

ZÁKLADY EKONOMICKEJ TEÓRIE

1. EKONOMICKÉ MYSLENIE PRED VZNIKOM KLASICKEJ EKONÓMIE

Preclassical and Classical Schools of Economics

- **The Ancients and the Scholastics**
- **Sir William Petty and the Mercantilists**
- **François Quesnay and the Physiocrats**
- **THE CLASSICALS**
 - **Adam Smith**
 - **David Ricardo, John Stuart Mill ,T. Robert Malthus**
 - **Jean-Baptiste Say**

Ancients

- The study of the economy in Western civilization began largely with the Greeks, particularly Xenophon, Plato and , Aristotle with contributions by other writers. We refer to these as the "Ancients".

Contribution of the Ancients

Greeks

- The Greeks contribution to western thought was a rational approach to social science in general.
- They noticed the self-regulating capacities of individuals making rational decisions, but they did not discover the market place as a self-regulating mechanism, which is the essence of modern economics.

Xenophon

(c. 427 - 355 B.C.)

- In his *Oeconomicus* he explores the proper organization and administration of private and public affairs. Viewing the material environment as fixed, he identified the chief variable of administration as human capacity directed by good leadership.
- Xenophon's leader is motivated by self-interest. He strives to increase the size of the economic surplus. It can be accomplished through **skill, order**, and one the most basic of economic principles, the **division of labour**.

Plato (c.427-327 B.C)

- Plato analysed the entire political and economic structure of the state. He searched for the optimum economy and he approached it by refining the moral imperative of justice. (*The Republic*)
- His notion of an optimum state is a **rigid, static, ideal** situation from which he considered any change at all to be regressive. Contrary to Xenophon, Plato regarded **all forms of acquisitive behaviour, including profit and interest, as potentially destructive** (threats to the status quo).
- This is why money and trade must be subject to administrative control.

Plato

(c.427-327 B.C)

- Plato recognized **specialization** and **division of labour** as a source of efficiency and productivity. He constructed an ideal state on the foundation of **wise and efficient leadership**.
- He proposed class specialization:
 - Class of **rulers**
 - Class of **:guardians**“
 - **Productive** class
- Elite groups would be **without possession** isolated from all corruption.

Aristotle

(c.384 - 322 B.C.)

- Aristotle, unlike Plato, **defended private property for all classes**, on the grounds that it promotes economic efficiency, social peace, and encourages the development of moral character.
- He favoured a mixed economy that allowed greater play for economic incentives.

Aristotle

(c.384 - 322 B.C.)

- In his *Topics and Rhetorics* he discussed value in terms of systematic comparison based on subjective marginal utility but completely unrelated to price theory.
- Aristotle analysed isolated exchange as opposed to market exchange. He viewed exchange as bilateral process in which both parties would be better off as a result of the exchange

Aristotle

(c.384 - 322 B.C.)

- In *Nicomachean Ethics* Aristotle described **money as an object of acquisitive behaviour.**
- He recognized the **use of exchange to satisfy natural individual and collective wants,** but he did not approve of the use of exchange as a device for accumulating wealth.
- The **natural use of money is to spend it.** The accumulation for its own sake is unnatural, and therefore Aristotle condemned it.

Roman Contribution

- The most important economic activity in the Roman Empire was **agriculture** based on the **work of slaves**.
- At the same time slavery represented barriers to the growth of labour productivity and to the effective agriculture.

Roman Contribution

- The one great achievement of Roman society was the law. **Roman law** was divided into a **civil** law that applied only to relations between citizens and a kind of **common** law that ruled commercial and other relations between noncitizens or between citizens and noncitizens.
- The **Roman law** of property and contract, for example, subsequently became a **pillar of the legal systems in the western world**. In general, Roman law provided the framework upon which the economics of a later day was slowly but surely mounted.

Early Christianity

- The early Christian writers (the **Saints Augustine, Ambros**) were primarily **interested in the morality of individual behaviour.**
- **Physical work** especially in **agriculture** is considered as the **most important** one and on the other side trade was seen as a not very Christian activity.
- The nature of economic mechanisms seemed to be of no interest to the church's leaders or its writers.

The Middle Ages

- The dominant form of economic organization in the Middle Ages was **feudalism**. Economic production under feudalism took place on the manor, or agricultural estate.
- Medieval economics was the product of the clergy, particularly a group of learned writers that we now refer to as **Scholastics** (10-th century). (It simply means professors or teachers).

Scholastics

(from the 10-th to the 14-th century)

- Scholastics joined together the several strands of thought that constitutes medieval economics: ideas gleaned from Aristotle and Bible, from Roman Law and canon law.
- **Saint Thomas Aquinas** (c. 1225-1274) in his *Summa Theologicae* developed Scholastic economics. He was inspired mainly by Aristotle.

Saint Thomas Aquinas

(c. 1225-1274)

- He defined the **role of state** in sense of final goal that is the **wealth of nation** guaranteed by the **protection of justice and of private property**.
- The private property supports individual effort to manage **possession** and to **assure stable society in order**.

Saint Thomas Aquinas

(c. 1225-1274)

- He reaffirmed the double measure of goods: value in use versus value in exchange, that Aristotle established. He also introduced need into the price formula, because he argued that **price varies with need**.
- He introduced into Scholastic economics term „**just price**“ of a good. (Following the Golden Rule: a person should not charge more for a good than what he would be willing to pay for it himself.)

Scholastics

- During the Middle Ages , **usury** and „**just price**“ were the **main economic topics** that occupied Scholastics.
- Their analysis neglected the productivity of money as an economic resource. **Only transaction money** could be used , the idea of **usury was condemned**, because usury was defined as a transaction „where **more is asked as is given**“.

Mercantilism

- By the 15-th century institutional changes were under way :
 - Faster development of trade
 - Development of national markets
 - More centralized nation-states.
- By the 19-th century the intellectual and institutional environment changed again to allow more individual freedom and less concentration of economic and political power.

Mercantilism

- Thus mercantilism refers to the period **between feudalism and liberalism**. It describes the system of economic ideas that dominated economic discourse from the **beginning of the 16-th century to the end of the 18-th century**.
- Most of the mercantilists were merchants, public officers, bank managers.

Mercantilism

- Mercantilist principles of national economy:
 - All raw materials found in a country should be used in domestic manufacture
 - All export of gold and silver should be prohibited
 - All imports of foreign goods should be discouraged as much as possible
 - No importation should be allowed if such goods are sufficiently and suitably supplied at home

Mercantilism

- **Money** and its **accumulation** were prime concerns of the growing nation-states of the mercantile era.
- The **acquisition of gold through trade and trade restrictions** of many types were essential mercantile idea, and money, not real goods, was commonly equated to wealth.
- There are two periods of mercantilism:
 - Early mercantilism (balance of trade surplus)
 - Developed mercantilism (balance of payment surplus).

Thomas Munn

(1571 - 1641)

- He developed the idea that a long term balance trade surplus has put up prices and lowered competition.

French Mercantilism

- French mercantilism is often called „Colbertism“ thus bearing personal stamp of J.B.Colbert (finance minister of Louis XIV) .
- He supported development of national market, production set for export, construction of roads.
- French mercantilism differed in a very **high degree of centralisation** and very **efficient system of policing**.

German Mercantilism

- Cameral science: study of public administration.
- Balance trade surplus.
- **Higher population** growth results in higher production growth rate and employment, and consequently it leads to higher budget revenues .

- Growing importance of trade, and development of economy and society as a whole brought new philosophy and new ideas about the nature of society.
- John Locke (1632-1704) - political philosopher and David Hume (1711-1776) – philosopher- economist:
 - Private property is a natural human right.
 - Free trade

Physiocracy

- Physiocracy was based on:
 - Natural law: all social facts are linked together in the bonds of inevitable laws.
 - Economic liberalism.
 - The primacy of agriculture.
- Physiocracy was the liberal reaction to the French mercantilism.

Physiocracy

- Francois Quesnay (1694-1774): ***Tableau Economique*** – visual representation of the circular flow divides the economy into three classes:

- A **productive** class made up entirely of agriculturist

- A **sterile** class consisting of merchants, manufacturers, domestic servants, and professional people

- A **proprietary** class, including not only

Physiocracy

- To the Physiocrats „**production**“ meant creating a „surplus“: that industry that makes more than is consumed in the process is productive.
- The net product is produced entirely by the first class. Thus, the net product was perceived as the true source of real wealth.
- The Physiocrats argued in favour of a **tax reform: to tax the landlord.**

A.R. Turgot

(1727-1781)

- A.R. Turgot as a minister of finance tried to realize a tax reform in 1774.
- He figured that if he could keep government spending in check and encourage private economic enterprise, tax revenues would rise and state finances would return to solvency. The nobleman and the landed gentry rose up in protest against the single tax on property. Turgot was dismissed in 1776.
- Anyway, Physiocrats represented **the first real „school of thought“** in economics.