Islamic scholar who wrote about economics was Ibn Khaldun (732-808 AH/1332-1404 C.E.) of Tunisia. Joseph Schumpeter (1954: 136) mentions his sociology, others, including Hosseini (2003) consider him a father of modern economics. It is his insight into the laws governing human behavior and socio-economic phenomena like division of labor, growth and decline of population, and rise and fall of prices, which distinguished him from

many other social thinkers. The focus of his attention was the various stages of growth and decline through which, according to his insight, every society must pass. This theory has been compared with John Hicks' theory of trade cycles (Weiss 1995: 29-30).

Ibn Khaldun's idea about the benefits of the division of labor relate to *asabiyya*, the greater the social cohesion, the more complex the successful division may be, the greater the economic growth. He noted that growth and development positively stimulate both supply and demand, and that the forces of supply and demand are what determine the prices of goods (Weiss 1995: 31). He also noted macroeconomic forces of population growth, human capital development, and technological developments effects on development. In fact, Ibn Khaldun thought that population growth was directly a function of wealth (Weiss 1995:33).

4. Modern Morality

The two main moral theories of modern virtue ethics (or neo-Aristotelianism) are Kant's deontological ethics and utilitarianism. Both theories have been adopted and modified by many scholars in recent history in order to make them (more) compatible with the latest demands in ethical reasoning and decision-making, in particular, by meeting the objections raised by modern virtue ethics. The following briefly depicts Kantianism in its original form and the main features of utilitarianism.

i. Kantianism

The German philosopher Immanuel Kant is the founder of deontological ethics. His ethics, which he mainly put forth in the *Groundwork of the Metaphysics of Morals* (1785), *Critique of Practical Reason* (1788), and *Metaphysics of Morals* (1797), is one of the most prominent and highly respected theories in modernity. Kant's ethics is deontological in the sense that one has to obey the duties and obligations which derive from his supreme principle of morality, that is, the Categorical Imperative: "Act only according to that maxim whereby you can at the same time will that it should become a universal law" (Kant 1785). The Categorical Imperative is a test for maxims which, in turn, determine whether certain acts have moral worth or not. A maxim is an individual's subjective principle or rule of the will (in German, *das subjektive Prinzip des Wollen*), which tells the individual what to do in a given particular situation. If the maxim can be universalized, then it is valid and one must act upon it. A maxim cannot be universalized when it faces two severe instances: (i.) the case of logical

inconsistency (the example of suicide, which is against the “perfect duty”); and, (ii.) the case of impossibility to will the maxim to be universalized (failing to cultivate one’s talents, which is against the “imperfect duty”). Perfect duties are those duties that are blameworthy if they are not met by human beings (for example the suicide example); imperfect duties allow for human desires and hence they are not as strong as perfect duties but they are still morally binding and people do not attract blame if they do not complete them (for example failing to cultivate one’s talents).

Kant’s ethics is universal in the sense that the system of moral duties and obligations point at all rational beings (not only human beings). Morality is not based in interests (such as social contract theories), emotions and intuitions, or conscience, but in reason alone. This is the reason why Kant’s ethics is not heteronomous - by being a divine ethical theory in which God commands what human beings should do (for example the Bible, the Ten Commandments) or natural law conception in which nature itself commands what human beings should do by providing human beings with the faculty of reason who, in turn, detect what should be done in moral matters - but truly autonomous with regard to rational beings, who make their moral decisions in the light of pure practical reason. However, pure practical reason, in determining the moral law or Categorical Imperative, determines what ought to be done without reference to empirical contingent factors (that is, anthropology in the broad sense of the term including the empirical sciences; see preface to *Groundwork*) such as one’s own desires or any personal inclinations (in German *Neigungen*). The pure practical reason is not limited to the particular nature of human reasoning but is the source and the field of universal norms, which stem from a general notion of a rational being as such (see, Eisler 2008: 577; Paton 1967; Timmermann 2010; Altman 2011).

ii. Utilitarianism

Historically speaking, Jeremy Bentham in his *Introduction to the Principles of Morals and Legislation* (1789) and John Stuart Mill in *Utilitarianism* (1863) are the founders of utilitarianism, while Francis Hutcheson (1755) and William Paley (1785) could be seen as their legitimate predecessors by pointing out that utility should be seen as an important standard of evaluation in ethical reasoning and decision-making. Bentham claims that the duration and intensity of pleasure and pain are of utmost importance and that it is even possible – according to Bentham - to measure the right action by applying a hedonistic calculus which determines the exact utility of the actions. The action with the best hedonistic outcome should

be put into practice. His position is called *radical quantitative hedonism*. Mill instead questions the very idea of a hedonistic calculus and argues that one must distinguish between mental and bodily pleasure by giving more weight to mental pleasures. His position is called *qualitative hedonism*. Mill's basic formula of utilitarianism is as follows:

The creed which accepts as the foundation of morals, Utility, or the Greatest Happiness Principle, holds that actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. By happiness is intended pleasure, and the absence of pain; by unhappiness, pain and the privation of pleasure. (Mill's Utilitarianism, chapter 2)

There is widespread agreement that there exist numerous different utilitarian theories in modern ethics; hence it would be impossible to provide an adequate depiction of all important major strands in this brief subsection. However, the following four main aspects are typical for each utilitarian theory. (1.) *The consequence principle*: Utilitarianism is not about actions but about the consequences of actions. This kind of theory is a form of consequentialism, which means that the moral worth of the particular action is determined by its outcome. (2.) *Happiness*: Utilitarianism is a teleological theory insofar as happiness (but, not in the ancient sense of the term) is the main goal that should be achieved. This particular goal can be identified with (i.) the promotion of pleasure, (ii.) the avoidance of pain or harm, (iii.) the fulfilment of desires or considered preferences, or (iv.) with meeting some objective criteria of well-being. (3.) *Greatest Happiness Principle*: Utilitarianism is not about mere happiness but about "the greatest happiness" attainable. Utilitarianism is a theory with *one* principle that judges the consequences of a given action regarding its utility, which is the general aim of actions. The moral rightness or wrongness of actions depends on the goal of achieving the greatest happiness for the greatest number of sentient beings, in short, "the greatest happiness for the greatest number". (4.) *Maximising*: The collective amount of utility regarding sentient beings affected by the action should be maximized. This line of reasoning contains strong altruistic claims because, roughly speaking, one should only choose those actions which improve other sentient beings' happiness.

5. Conclusion

It is notable that in virtually all early cultures economic thinking converged onto several basic items: How to make agricultural production more efficient; and how to make markets, taxation policies, and other monetary instruments transparent

and free from corruption, usury, and other practices that would otherwise destroy the well-being of ordinary law-abiding people on which strong and unified states were built.

It is worth remembering that the early economists and jurisprudence specialists, even though they strongly advocated the efficiency of productive sectors, were also much more sympathetic to the ordinary workers' plight than, say, the later mercantilists. During the mercantilist period, industrial and agricultural workers lived on the brink of poverty with very little protection in the law statutes of the time, but the ancient philosophers, jurists, and economists always had the interest of these working classes in mind.

These early thinkers were concerned that their teachings in jurisprudence or economics reached the highest administrative levels of the country: emperors, kings, caliphs, and so on, and that those rulers would take care of enforcing the "canons of law."

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