



A Practioner's View of Economic History
December 21, 2010



The Wisdom of Ants

*The Origin and Evolution of
Economics,
10,000 BC to the 21st Century*

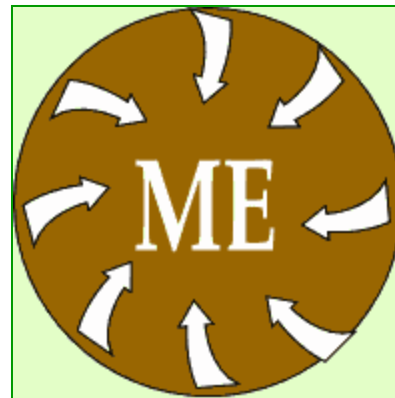
Shankar Jaganathan



Three Prerequisites for the Birth of Economics



Private
Property



Self-centered
Individual


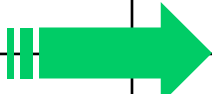
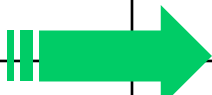


Consumption
= Welfare

Prerequisites Accelerates Consumption,

J Bradford De Long, estimates



Year	1991 \$ PCC	My Inference
1 million BC	92	Hunter gatherer lifestyle
25,000 BC	92	
10,000 BC 	93	Advent of Agriculture; by-product <u>Private Property</u>
8000 BC	96	
1000 BC	127	High 800 BC \$143; Low 350 AD \$94 1400 AD – Social sanction for Profits; <u>Self-centered human</u>
1400 AD	128	
1500 AD 	138	
1700 AD	164	1776: <i>The Wealth of Nations</i> , formal birth of the Discipline
1800 AD	195	
1850 AD 	300	Greatest happiness principle; <u>Materialistic Outlook</u>

Era of Private Property From \approx 10,000 BC



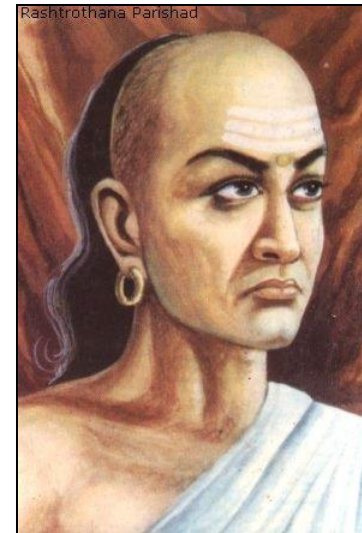
Four Distinct Views: Pre-European Cultures



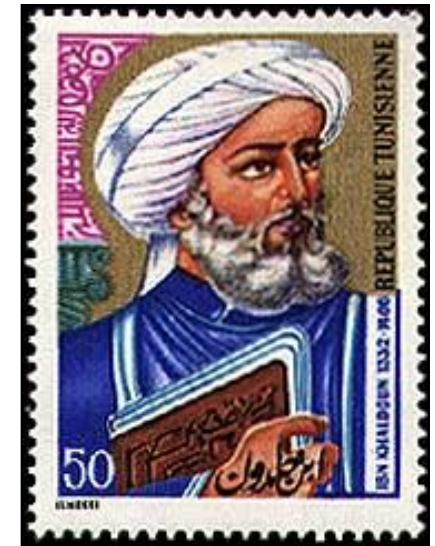
390-322 BC



384-322 BC



350-283 BC



1332-1406 AD

Private Property Recognized



- **Lord Shang**
 - Recognized 3 professions – farming, foreign trade, bureaucracy
 - Did not approve of trade; saw it is an easy way to make a living
- **Aristotle**
 - Distinguished between Art of Wealth getting & Art of Exchange: use value and exchange value distinguished
 - Hunting, husbandry, & cultivation vs. Commerce, usury & service for hire
- **Chanakya**
 - Economy classified into agriculture, husbandry, trade & industry
 - Public sector for monopoly trades & areas of national interest
- **Ibn Khaldun**
 - ‘Thus whatever is obtained by one is denied to another, unless he gives something in exchange’

Self-Centered Individuals Conceded



- **Lord Shang**
 - ‘It is people’s nature, when measuring to take the longest part, when weighing, to take the heaviest, when adjusting the scale to seek profit’
 - Used taxation & reward to strengthen kingdom; standard measures effective as people can predict the consequences of their action
- **Aristotle**
 - Recognition of unlimited appetite for wealth, at a base level
- **Chanakya**
 - Use of tax exemption for promoting growth:- irrigation, stud bulls
- **Ibn Khaldun**
 - Rank in society accelerates wealth generation;
 - People willingly part with wealth –to gain favor or avoid penalty
 - Teachers, Judges and Religious leaders as a rule will not be wealthy
- **Contrarian views**
 - Babylonian Talmud: The Fable of Evil, *Yetzer ah-rah* & *Sukraniti* –value of greed, lust and intoxication

Materialistic Outlook Acknowledged



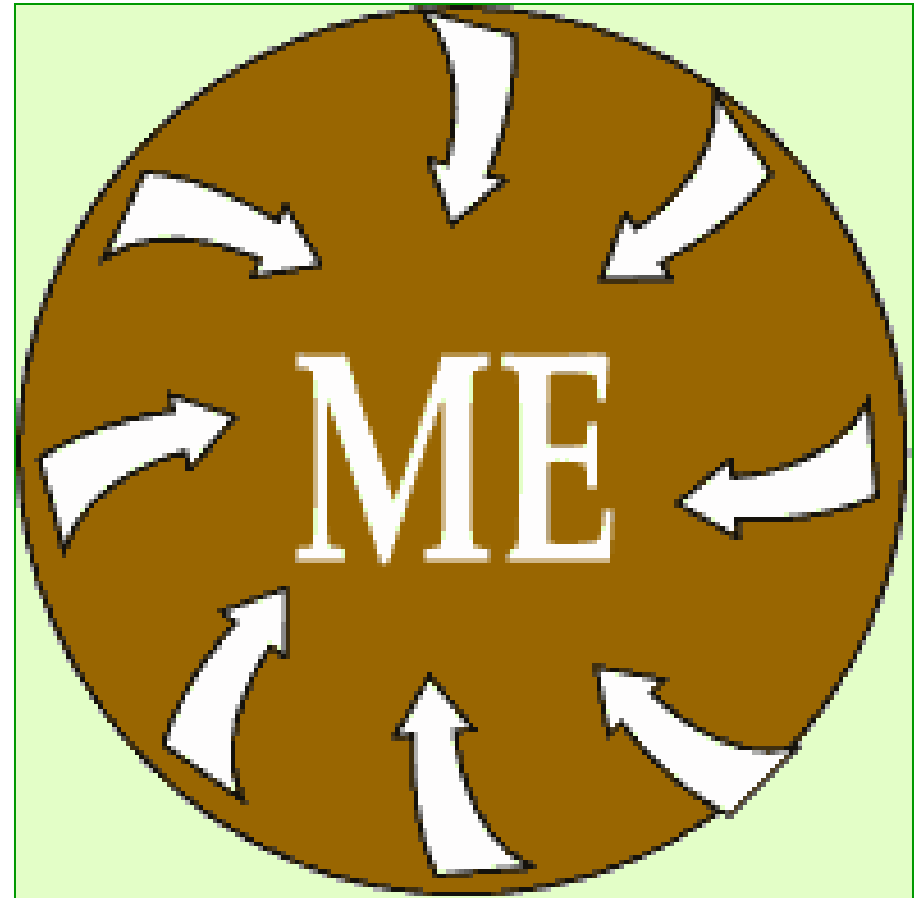
- **Lord Shang**
 - 13 parameters to measure: granaries, able-bodied men & women, old & weak people, useful people, Officials & officers, traders, horses, oxen, fodder and straw
 - Imports & immigration strengthens a kingdom; exports & emigration weakens it
- **Aristotle**
 - In Greek society only the slaves & foreigners pursued wealth
 - ‘...living only, and not upon living well.’
- **Chanakya**
 - **Kings happiness is the happiness of his people;**
To achieve it wealth and prosperity required
- **Ibn Khaldun**
 - Low prices dry up employment, high prices give a one-off profit to merchants, mid-range prices with volatility provide livelihood & profits

Pro Self-Centered Individual From \approx 1400 AD



**Gist of Economics identified,
but consciously not pursued
As self-centered individual
was censured**

- 1. Basis for Interest, Wages
and Demand clearly
articulated**
- 2. Realize the role of price in
economic activities**



Outlook in Europe, Not Very Different



St. Thomas Aquinas, 13th Century

- Trade primarily in necessities; profit seen as robbing brethren
- ‘to sell a thing dearer or to buy it cheaper than its worth is a proceeding in itself unjust and unlawful.’
- ‘If gold is sold as brass, buyer to compensate or return’
- ‘trade for gain has the appearance of evil’
- ‘Gain in trade limited to a just wage for labor’

Monopoly a capital offense

- France banned *hareles*, or price cartels
- Price charged by innkeepers regulated to limit profit
- Italy executed trade union organizers

Profit a sin, redemption only through restoration

The Trigger for Change



- 1000 to 1500 AD Europe doubles its Global GDP share
- Colonial expansion & Industrial revolution after 1500 AD
- The Black death of 1348 wipes out $\frac{1}{2}$ to $\frac{1}{4}$ of population
- Scarce labor makes England turn to Sheep rearing from farming
- Results in large wool trade and export initiatives for Wool
- The First Monopoly for Wool trade sanctioned
 - A tripartite arrangement between
 - Royalty: Need for resources to fight the 100 year war
 - Farmers: Need for higher procurement prices
 - Merchants: Need for better prices to pay advance tax
 - A 3 stage evolution
 - Preferential Staples, in 13th century
 - Compulsory Staples, prior to sanction of monopoly
 - Company of Staples, the official sanction for monopoly

Stage 2: Call for Lassic Faire & Free-trade



Lassic Faire

17th century Europe a very rigid place

- Land holding restricted
- Professions regulated
- Working for wages limited
- Money lending censored
- Monopolies for overseas trade

John Althusius, a German,

- Identified 19 forms of monopoly
- Showed it harmed the public and denied the right to life

Free-Trade Proponents

Andres Chydenius, the Swede, 1765

- Pro division of labor and freedom of worker to choose their vocation
- Competition equals more goods at cheaper prices
- Wealth of nations is the diligence of workmen not gold and silver

Early 18th century France

- Impoverished
- Cost of tax collection 2/3rd
- Labor movement restricted
- 1737 labor forced to do public work for free
- **Lassic faire the call to free productive factors came from Francois Quesnay**

A New Paradigm: Ethics & Economics Segmented



Theory of Moral Sentiments

Explored motives for a life of virtue

1. **Prudence:** recognizing the need for delayed gratification
2. **Self-command:** to act on prudence
3. **Justice:** a negative virtue, essential to society
4. **Benevolence:** ornamental and embellishes society

The Wealth of Nations

Free markets conducive for benevolence

- **Market exchange is non-violent and voluntary**
- **Individual capable of self-love and sympathy**
- **Sympathy essential for success in free markets**
- **Sympathy is ability to step into other party's shoes**
- **Reflected in price bargaining**

Materialistic Outlook From \approx 1800 AD



‘This [Utilitarianism] is an ideology to end all ideologies, for it has abolished the moral problem. It is only necessary for each individual to act egoistically for the good of all to be attained .’

Joan Robinson

FOCUS SHIFTS TO GOODS



Different Lens for Viewing Economic History



1. Is economics a science like physical science or a social science?
2. Is economics an end or a means to an end?
3. Over time non-economic goods have become economic goods? Can the reverse take place?
4. Is there an alternative to markets for communicating individual preferences to the producers? No. Yes
5. Is human nature fixed or is it malleable? Is self-centeredness a genetic construct or is it a social construct that changes with time?

These debates continues.....

*Thank you for
Your Attention
& time*

