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**Roger E. Backhouse: The Ordinary Business of Life**

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# 1

## The Ancient World

### Homer and Hesiod

Plato suggested that Homer educated Greece, his epic poems providing the values by which life should be lived. In the literary papyri found in Egypt, Homeric scrolls outnumber those by all other authors put together. Even today, stories of Hector, Achilles, Troy and the journeys of Odysseus form part of Western culture. It is not clear whether the *Iliad* and the *Odyssey* should be regarded as the work of a single individual or as compilations of the work of many poets, but in either case they represent the writing down, somewhere around 750–725 BC, of a long oral tradition. The Homeric epics, together with the poems of Hesiod (c. 700 BC), are as far back as the written record takes us in Europe.

The society described in the *Iliad* and the *Odyssey* probably reflects, in part, the Mycenaean (Bronze Age) world of Troy around 1400–1100 BC, and in part Homer's own time. It was ordered and hierarchical, based not on market relationships, but on the distribution of wealth through gifts, theft, prizes for winning competitions, plunder received in war, and tribute paid by defeated cities to their conquerors. Troy might have fallen earlier, it has been suggested, if the Greek army had not been so intent on pillaging. Trade was viewed by Homer as a secondary, and inferior, way of acquiring wealth. Heroes were aristocratic warriors, rewarded strictly according to their rank. Gifts were governed by a strict code of reciprocity, in which it was important that, when gifts were exchanged, those involved should hold the same rank after the exchange as before. Hosts were obliged to provide hospitality

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and gifts for their guests, who in turn had an obligation to provide gifts, perhaps to the hosts' families, at a later date in return.

The basis for this economy was the household, understood as the landowner, his family and all the slaves working on an estate. Owners and slaves would work alongside each other. Prosperity was seen by Homer as the result of being in a well-ordered, rich household. On the other hand, there was suspicion of excessive wealth – households should be rich, but not too rich. There were, of course, traders and craftsmen (we read of Greek soldiers exchanging their plunder for provisions, and craftsmen were brought in to do certain tasks on landed estates), but they were less important than landed estates. Even if he gained his freedom, a slave who lost his place on a landed estate might lose his security. The acquisition of wealth through trade was regarded as distinctly inferior to obtaining it through agriculture or military exploits.

Of the two poems attributed to Hesiod, the one that is seen as having the most substantial economic content is *Works and Days*. He starts with two creation stories. One is the well-known story of Pandora's box. The other, undoubtedly influenced by Mesopotamian creation stories, tells of a descent from the golden age of the immortals, 'remote from ills, without harsh toil',<sup>1</sup> to a race of iron, for whom toil and misery are everyday realities. Hesiod offers his readers much advice about coping with life under these conditions. *Works and Days* is a poem within the tradition of oriental wisdom literature, moving seamlessly between advice that would nowadays be seen as ritualistic or astrological and practical advice on agriculture and on when to set sail in order to avoid being lost at sea. Though they fall within the same tradition, however, when compared with the Babylonian and Hebrew creation stories, Hesiod's stories (like those of Homer) are comparatively secular. It is Zeus who provides prosperity, and Hesiod regards morality and pleasing Zeus as the main challenges that men have to deal with, but the stories are the product of the author's own curiosity, not the work of priests.

Hesiod can be read as having realized that the basic economic problem is one of scarce resources. The reason men have to work is that 'the gods keep men's food concealed: otherwise you would easily work even in a day enough to provide you for the whole year without working'.<sup>2</sup>

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Choices have to be made between work (which leads to wealth) and leisure. Hesiod even suggests that competition can stimulate production, for it will cause craftsmen to emulate each other. However, though these ideas are clearly present in *Works and Days*, they are not expressed in anything like such abstract terms. Hesiod describes himself as a farmer, and says that his father was forced to emigrate owing to poverty. The virtues he sees as leading to prosperity are thus – not surprisingly – hard work, honesty and peace. His ideal is agricultural self-sufficiency, without war to destroy the farmer's produce. This is far from the aristocratic disparagement of work and support for martial virtues that can be found in Homer, but the two poets share the idea that security is bound up with land.

Hesiod's poetry provides a good illustration of the earliest writings on economic questions. Economic insights are there, but nothing is developed very far and it is difficult to know how much significance to attach to them.

## Estate Management – Xenophon's *Oikonomikos*

The period from the seventh to the fourth centuries BC saw great literary, scientific and philosophical achievements. Thales (c. 624–c. 546 BC) proposed the idea that water was the primal substance underlying all forms of life, and the notion that the earth was a disk floating on water. Anaximander (c. 610–c. 546 BC) drew the first map of the known world and composed what is believed to be the first treatise written in prose. We know little of their reasoning, for very little of what they wrote has survived, but the important point is that they were trying to reason about the nature of the world, liberating themselves from mythology. Towards the end of the sixth century Pythagoras (c. 570–c. 490 BC) used theory and contemplation as means of purifying the soul. Though he was engaged in what we would now see as a form of number mysticism, in which numbers and ratios have mystical properties, he and his followers made enduring contributions to philosophy and mathematics. The fifth century saw the emergence of playwrights, Aeschylus (c. 525–456 BC), Sophocles (c. 495–406 BC) and Euripides

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(c. 480–406 BC), and historians such as Herodotus (c. 485–c. 425 BC) and Thucydides (c. 460–c. 400 BC).

These developments form the background to the world of Xenophon (c. 430–354 BC) and Plato (c. 429–347 BC). For this period there is virtually no economic data. Our knowledge of it therefore comes solely from political history. But we do know that the economy of this period was, like that of Homer's day, still based on agriculture, with landed estates as the main source of wealth. There had, however, been enormous political and economic changes in the intervening centuries. Among the most important of these were the reforms introduced in Athens by Solon, appointed *archon*, or civilian head of state, in 594 BC. These curtailed the power of the aristocracy, and laid the basis for democratic rule based on the election, by the property-owning classes, of a council of 400 members. Land was redistributed, laws were codified, and a silver currency was established. The Athenian merchant fleet was enlarged, and there was an expansion of trade. Specialized agriculture developed as Athens exported goods – notably olive oil – in return for grain. The old ideal of self-sufficiency began to break down.

Though intended to bring stability, Solon's reforms resulted in class divisions and political upheaval. Athens and the other Greek cities also became involved in a series of wars with the Persians. In 480 BC Athens itself fell to the Persians, but the Persian fleet was defeated at Salamis. The following year the Persian army was defeated by the Spartans at Plataea and hostilities came to an end. The legacy of the Greek naval victory was that Athens became the leader of a maritime alliance of Greek states, exacting tribute from them. In effect, Athens was the centre of an empire, her great rival being Sparta. The strengths of Athens were trade and sea power; Sparta's position was based on agriculture and its army. War eventually broke out between the two states in 431 BC – the start of the Peloponnesian War that ended with the defeat of Athens, in 404 BC, and the dissolution of the naval league.

For the fifty years from the end of the Persian Wars till the start of the Peloponnesian War, Athens was essentially at peace. The result was a period of great prosperity known as the Periclean Age, after Pericles, who led the more democratic party from 461 to 430 BC. Piracy was removed from the eastern Mediterranean, trade flourished, and com-

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mercial agriculture and manufacturing developed, along with many of the activities now associated with a commercial society: banking, credit, money-changing, commodity speculation and monopoly trading. One historian has written of Athens being ‘a commercial centre with a complex of economic activities that was to remain unsurpassed until post-Renaissance Europe’.<sup>3</sup> The resulting prosperity was the basis for great building projects, such as the Parthenon.

Athenian democracy was direct, involving all the citizens – i.e. adult males of Athenian parentage. Even juries could involve hundreds of citizens, and the fondness of Athenians for litigation – in which plaintiffs and defendants had to speak for themselves – meant that it was important for people to be able to defend their own interests, and argue their case. There was thus a demand for training in rhetoric, which was provided by the Sophists. The Sophists were itinerant, travelling from one city to another, and, though the main requirement was for skills in public speaking, many of them believed that their pupils needed to know the latest discoveries in all fields. The Sophists were thus the first professional intellectuals in Greece – professors before there were universities.<sup>4</sup> The first and greatest of the Sophists was Protagoras (c. 490–420 BC), who taught successfully for forty years before being banished for his scepticism about the gods.

Socrates (469–399 BC) emerged against this background of ‘professional intellectuals’. Because they travelled, they could stand back from the laws and customs of individual cities. They engaged in abstract thought, and, though many paid respect to the gods, they looked for non-religious explanations of the phenomena they saw around them. What stands out about Socrates is his method: relentlessly asking questions. It was this that attracted to him pupils as able as Plato and Xenophon. He was, however, the butt of Aristophanes’ satire in *The Clouds*, in which his questioning of the gods’ responsibility for rain and thunder is ridiculed. As he wrote nothing himself, our knowledge of Socrates stems only from Aristophanes and, above all, from the dialogues of Plato and Xenophon. We can be confident about much in their accounts; however, it is often hard to know precisely which ideas should be attributed to Socrates himself and which come from Xenophon or Plato using him as a mouthpiece.

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Xenophon came from the Athenian upper classes and, like all Socrates' pupils, was well off. For some reason (maybe linked to his association with Socrates, who was tried and executed in 399 BC) he left Athens, and in 401 BC he joined a military expedition to Persia, in an attempt to help Cyrus the Younger take the throne from his brother. The attempt failed, and Xenophon, if we are to believe his account of the event, was responsible for leading the troops back to Greece. From 399 to 394 BC he fought for Sparta, after which he lived, under Spartan protection, on a country estate, till he returned to Athens in 365 BC. Most of his writing was done in this more settled period of his life.

*Oikonomikos*, the title of Xenophon's work, is the origin of the words 'economist' and 'economics'. It is, however, better translated as *The Estate Manager* or *Estate Management*. Taken literally it means *Household Management*, 'oikos' being the Greek word for 'household', but by extension the word was used to refer to an estate, and Xenophon's *Oikonomikos* is in fact a treatise on managing an agricultural estate. Familiar Socratic themes such as an emphasis on self-discipline and training people to wield authority are found in the book, but its main theme is efficient organization. Given the Greeks' emphasis on the human element in production (perhaps a feature of a slave society), efficient management translated into effective leadership.

The prime requirement of an effective leader was to be knowledgeable in the relevant field, whether this was warfare or agriculture. Men would follow the man they saw as the superior leader, Xenophon claimed, and willing obedience was worth far more than forced obedience. Though he illustrated this with examples taken from war, Xenophon saw the same principles as applying in any activity. The other requirement for efficiency was order. Xenophon used the example of a Phoenician trireme (a ship propelled by three banks of oars) in which everything was so well stowed that the man in charge knew where everything was, even when he was not present. This was how an efficient estate should be run – with stores efficiently organized and accounted for. It was commonly believed that good organization could double productivity.

Seen from this perspective, Xenophon's emphasis on efficiency seems simply an exercise in management, applied to an agricultural estate

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rather than to a modern firm. His conception of the ‘administrative art’,<sup>5</sup> however, was much broader than this, extending to the allocation of resources in the state as a whole. He makes this clear when he discusses the way in which Cyrus the Great organized his empire, with one official in charge of protecting the population from attack and another in charge of improving the land. If either failed to do his job efficiently, the other would notice, for neither could perform his task properly if the other was not doing so. Without defence the fruits of agriculture would be lost; and without enough agricultural output the country could not be defended. Though officials were given the right incentives, it was still necessary that the ruler took an interest in all the affairs of the state – agriculture as well as defence. Administrative authority, not the market mechanism, was the method by which resources would be efficiently allocated and productivity maximized.

Because it is something to which subsequent economists and historians have paid great attention, it is necessary also to mention Xenophon’s account of the division of labour. He observes that in a small town the same workman may have to make chairs, doors, ploughs and tables, but he cannot be skilled in all these activities. In large cities, however, demand is so large that men can specialize in each of these tasks, becoming more efficient. Turning back to the estate, Xenophon argues that division of labour can be practised in the kitchen, anything prepared in such a kitchen being superior to food prepared in a smaller kitchen where one person has to perform all tasks.

Xenophon’s model is of men interacting with nature – not with each other through markets. Productive efficiency involves managing the use of natural resources so as to get the most from them. His is a static world in which it is taken for granted that nature is known and understood. Trade and markets are peripheral. Given the development of trade and commerce in Athens by this time, it is perhaps surprising that agricultural estates are as central to Xenophon’s view of economic activity as they were for Homer’s. This can be explained by his position as a soldier and, for thirty years, a landowner under Spartan protection. For some of his contemporaries, such explanations are harder to defend.



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### Plato's Ideal State

The background to Plato's *Republic*, which attempts to provide a blueprint for the ideal state, is the political turmoil that engulfed Athens and the other Greek city states in the fifth and fourth centuries BC. Experience had taught Plato that neither democracy nor tyranny could provide a stable society. Leaders in a democracy would not do what was just, but would use their office to gain support. Tyrants, on the other hand, would use their power to further their own interests, not those of the state as a whole. But without any leadership there would be chaos. Plato's solution to this dilemma was to create a class of philosopher-kings – the 'guardians' – who would rule the state in the interests of the whole society. These would be self-appointed, for they would be the only ones capable of understanding how society should be organized. In the ideal state their whole upbringing and way of life would be designed to train them for their role and to ensure that they fulfilled it properly. To ensure that the guardians would not become corrupt, pursuing their own interests, they would be forbidden to own property or even to handle gold and silver. They would receive what they needed to live as a wage from the rest of the community. Unlike tyrants, they would have to put the interests of the state first.

Plato's vision was concerned with the efficient organization of society – with a just society organized on rational principles. Like other Greek writers, he saw efficiency as involving the human element in production. Men should specialize in those activities for which they were naturally suited, and should be trained accordingly. Indeed, the origins of cities (states) lay in specialization and the dependence of people on one another. He took the physical endowment of resources and technology for granted. His was a static world, in which everyone had a fixed place, maintained by efficient administration undertaken by disinterested rulers. Though he saw a role for trade, the role for markets in his ideal state was very limited. Consumer goods might be bought and sold, but property was to be allocated appropriately (on mathematical principles) between citizens. There would be no profits or payment of interest.

This view of the state presumed that cities would remain small. In a

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later work, Plato argued that the optimum number of households in a city was 5040. The reason for this number was that it was divisible by the first ten integers, and so allowed division into an optimal number of administrative units. The idea that cities should remain small was consistent with the experience of Greek cities, constrained by the availability of agricultural land and resources. When populations rose, a city would organize an expedition to found a colony. This colony would become a new city in which the Greek way of life would be maintained. Such colonies, which often became independent of the cities from which they stemmed, were to be found throughout the Mediterranean, notably in southern Italy, Sicily and North Africa.

Plato was an aristocrat, involved in Athenian public affairs, who fought several military campaigns. In his early life he had travelled widely, visiting the Pythagorean communities in Italy, from which he probably acquired his interest in mathematics. While in Sicily, he became involved with the ruler of Syracuse, unsuccessfully trying to train Dionysius II for leadership after the death of his father, Dionysius I, in 367 BC. In around 375 BC he founded his Academy (in the grove sacred to the hero Academus just outside Athens) in order to train statesmen to become philosophers. Unlike the school founded a few years earlier by Isocrates, which emphasized the teaching of rhetoric, Plato believed that it was more important to teach principles of good government. Several of his students became rulers (tyrants), and Plato saw the task of his Academy as offering advice to such people. In at least one case, a tyrant is believed to have moderated his rule in response to Plato's teaching.

## Aristotle on Justice and Exchange

Aristotle (384–322 BC) was a son of a physician and a student of Plato. He joined the Academy at the age of seventeen, and remained there till Plato's death twenty years later.

The influence of Aristotle on subsequent generations was such that, for many, he was simply 'the philosopher'. His writing encompassed philosophy, politics, ethics, natural science, medicine and virtually all

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other fields of inquiry, and it dominated thinking in these areas for nearly 2,000 years. His contributions to what are now thought of as economic issues are found in two places: Book V of the *Nichomachean Ethics* and Book I of the *Politics*. In the former he analysed the concept of justice, and in the latter he was concerned with the nature of the household and the state.

In the Athenian legal system, men who were in dispute with each other had to go first to an arbitrator, who would try to reach a fair or equitable settlement. Only if the arbitrator's decision was unacceptable to one of the parties would the dispute go to court, in which case the court would have to decide on a settlement in between the limits set by the two parties' claims, or in between that set by the arbitrator and that claimed by the aggrieved party. In Book V of the *Nichomachean Ethics* Aristotle was considering the principles of justice that ought to apply in such disputes. This perspective is important, because it immediately establishes that he was thinking of principles that should apply in judicial decisions, and that he was dealing with cases of isolated exchange (in which individual buyers and sellers negotiate with each other about specific goods). He was not dealing with exchange in organized, competitive markets. Indeed, it is likely that, though trade was well developed in Athens by the fourth century BC, competitive markets were few and far between. There is much evidence that prices of standard commodities were regulated (even the price of singers was regulated – if demand for the services of particular singers was too high, they would be allocated by a ballot), and the quality of manufactured goods was probably sufficiently variable that the price of each item would have had to be negotiated individually, as in isolated exchange.

When dealing with exchange and the distribution of goods, Aristotle distinguished between three types of justice. The first is distributive justice. This requires that goods (or honours, or whatever is being distributed) are distributed to people in proportion to their merit. This was a common problem in Aristotle's day, for much was distributed by the state – booty from war, silver from the mines at Laurium, and many other goods. Aristotle's concept of distributive justice was a very elastic notion, for merit can be defined in different ways in different settings. After a battle, merit might be measured by the contribution of soldiers

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to the victory. Within a partnership, justice would require that goods be distributed in proportion to the capital that each person had invested. Furthermore, different criteria may be used to assess merit: in a democracy it might be assumed that all citizens should receive an equal share, whereas in an oligarchy the oligarchs would be thought to merit larger shares than other citizens. The second type of justice is rectificatory justice – putting right previous injustices by compensating those who had lost out. Rectificatory justice restores equality. Finally comes reciprocal (or commutative) justice, or justice in exchange.

If two people exchange goods, how do we assess whether the transaction is just? One way, commonly understood in ancient Greece, is to argue that if exchange is voluntary it must be just. Xenophon cited the example of two boys – one tall and with a short tunic, the other short and with a long tunic – who exchanged tunics. The conventional view was that this was a just exchange, for both boys gained from it. Aristotle recognized, however, that in such exchanges justice does not determine a unique price, but merely a range of possible prices in between the lowest price the seller is prepared to accept and the highest price the buyer is prepared to pay. There is therefore still scope for a rule to determine the just price within this range. His answer was the harmonic mean of the two extreme prices. The harmonic mean has the property that if the just price is, say, 40 per cent above the lowest price the seller will accept, it is also 40 per cent below the highest price the buyer is prepared to pay. Justice involves finding a mean between extremes, neither of which is just.

The principle that justice involves finding a suitable mean also applies to the two other forms of justice. Distributive justice involves proportionality, or geometric proportion, and is associated with the geometric mean. (The geometric mean of two quantities is found by multiplying them together and taking the square root of the result.) Rectificatory justice involves arithmetic proportion (compensation should equal what has been lost). We thus find that Aristotle has related the three types of justice to the three types of mean that were known to him: the geometric, arithmetic and harmonic means. This was far from accidental. Aristotle, like Plato, was strongly influenced by the Pythagoreans, who worked out the mathematical relationship between

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musical notes. It was believed that similar harmonies and ratios could explain other phenomena, and it is therefore not surprising that there were close parallels between Aristotle's theory of justice and the mathematics of ratios and harmonies.

The influence of Pythagorean mathematics on Aristotle's account of exchange extends even further. By Aristotle's time it was widely accepted that all things were built up from common units (atomism). Geometry was based on points, arithmetic on the number '1', and so on to the physical world. It was believed that this meant that different phenomena were commensurable in the sense that they could similarly be expressed as ratios of whole numbers. This was why it had been a great blow to the Pythagoreans to discover that there were irrational numbers like  $\pi$  or  $\sqrt{2}$  that could not be expressed as ratios. Exchange of one good for another was important because it made the goods commensurable – shoes could be measured in terms of wheat. But if the shoemaker did not want wheat, or the farmer did not want shoes, exchange would not take place, making it impossible to compare the two goods. How was this problem to be resolved? Aristotle's answer was money. The shoemaker and the farmer might not want each other's produce, but they would both sell it for money, which meant that shoes and wheat could be compared through taking the ratio of their money prices. It is demand that makes goods commensurable, and money acts as a representative of demand.

### **Aristotle and the Acquisition of Wealth**

However, although money was fundamental to Aristotle's thinking, he believed that there were clear limits to the legitimate role of commercial activity. His argument was based on a distinction between two types of wealth-getting. The first was a part of estate management. A man should know things such as which type of livestock would be most profitable, or whether to engage in planting wheat or bee-keeping. These were natural ways in which to acquire wealth. In contrast, the second type – getting wealth through exchange – was unnatural, for this involved making a gain at someone else's expense. Unnatural ways

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to acquire wealth included commerce and usury (lending money at interest). Somewhere in between came activities such as mining.

The Socratic philosophers, including Xenophon, Plato and Aristotle, held that citizens should aim at a good life. This was the life of the *polis*, or independent city state in which citizens played an active part in civic life. To do this they needed material resources, provided by their estate. Natural ways of acquiring wealth were ones that increased the stock of goods needed to live the good life. Though estate management was fundamental, trading to obtain goods that could not be produced at home and exchanging one's surplus produce for something of which one had greater need were perfectly natural. But an important part of such a life was that wants were limited, and that once a man had enough wealth to live in the right manner he would have no need for further accumulation of wealth. High levels of consumption were not part of the good life. There was therefore a limit to the natural acquisition of wealth.

What disturbed Aristotle about commerce was that it offered the prospect of an unlimited accumulation of wealth. This was something of which Athenians were well aware, for, although the self-sufficient city state was the ideal, there had been several crises when the city had been forced to raise money from traders. Typically, merchants were not citizens, so raising money in this way meant going outside the *polis*. The puzzle was that, even though they did not do anything useful, traders and speculators managed to create so much wealth that they could help out cities in times of crisis. How was this possible? Aristotle's answer was that goods can be either used or exchanged. Of these, the former is a proper, natural procedure, as is exchange between people who need goods different from what they currently possess. On the other hand, exchange simply for the purposes of making money is unnatural, for goods are not being used for their proper purpose. The unnaturalness of such activities is revealed in that creating wealth by exchange suggests that wealth could be accumulated without limit – something Aristotle believed to be impossible. Men might be rich in coin, he argued, yet starve through lack of food.

The view that there are limits to the proper acquisition of wealth and the use of exchange simply in order to make money fits in with

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Aristotle's theory of justice. The essence of natural acquisition of property is that it enables men to live a good life in the *polis*. It has a clear objective, and is not being pursued for its own sake. Similarly, when he turned to the question of justice in the *Nicomachean Ethics*, Aristotle was dealing with the injustice that arises 'not from any particular kind of wickedness, such as self-indulgence, cowardice, anger, bad temper or meanness, but simply from activities for which the motive is the pleasure that arises from gain'.<sup>6</sup> In making this distinction, one can see Aristotle separating out one sphere of life – one that it is tempting to describe as 'economic' – money-making. What is significant, however, is that Aristotle did not see this sphere as covering even the major part of those activities that we now think of as economic, for production and the most important types of trade were excluded. Even more significant, he did not see markets and money-making activities as providing a mechanism that could regulate society. Order was produced not through individuals pursuing their own ends, but through efficient administration.

Like Plato, Aristotle was a teacher. In 342 BC he was appointed tutor to Alexander the Great, and in 335 BC he returned to Athens to found his own school, the Lyceum. It was Alexander who finally destroyed the independence of the Greek city states, so weakened by the Peloponnesian War, as he expanded his Macedonian Empire to include not only the rest of Greece, but also Egypt and much of the Persian Empire, right across to India. Though Alexander's empire was relatively short-lived, disintegrating after his death in 323 BC, its major effect was to spread Greek culture throughout the ancient world. The age of independent city states was over, and the Empire's administration was run along lines taken over from the Persian and Egyptian empires that preceded it. Greek became the official language, and was widely spoken in the towns (though not in the countryside), and Greek mathematics, science, medicine and philosophy flourished in cities such as Alexandria in Egypt. The writings of the Greek philosophers, though rooted in the Greek city state, reached a far wider audience.

## Rome

At the time of Alexander's death, the Roman republic controlled no more than a small area on the west coast of the Italian peninsula. During the following three centuries this grew into an empire that covered most of Europe and North Africa. On the death of Augustus (AD 14) the Roman Empire stretched from Spain to Syria, and from the Rhineland to Egypt. It reached its greatest extent in the reign of Trajan (98–117), and, though it lost territories, notably to the Frankish tribes in the north, it retained much the same boundaries till the end of the fourth century. Roads, cities and other major public works were built on an unprecedented scale. Rome was without any doubt the greatest civilization the Western world had seen.

Rome produced armies that conquered the world, and architecture that produced a sense of awe in those who later looked upon its ruins. Latin became the language of the educated classes in Europe. Yet the centre of the Empire was always in the East. Rome relied on Egypt for its supplies of grain. The Empire's largest cities and much of its population were in the eastern provinces in Asia Minor. In contrast, the Western Empire remained largely rural. The cultural centre of the Empire was also in the Eastern Empire – in Hellenized cities such as Antioch and Alexandria, in which Greeks continued to make advances in science and philosophy. Roman writers readily acknowledged their debts to the Greeks, with the result that the Romans themselves are widely believed to have contributed little to economics. They are said to have been doers rather than thinkers – engineers rather than scientists. However, while there may not have been contributions comparable with those of Plato or Aristotle, this view is far from justified. Roman writers made a different type of contribution, the explanation for which is to be found in the structure of Roman society.

The Roman constitution linked political power to the ownership of land and to military service. War and conquest were a major source of wealth, and soldiers were rewarded with grants of land, associated with political power. Romans were expected to be willing to endure the hardships and risks of war in order to preserve their wealth. It followed



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that the rich, who had more wealth to preserve, should face the greatest risks. The poor man gained little from war and should therefore neither pay taxes nor be required to fight. Trade offered a route to wealth, but this wealth had to be converted into land if it were to bring political power. Land, therefore, was the pre-eminent form of wealth.

The philosophies that gained most adherents in Rome, especially among the upper classes, both originated in Greece: Cynicism, founded by Diogenes of Sinope (*c.* 410–*c.* 320 BC), and its offshoot, Stoicism, founded by Zeno of Citium (*c.* 335–263 BC). The last great exponent of Stoicism was Marcus Aurelius, Roman emperor from AD 161 to 180. Cynicism, like the later teaching of Epicurus (*c.* 341–270 BC) emphasized the here and now. Freedom from want was to be achieved through reducing one's needs to the barest minimum, living in what ordinary men would consider poverty. The Stoics believed that happiness resulted not from material possessions, but from virtue. Moral virtue was the only good, which meant that a man who had done the best he could had nothing to regret. For both the Cynics and Stoics, virtue involved following nature. They were thus responsible for the idea of natural law, by which human laws and institutions could be judged.

The concept of natural laws, applying to the whole of humanity, provided the foundation for the field where the Romans made perhaps their greatest contribution to social thought – jurisprudence. Roman law has exerted a major influence over subsequent legal systems. More important, many significant economic ideas were articulated in Roman commercial law. The Romans had great respect for property, and the law contained many provisions to safeguard ownership. The idea of the corporation, having an existence independent of the individuals involved in it, goes back to Roman law. The law on contracts permitted trade, and guaranteed property and allowed it to be transferred. However, though trade was allowed, wealth acquired from trade remained more controversial than wealth from landed estates. There was always a sense that wealth from trade, which appeared almost to arise out of nowhere, was tainted in a way that wealth derived from the land was not. Stoic ideas were the origin of the concept of reasonableness as it appeared in much commercial law.

Of particular importance was the idea, going back to Aristotle, that

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if all parties had agreed to a contract voluntarily, that contract must be just. For a contract to be valid, all that was necessary was that the parties had consented to it, not that a particular ritual or formula had been followed. This focused attention on the circumstances under which an action was voluntary – on the point at which coercion rendered an action involuntary. If someone could show that he had entered into a contract under threat, he might be able to get it annulled on the grounds that he had not entered into it voluntarily. In general, however, a threat was held to invalidate a contract only if it were sufficient to scare a *vir constans*: a man of firm character. It would normally, if not always, have had to involve a threat of physical violence. The need for consent was the reason why wilful fraud rendered a contract invalid. For example, someone did not truly consent to a contract if he was misled about the quality of good being offered. Normal bargaining over a contract, however, was allowed.

## Conclusions

The world of ancient Greece and even Rome can seem very remote. However, the ideas developed there are more important than their remoteness might suggest. Greek philosophy has exerted a profound influence on Western thought, and the economic thought discussed in this book forms part of that broader tradition. Our way of reasoning goes back to Plato and Aristotle. Plato argued for the existence of universals – ideal, pure forms that could be understood only through abstract reasoning. Aristotle, in contrast, saw concrete facts as fundamental, and general principles had to be derived from these through a process of induction. These two different attitudes still beset modern economics. Roman law has been similarly influential. In addition, the Classics formed an important part of many economists' education, at least until the twentieth century, with the result that many of the writers discussed in the following chapters will have been directly influenced by them.

The ancient world was dominated by self-sufficiency and isolated exchange. As the terms of such exchanges were clearly something over

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which men had control, it was natural that great attention should be paid to whether they were just. However, although there was no market economy in the modern sense, commercial activity was sufficiently developed and sufficiently prominent to provide a significant challenge. On the whole, the thinkers whose views are known to us (we have less evidence of how merchants themselves viewed things) were suspicious of commerce. These two themes – justice and the morality of commerce – dominated discussions of economic issues right up to the seventeenth century, by which time the existence of a market economy and a commercial mentality had come to be accepted.