

## **Economic Thought in Medieval Ages**

The period between 470 A.D. to 1453 A.D. covering about 1000 years is generally known in history as the Medieval period or the Middle Ages. It is the most ill defined period in the world history, and roughly it has been put between the years 400 A.D. to 1500 A.D. This period has been dubbed as the Dark Ages. It is believed that during these years, economic thought has moved at a very slow speed, when compared with the rapid progress it has made in later years.

### **Characteristics of the Early Medieval Social Order**

In the early middle ages, especially during the years from 500 A.D. to 1200 A.D., economic ideas were influenced by the customs and traditions of the German society. The village community was the economic unit with families as the self-sufficient sub-units. There was complete freedom of opinion. The spirit of brotherhood was dominating. Barter was the prevailing form of exchange and profit earning through exchange was prohibited. Like the Romans the Germans did not attach importance to the right of private property. To them property rights were transferable. They attached more importance to individual rights in land.

The Church and the moral teachings of Christianity had also their share in moulding the early medieval economic thought. Most of the ancient institutions were shattered to pieces under the influence of Christianity, which pleaded for (a) spirit of brotherhood, (b) equality of rights, (c) abolition of slavery, (d) dignity of labour, (e) purity of family life, (f) generous help to the downtrodden, (g) communal ownership of property, etc. Consequently, profit and interest were despised, agriculture was given the pride of place.

### **Characteristics of the Later Medieval Society**

The later medieval social order was characterised by the division of society into lords and serfs. With the decline of the Empire, the landlord gained a greater hold on administration and his estate became the new economic and political unit, ultimately resulting in the establishment of the system of feudal lordship. Although the sphere of trade was limited, it was important, since it was the basis of the medieval commerce of the Indian cities. Industrial production was confined to local needs or to a few products of extraordinary importance in long distance trade. The industry was subject to regulation by voluntary associations of traders engaged in the same trade.

Notwithstanding the division of the medieval; society into classes, certain forces were at work for the unification and the smooth running of the entire social framework. First, the recognition of the principle of division of labour as the foundation of the society was in itself a very strong

unifying force. Inequality among men was universally accepted and the activities of every class, nay of every individual, were regulated by his status. Individualism was not known to them and inequality and coercion were the rule of the day. "The group loyalties were merely more numerous and variegated and were exacted by means of often brutal coercion."<sup>1</sup>

The dominance of and the part played by the Church was the most important unifying factor. After the decline of the Roman Empire, the Church became an important institution and strengthened the spiritual and material powers of Rome. The Church had an all-pervading influence on the medieval social and economic life. The clergy was the only literate class in northern Europe. By the end of the fifteenth century it had developed "a complete and systematic economic doctrine, a body of teaching with inter-connected parts, and touching every aspect of the economic life of the time. This doctrine was that of the "canon law". It was a combination of the teachings of the gospels and the early Christian fathers with those of Aristotle."

#### CHIEF FEATURES OF MEDIEVAL THOUGHT

Feudalism and the dominance of the Church were the two characteristic features of the medieval social structure which had cast and moulded the economic ideas of the Middle Ages. The main stream of economic thought was, thus, characterised by the following features:

(1) Under the influence of Christian teachings, unlike the Greek thought, manual labour was considered exalted and noble. The worker was not treated as slave. He was now serf. It may be stated that in theory whatever might have been the status of the worker, in practice, it had hardly improved. This changed attitude had its beneficial effects on the development of economic ideas in so far as it led to the growth of industry and trade, the development of towns, etc.

(2) Economic problems and practices, were considered in the context of moral and spiritual consideration

The essence of the medieval economic thought lay in the idea of justice. It pervaded all human relations and conduct of life. Spiritual well-being was the end and hence the rules were framed and executed by the Church. All economic transactions were guided by these principles; and handicrafts were held in high esteem, while trade was treated as degrading. Trade of essential commodities was regulated by the fixation of a just price by the Church, based on their real value. All transactions aiming at usury were prohibited. Thus, the Church was the chief authority. The authoritative version of the medieval economic ideas is found in the works of St. Thomas Aquinas and Nicole Oresne. We narrate their ideas in the following pages.

St. Thomas Aquinas (1225-1274 A.D.)

St. Thomas Aquinas (1225 - 1274 A.D.) was the most renowned scholastic philosopher. Having been born in Italy, he got his early education in the Benedictine monastery of Monte Cassino. St. Thomas Aquinas continued his studies at Paris, and Cologne, where he became a pupil of Albert the Great. After the completion of his academic apprenticeship, he taught theology and philosophy at Cologne, Paris, Bologna, Rome, and Naples, changing his residence frequently. He was an extensive writer and wrote 60 books. His best known work is the *Summa Theologiae* which is a systematic summary of the ideas of the time.

His Economic Views or Scholasticism: His views were, therefore, an admixture of the teachings of the Bible and the philosophy of Aristotle. The views of St. Aquinas in particular and the scholastic writers in general, can be briefly stated as follows:

1. Individualism. Schoolmen in general despised individualism and scorned the idea of laying emphasis on human personality as the basis for economic decisions. "Thus, on the one hand, it tended to limit that reference to individual choices which was to become the basis of economic science; while, on the other hand, it kept alive and emphasized the concept of social uniformities and the dominance of abstract "laws", which later contributed to the idea of that science".

2. Property. St. Aquinas did not uphold the exclusive and unrestricted rights in private property. He totally followed Aristotle in this regard. According to Aristotle there were two aspects of private property, viz., firstly the power of acquiring and administering it and secondly, the manner of using it. The power of acquiring the property confers the rights on the individuals. Private property leads to an increase in the production of wealth. It is natural and necessary for the peace of the society.

(3) Trade. St. Aquinas regarded trade neither good nor natural. It was unnatural and graceless. But, he recognized that it was an evil which could not be dispensed with. It could be justified only, "if the merchant sought to maintain his household and when the object of trade was to benefit the country". According to him, trade could be permitted if goods were exchanged at a price which was just' both to the seller and the buyer, i.e., the commodity given and the commodity received were of equal value. St. Aquinas in this respect appeared to those of the earlier thinkers.

(4) Just Price. The most important part of the economic thought of the Schoolmen, especially of St. Aquinas is the doctrine of 'justum pretium'. The doctrine was based upon their concept of value. Value was considered as an objective quality inherent in every commodity. Its measure was dependent upon a process of estimation of the cost of production which covered

labour. The concept of 'Just Price', something like value was absolute and was associated with the common usefulness of the commodity.

(5) Usury and Money-lending. Money-lending, as a means of gaining wealth was considered by the Church Fathers as the most degraded act. Similarly, the Hebrews has also prohibited taking of interest. With the growth of money economy and with expanding opportunities for profitable investment of money, the concept of 'usury' like that of value also underwent changes. The general prohibition of interest-taking was now not considered necessary.

(6) Division of Labour. Division to labour was accepted as useful. The Schoolmen did not agree with the ignobility of certain forms of labour and the disreputability of other occupations than agriculture, as held by the Greeks.

Economic Functions of the State. The state was likened to a private economy and the office of the ruler was regarded as private property. The state was perform the following functions: "The maintenance of population and provision for the poor, the establishment of safe and free roads... a system of weights and measures and a special coinage". The establishment of an exact and unchanging system of coinage was the most important duty of the ruler. Aquinas believed that by money the king could purchase food for his subjects, in times of war. The king, thus, possessed the right to control and regulate the monetary system and to make laws for the prevention of counterfeiting and clipping of coins. The regulation of currency was thought necessary, because a slight change in its quantity might affect its price.

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Nicole Oresme (1320-1382 A.D.)

Educated in Paris, Oresme wrote extensively on logical and mathematical subjects.

His Economic Views: Oresme's main concern was with the study of the origin of money and the use of precious metals.

In his book, he has given a detailed description of the origin of money and enumerated the qualities of good money commodity. He advocated the use of both silver and gold as money material. He was in favour of establishing such a bi-metallism in which the proportion of the market value of the two metals should determine the ratio of their monetary value. It, thus, means that the value of money is to be derived from the value of the money commodity. In this respect he was the forerunner of the later monetary theorists.

He recognised that the right of coinage should rest with the king, but that he will only act on behalf of the community

He defended trade and advocated protection of the merchant class against the oppressive practices of the king, which, none of the thinkers before him ever thought.

Oresme's thoughts were, thus, much ahead of his time.

## MERCANTILISM

The economic thought that developed among the European thinkers and administrators between the 15th and 17th centuries is called Mercantilism, it was a revolt against the individual way of life.

According to C W. Cole: "Mercantilism is a term which may be applied to those theories, policies and practices, rising from the conditions of the time, which the national State, acting in the economic sphere, sought to increase its' own power, wealth and prosperity" According to Edmund Whittaker "It is the economic counter-part of political nationalism ".

## FACTORS INFLUENCING THE RISE OF MERCANTILISM

a) Cultural Factors: The Renaissance and the reformation in Europe gave a new light and learning to the people. The impact of reformation and the renaissance was that people were made to realise that this life was more important than the life of the other world. These ideas were spread by writers, artists and philosophers and also through literacy works and works of art etc., As a consequence money came to occupy a prominent place and materialism started gaining strength every day.

b) Religious factors: Before the reformation the Catholic Church and the pope had the authority in religious and political matters. The king used to derive revenue either from the feudal lords or from his own estates. The reformation movement changed the conditions. Protestantism rose in strength. The authority in political and religious matters given to pope and the church was removed. Importance was given to money and material things. The concepts of individual and personal freedom were emphasised by Protestantism. The king and the flourishing merchant class in Europe adopted the protestant religion, broke all relations with the Roman Catholic Church and established their own churches. The king assumed the power of imposing taxes. The king considered that trade and commerce were necessary so that the commodities are taxed to bring revenue to the king. The monarch himself was interested in encouraging the rise of the middle classes and in protecting their rights in order to acquire revenue and to put a check on the power of the lords and the church.

c) Political Factors: Feudalism was replaced by nationalism, i.e., the emphasis was on the development of nationalist state with a central government, but, this resulted in a major problem. They are a growing conflict between economics of local units and the central govt. To achieve political security as well as economics unity, despotism was thought to be remedy which could remove confusion and conflict, under the circumstances the monarch had to become all powerful. But this required money and wealth. This was possible only with the help of a growing trade. Hence the merchant class and merchant were considered to be important sources wealth. That is why almost all the important thinkers of this age emphasised the importance of trade. The result was the spread of mercantilist ideas through out Europe.

d) Economic Factors: Towards the end of the 15th century rapid changes were taking place in the economic set up of the society. Domestic economy which was characterised by local self sufficiency and limited exchange was replaced by exchange economy. Agriculture was modernised and also commercialised and it was made to provide for manufacturing economy. With the expansion of commerce and increased supply of money a new era started. Much of the mercantilist thought were the outcome of these developments.

e) Scientific and Technology changes: In the field of science and technology many advantages discoveries and inventions were made. These discoveries and advantages opened up the gates to a large variety of raw materials, a wide market and a wider field for regional specification with the result the cost of transport was greatly reduced and the scope for foreign trade was extended.

All these factors were responsible for mercantilist thought to flourish and gain strength every day.

#### BASIC CONCEPTS OF MERCANTILISM

The fundamental aim of the mercantilist was to make his country strong. When he came to look for a test of strength, he found it in the wealth of his country—above all in that portion of wealth which consisted of precious metals like gold and silver. So the mercantilists attached a lot of importance to bullion because it was the most durable, the most useful and the most generally acceptable form of wealth. In other words, they regarded money and bullion as the sign of wealth.

If a country has mines, it can get gold and silver. And it can accumulate those precious metals by imposing restrictions on the export of gold. But if a country has no mines, it can get gold and silver only as a result of trade. Trade must be conducted and regulated in such a way that gold may come into the country. In order that a country may have more bullion, there must be a "favourable balance of trade." In other words, there should be an excess of exports over imports.

In the mercantilist scheme of things, trade was the most important occupation. Industry and manufacture were ranked second in importance. Agriculture was the least important of all. Though agriculture might feed the population it brought no money in the form of gold and silver into the country. So they thought it was not so important as trade and industry.

The State had an important role in the mercantilist order. Mercantilism was a policy of perpetual governmental activity. There was regulation of economic life by the Government.

The economic doctrines of the mercantilists were characterised by the following features. In their policies, (1) Mercantilists gave importance only for national advantage; (2) They laid great emphasis on national policies for increasing the stock of precious metals; (3) Their aim was maximum exports and minimum imports; (4) They sought favourable balance of trade by Government's direct promotion of exports and restrictions of imports; and (5) The ultimate aim was the creation of a strong and powerful state.

#### THOMAS MUN (1571-1641)

Thomas Mun was an Englishman. He served on the Board of the East India Company. He has given a systematic statement of mercantilist principles in his book "England's Treasure by Foreign Trade" (1621). Thomas Mun was a prince among mercantilists.

Mun has suggested twelve methods by which a country could have a favourable balance of trade.

Firstly, Mun recommends the cultivation of waste lands. This step would help in reducing the imports of hemp, flax and tobacco.

Secondly, he suggests restraint on domestic consumption of foreign goods. This would also help reduce imports. Not only that, he advised people to refrain from unnecessary change of fashion.

Thirdly, Mun suggests that with regard to exports. "We must consider our neighbour's necessities." Not only that, the promotion of exports requires that proper attention must be given to commodity prices. If the goods are necessities and the foreign buyer cannot buy it from any other source, then they may be sold at a high price. As for other goods, it is better to sell as cheap as possible rather than to lose the market.

Fourthly, the value of a country's exports could be increased by confining them to her own ships. In other words, Mun was aware of the importance of the service, or invisible forms in the balance of trade. So he emphasised the earnings from shipping services.

Fifthly, Mun advised a frugal use of natural wealth so that more might be left for export.

Sixthly, Mun suggested that the fishing in the adjacent seas should be developed by the English people.

Seventhly, England should be made a distributing centre so that it would help her to increase shipping, trade and the King's customs.

Eighthly, Mun encourages trade with far off countries.

The ninth step Mun suggests is curious in a way. In this, he deviates from the normal mercantilist thinking. He suggests that in certain cases they could allow the export of money itself. His argument is this: money begets trade and trade increases money. He argues that merely keeping the money in the country will not make a quick and ample trade.

The tenth and eleventh points are more or less the same. He suggests that manufactures of foreign materials such as velvets and silks should be allowed to be exported free. This would provide employment and increase exports.

The twelfth and last point is a very vague one and of a general nature. He suggests that "we must endeavour to make the most we can of our own."

Like all mercantilists, Mun praised industry and condemned idleness and luxury.

#### Criticism of the Mercantilist Thought

1. The mercantilists were criticised for their shop keeper conception of wealth. It was a gross fallacy on their part to think that the greatness and glory of a nation lay exclusively on the size of its treasure. Modern economists do not attach such importance to the accumulated wealth of a country. On the other hand, they take into consideration the productive capacity of a nation.

The first reaction to the mercantilist theory came from the physiocrats. They maintained that the source of wealth is not the 'precious' metals but the soil.

The attack on the mercantilist conception of wealth was taken up by Adam Smith. He says that "A nation's true wealth consists not in its gold and silver but its land, house and consumable goods of all different kinds. It is the annual produce of land and labour of society."

2. The mercantilists have been criticised for their view on balance of trade. Mercantilist failed to differentiate general balance of trade from particular balance of trade. They laid exaggerated importance on favourable balance of trade and insisted on it in every transaction at every stage with every country.

3. The mercantilists were criticized for considering that industry and commerce were the most important branches of national economy. They neglected agriculture and other sectors. Critics pointed out that all occupations were equally important.

## THE PHYSIOCRATS

The physiocrats were a group of writers who developed a body of economic theory in France in the eighteenth century. Their publications covered a period from 1756 to 1778. Adam Smith was greatly influenced by the economic ideas of physiocrats. Francois Quesnay (1694-1774) might be considered as the chief representative of the physiocrats. The term 'Physiocracy' means 'Rule of Nature'.

## THE FACTORS WHICH GAVE RISE TO PHYSIOCRACY

France in 1750's provided a favourable climate of opinion for the emergence of physiocratic doctrines. There were many economic, political and social factors at work.

Firstly, Physiocracy was essentially a revolt of the French against mercantilism. Mercantilism was carried to an extreme degree resulting in the neglect of agriculture and a lot of governmental regulation of industry. Agriculture was badly organised at that time. There was need for an economic theory to prove that the pursuit of mercantilist policies was detrimental to the progress and wealth of a nation. And the physiocrats provided the theoretical basis to attack mercantilism.

Secondly, the tax system of France at that time was corrupt, inefficient and unjust. The nobles and the clergy, who owned nearly about two-thirds of land, were exempted from direct taxation. On the other hand, the burden of taxation on the poor was heavy. The poor were affected by taxes such as the salt tax. the poll tax and by duties on goods passing from one province to another.

Thirdly, the finances of the French government were in a bad shape. The unnecessary wars and the luxurious life at court made the government bankrupt and the government started borrowing loans under unfavourable conditions.

Fourthly, the French peasants were exploited by the nobles and other wealthy classes by a number of methods. The landowners took a large share of the produce. The Government put heavy taxes. Even the markets for agricultural commodities were restricted because mercantilist policies were in favour of manufactured goods.

Fifthly, in general, economic performance and prospects in France appeared unfavourable as compared with that of Britain. Britain had already realized that it was a wrong policy to develop trade and manufacture at the expense of agriculture. Agricultural revolution was taking place in England with emphasis on large-scale farming and scientific techniques of production. So in France too, attention was diverted to the strengthening of agriculture.

Lastly, there were other forces at work for progress and change. The political and moral philosophers of those times underlined the importance of the individual in their discussions. They emphasized that man must be the centre of philosophy and politics. And the forces of liberty were at work.

According to the physiocrats, the natural order is an ideal order given by God. The society which is governed by the laws of Nature is an ideal society and the society which is ruled by positive laws made by government is an imperfect society. Property, security and liberty formed the very basis of their social order. The concept of natural order led to certain important practical results. The natural order implied that only under conditions of freedom, man can enjoy the maximum happiness and derive maximum advantage in economic matters. It followed that there should be minimum interference in economic affairs by Government. Government should have minimum functions. It must confine itself to such things as protecting life and property. In other words, they advocated *laissez-faire*

## NET PRODUCT

Land occupied a predominant position as an agent of production in the physiocratic system. They considered agriculture alone as the productive occupation. This was one of the characteristic features of the physiocratic system.

The physiocrats thought that industry, trade and professions were useful but sterile. They simply reproduced the value consumed in the form of raw materials and subsistence for workers. Only agriculture was productive for it produced a surplus, a net product above the

costs of production. The physiocrats called this net product, "The product net". In agriculture alone, the wealth produced was greater than wealth consumed. According to them, only labour engaged in agricultural operations is productive and labour engaged in all other occupations (trade, industry, professions) is unproductive. They believed that in agriculture, Nature cooperated with man and helped in the creation of a surplus, the net product. The Circulation of Wealth

One of the major achievements of modern economies is the concept and the measurement of national income. The physiocrats anticipated national income analysis, though in a crude form. The economic ideas of the physiocrats, regarding the flow of income through society is found in Quesnay's "Tableau Economique" (The Economic Table). The 'Tableau Economique' is a graphic representation of the way in which the circulation of wealth takes place.

Quesnay has divided the society into three classes. In other words, the physiocratic system is based on the division of society into the following three classes:

1. The Productive Class

It consists of the farmers, who pay a rent to the landlords, who till the soil and pay the expenses of cultivation."

2. The Proprietary Class (the class of proprietors)

The class of proprietors included the landlords and the King.

3. Sterile class

This class includes all peoples doing all other occupations. Sterile means unproductive, the physiocrats did not consider the sterile class as useless. It was sterile (unproductive) in the sense that it did not produce any 'net product'.

Of the above three classes, farmers alone are the productive class because soil is the only source of wealth. After classifying the society into the above three classes, Quesnay traced the circulation of income among the three classes of the society in the following manner:

All wealth is produced by the productive class (the farmers). Let us suppose the value of the total produced in any year is equal to five million francs. Of this, the agricultural class (farmers) requires two million francs for their maintenance. These two million francs do not circulate. The remaining produce worth three million francs is distributed in the following manner. Since the productive class requires manufactures, it buys them from the sterile class for one million francs. The remaining two million francs pass into the hands of landowners and the government in the form of rent and taxes. The proprietary class lives on these two million. It spends one million for food and the other for manufactures. According to the physiocrats, the sterile class produces nothing. But still it receives two million francs (one million from the productive class and another from the proprietary class). The sterile class uses the two million francs for buying the necessaries of life and the raw materials of industries from the productive class. Thus the two million which come into the hands of the sterile class return to their starting point, the agriculturists. Thus the original five million francs are replaced in the hands of the productive class. The cycle is complete. And the process goes on indefinitely.

Quesnay's Economic Table is regarded as a pioneering attempt at 'National Income Analysis' and 'mathematical economies'. But, It is based on the mistaken notion that agriculture alone is the productive occupation.

#### CRITICAL ESTIMATE OF PHYSIOCRATS

The physiocrats were wrong in considering agriculture alone as the productive occupation. Commerce and industry are equally important and equally productive as agriculture. There was a fundamental error in their economics. That is, they did not have a correct notion of production.

The physiocrats advocated complete freedom of trade and industry. But absolute freedom of trade and industry are not advisable.

The aim of the physiocrats was to develop agriculture. They regarded land as the only source of wealth. For land alone yielded a surplus (net product). It followed the landed proprietors alone should bear the burden of taxation. In effect, their conclusions went against the interests of the agricultural class. Further, their non-intervention policy helped industry more than agriculture. It must be noted that it was not their intention at all.