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Economic Thinking from Hesiod to Richard Cantillon

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Abstract: The paper makes an analysis between the two effects, considering the general case of an Allen utility function. We can say that about economics that it is a relatively young science, economic and social phenomena we find debated in philosophical thinking of Hesiod Xenophon, Plato, Aristotle. These phenomena were only economic management rules of common affairs of the city. Thus, the study of the economy began to emerge timidly, gaining not only the form that we know it today, but also the importance for a developed society, the very cornerstone of its.

Keywords: economic thought; scholasticism; mercantilism

1. Greek Thought

Representative of Austrian Economic School, Murray N. Rothbard, in the work *Economic Thought Before Adam Smith, An Austrian Perspective on the History of Economic Thought, Vol. I*, thinks Hesiod the first economic thinker. In his poem *Works and Days*, author besides instilling the idea of justice, talks about the importance of productive work, efficiency, because who is able to work, that will fulfill its mission.

After 400 years from Hesiod, Xenophon takes the concept of economic efficiency and applicable across entire economy.

At the end of the fourth century B.C., Athens faces a broad social and political crisis, coupled with a moral and intellectual crisis. Within the extensive debates on politics, which in fact were critical laws of the city, stands Plato and his student Aristotle. Plato's ideal city cannot exist without the support of an ideal economy. Plato considered beneficial to society that the goods to be owned in common, in an ideal city everything belongs to all. As such, Plato society is divided into three categories: soldiers or guards, producers (farmers, artisans, merchants) and leaders. The society is equitable only if that ones who make laws aimed sole purpose, namely, the supreme virtue, the guards defending and producers take it lying down the authorities. This point of view has led some commentators to talk about Plato's communism.

Unlike Plato, Aristotle devotes more positive side to the economic problems. He is not a supporter of common possession of the goods, but would endorse for private property, market economy issues being dealt with by the one of justice always. Trying to understand the mechanisms of market economy and beyond, we can say that Aristotle is the originator analyzes regarding the theory of value

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that we meet along the entire history of economic thought, the value putting on not only different meanings but also definitions as different.

He is not opposed to the exchange of goods, and obviously agrees with the use of money as long as the process itself (and use currency exchange goods) is done in order to obtain a use value and for their needs. Instead, Aristotle notes that not always, the exchange of goods is limited to the issues mentioned above, but it aims to achieve profit, currency this time being a tool that allows unlimited accumulation of wealth. This unlimited accumulation of wealth, which Aristotle calls chrematistics is rejected and condemned by the philosopher, it is considered a factor that can lead to fragility of the unity and stability of the city.

For Aristotle the ideal city was that in which true justice means to give him each of its members after its merits.

When Aristotle wants to discover those underlying principles of healthy cities (whose purpose is to lead people to happiness), he speaks about the principle of distributive justice and commutative justice.

On distributive justice, the philosopher argues that equality is not when it is each citizen equally distributed, but true equality exists when given more deserving of more, and less, one who deserves less. With regard to commutative justice (in contracts, exchanges), Aristotle made an initial discussion on the value of goods, anticipating both the labor theory of value which we find it debated by economists of XVIII and XIX centuries and he, also, explain the value of things by the utility (like neoclassical economy). Exchange, for Aristotle, cannot exist without equality, and equality itself cannot exist without measurability. And Aristotle continues saying that in reality it is impossible for goods very different to be commensurable. This statement made Marx to declare that from this point, Aristotle did not anymore analyze the form of value. Why? Because Aristotle failed to discover the common measure, that element which is identical between the changed goods. Obviously, this common measure is nothing but work incorporated into goods. How Ancient Greece, those who worked were slaves (slavery being motivated as an indispensable guarantee of free men to be able to devote time to governance of the city) for Aristotle would have been impossible to find that common measure, the core value still remaining an enigma.

2. Scholasticism

Between of the fifth and the tenth centuries B.C., Europe experienced a severe economic crisis and moral, favoring the emergence of new economic and social structures. This period in which economic thinking, whether it knew the same crisis or information relating to this area have not been kept, was called by Joseph A. Schumpeter *great gap*.

A revival of economic thought and the economy occurs in the 13th century, one full of radical changes in the political, moral, economic and intellectual, marked, also, by the rediscovery of Aristotle's ideas. In these times, when the church occupies cultural space and it must express a view on economic and social issues long ignored, we find Thomas Aquinas who in his *Summa Theologica* (containing an important social doctrine but not an economic one) outlines the economic and social principles underpinning a virtuous life.

Thomistic doctrine relies heavily on Aristotle's ethics, but we now find that Aristotelian ethics is intertwined with religious doctrine (obviously condemnation of slavery and rehabilitation work, the belief that every human being there is a free soul).

St. Thomas of Aquinas supports the principle of free market and the existence of private property provided the moral factor to be always present. It also sees no harm in merchandise practiced to obtain commercial profit, but here he determines that the intention merchant to be a moral one, that the expected profit is not intended for enrichment unlimited but ensuring livelihood of the family or help the poor persons. The issue raised by St. Thomas Aquinas was actually that of a profit just and another problem related it is the fair price. Regarding the just price or fair, it was a price that's just gross ensure merchant or correct forward previously. Regarding labour, St. Thomas of Aquinas considers it a worthy activity (contrary to the philosophy of ancient Greece), which had established a fair wage just as necessary to assure worker a decent life. Reading the works of Thomas Aquinas, it is noted that economic issues are subordinated to moral therefore St. Thomas of Aquinas could not say how to fix a fair price, a fair profit or just a salary.

The work of St Thomas and the whole scholastic doctrine aimed not only analyze economic phenomena, they have tried to trace some religious standards by which to justify economic behavior. It is understandable, if we refer to the time we see a society of economic activity early in factors of production (labor, land and capital) were not subjects to market transactions and the behavior, the traditions and not least authorities played an important role.

Throughout antiquity and the Middle Ages, the economy has not had a proper object of study, it was not a reality that will take the whole society, yet we have seen that ideas about the economy were inserted into philosophical, ethical or religious works. Since the 14th century, we are witnessing an economic context with a new spirit, characterized by the development of commercial capitalism and the emergence of a class of merchants, bourgeoisie, protected by the royal power. This economic context is accompanied by a new intellectual context marked by Renaissance ideas and some opposed religious doctrine. Thus, natural law-abiding world can be known by all men on the basis of reason and experience and who was thy merchant can now accumulate wealth, considered a divine blessing.

3. Mercantilism

In this landscape appears and develops economic thinking that is no longer subject to religious doctrine, favoring the emergence practical the economic policies. This economic thinking is defined and known in the literature as the *mercantilism*. Since mercantilism, then continuing with the physiocrats, Adam Smith, David Ricardo, the economy as a scientist walks into a milestone that builds own paradigms through which the real economy is explained and understood.

Mercantilist' approach is practical as possible, because it is based on the idea that the state should increase its wealth based on its economic development force, enriching citizens. Mercantilists see wealth as the sole purpose of social and economic life.

Development of trade during this period required increase in money supply in circulation, not anyway, but with constant purchasing power in the long run. As a result, the first analyzes of mercantilist turn to monetary problems. With the discovery of the New World, the monetary fluctuations have made Europe to face an increasing of prices. In 1569 in an attempt to analyze the relationship between the volume of goods in the market and the volume of money that middle exchange, Jean Bodin, in "*La Response au paradoxe de monsieur de Malestroit, touchant l'encherissement de toutes choses, et le moyen d'y remedier*" gives rise to controversial discussions that build later (along the nineteenth and twentieth centuries), the quantity theory of money.

In 1556, 13 years before Jean Bodin, Martin de Azpilcueta, demonstrated that the main factor that determines changes in the price is the amount of money in circulation, what prompted Mark Blaug to affirm that the quantity theory of money is the old economic theory.

In “*Comentario resolutorio of cambio*” Martin Azpilcueta write “in lands where there is shortage of money, all other things are selling, even labor, there are given less money than when there is plenty of money; For instance, experience shows that in France, where less money than in Spain, bread, wine, linen and labor cost much less; and even in Spain, in the old days when there were less money, selling things and labor were given on much less than after the Indies were discovered and covered with gold and silver Spain. Their cause is that the currency is worth more when and where less than when and where it is abundant. “

Another thinker of mercantilist doctrine is William Stafford whose point of view we find exposed in “*Exposure critical requests of our compatriots*” (1581). Considering currency reform unnecessary since all goods are paid in goods, the author recommends that there should be bought from abroad more than it sells to foreign countries.

One of the most famous thinkers of this period is mercantilist Antoine de Montchrestien, author of “*Traité de l'économie politique*” (1615), who first used the term *political economy*. The author besides link the economic sphere of politics, he imposed distinction between normative and positive economy but also enshrines the name of science, as *political economy*.

In *Treatise on Political Economy*, the author considers the merchants most important category of society, being very useful to the state. Although he agreed with encouraging any trades, he sees commerce the goal of all trades, this being the only reliable means of enrichment. Internal Trade is seen as a zero sum game, losing a merchant equal to the gain of another, and across the national economy did not lose nor win. Notthe same he saw things in terms of foreign trade. Therefore it was against the luxury considering that “*luxury is for the state as a plague and a ruinous cancer; because of silk (import luxury goods), our gold flows into Turkey and Italy*”.

In France, mercantilism reached a great period during Jean Baptiste Colbert (1619-1683), a period that was called colbertism. Jean Baptiste Colbert was the finance minister of France between 1665-1683. In 1664, Jean Baptiste Colbert sent a letter to King Louis XIV in which he exposes his own ideas about economic reform to put upon France among the industrialized countries, a letter which it is now known in specialty literature as “*Memorandum on Trade, 1664*”

Colbert's measures proposed and implemented during his tenure as Finance Minister were aimed at creating a national industry and employment with state support:

- Improving the system of taxation;
- Waiving of customs tariff prohibitive;
- Promoting a moderate protectionism;
- Abolition of internal customs between provinces;
- Establishment of national companies in foreign trade;
- The establishment of manufactories based patent holding royal monopoly in a particular area;
- Free entry to France of craftsmen;
- Regulate production to prevent abuses and to impose French products on the international markets.

The French mercantilism without having too many theorists, it has the merit that was bent analysis of the fundamental problems facing the economy at that time.

Mercantilist doctrine obviously has never had any criticism at the time and no later. The gravest error of mercantilists is considered that of confusing money with capital, error that was the essence of Adam Smith critics on their thinking mercantilist, stating that “*mercantilism is nothing but a web of observations thrust on the neck of a parliament venal of our traders and industrialists, based on the popular adage that wealth consists of money*”.

In defense of mercantilist doctrine with rational arguments, came Gustav von Schmoller, the representative of the German historical school, in the work “*The Mercantile System and Its Historical Significance*”, realizing that the expected outcome of mercantilist, as reinforcement and extension of state power. This view was accepted by exegetes of mercantilist economic literature. Later another point of view that comes to defending mercantilist we find exposed in the “*General Theory*”, Book VI, Chapter 23, *Notes on mercantilism ...* In this chapter, Keynes had considered the initiators mercantilist idea that fear goods insufficient and shortage of money causes unemployment and striving them to attract as much gold in the country was by no means a “childish”, moreover, the author of the General Theory assigns mercantilist merit of being intuited a link between the amount of money and the interest rate. Aware that “weakness of stimulate investment has always been the key economic issues” J.M. Keynes is convinced that for the lack of investment, the best thing is to inflate the currency in a trade balance surplus. The surplus contributes to rising prices, inward flow of gold recorded smaller gains, favoring in this way investment and employment.

Towards the middle of the eighteenth century, mercantilist doctrine enters a phase of decline. Now, some representatives of this trend, which would be better to call precursors of classical liberalism evolves into another direction, meaning that they become aware of the analytical errors of their predecessors. They recognize that no economy can maintain a trade balance surplus in the long term and moreover trade can be mutually beneficial, sensing the importance of specialization and division of labor. In search of new paradigms, many writers recommended that government intervention should be minimized.

Among these writers it is distinguished doctor William Petty concerned with identifying sources of growth of national wealth. W. Petty's contribution to the development of economic thought is outstanding. The influence of two great philosophers and scientists of the time, Thomas Hobbes and Bacon determined W. Petty to base his analyzes on a specific quantitative accuracy, convinced that math and senses must be the basis of all rational sciences. Karl Marx considered him the founder of Political Economy, W. Petty is the first to explicitly supported using statistical methods to measure social phenomena.

The most important works written by W. Petty are: *Treaty on taxes and contributions* (1662); *Political Anatomy of Ireland* (1665); *Political Arithmetic* (1676), *Something about Money* (1682), *An Essay on Population Growth* (1686).

One of the great achievements of the eighteenth century is considered to be “*Political Arithmetic*”. In its preface, Petty mentions that he strove to avoid simple words and intellectual arguments and use arguments of sense, like, number, weight and measure, in order to be manipulated mathematically, arguments to which Petty has remained trusty in all its scientific efforts.

Among the merits attributed to W. Petty on development of economy as a science (some pioneering) we have to say that since then, Petty is declared for a system of national accounts.

With his intellectual rigor that runs through all his work, he reveals the importance of the velocity of money and their multiplier effect, he first formulated a theory of interest, clarify the distinction between value and price.

In the production, W. Petty only accepts two inputs: labor and land. The capital was considered an accumulated work.

The analysis started by Aristotle, on the value continues with William Petty considers that the land and labor mean wealth (*the land is the mother of wealth, but the labor is her father*).

The issue that has preoccupied throughout his life was to find a common denominator of land and labor so that the value of any work to be measured only by one of these two factors of production (labor and land). William Petty is the first economist who believes that a good value is given by the labor time spent on its implementation and captures both quantitative and qualitative implications of labor-value-price relationship.

Another prominent figure in the journey toward economic liberalism was undoubtedly Richard Cantillon. His main work "*Essay on the general nature of trade*" was written in 1743 but published posthumously in 1775. The work of Cantillon, although dealing with explaining concepts and fundamental economic problems, it was partially ignored until 1881 when it was rediscovered by W.S. Jevons describing it as the first systematic treatise on political economy and the cradle of the economy.

Being considered an Austrian, he is the most fascinating characters in the history of economic thought Murray Rothbard calls Cantillon the father of modern economics.

Critical on mercantilism which assimilated wealth to stock of precious metals, for Cantillon, wealth represents goods that the land offers and labor is the instrument that produces it. For him money is only an illusion of wealth. Countries which have the precious metal are not rich in its opinion. Rich countries may be that are developing their domestic production and on export can purchase the precious metals through a favorable trade balance.

Being himself a successful businessman, outlines in his writings and develops a theory of the entrepreneur.

The economy of Cantillon distinguishes three types of economic agents: owners who are the main consumers and the entire production (supply) meets their wishes (demand) and the other two are different only by the nature of the revenues which are unsafe and uncertain or fixed.

One who lives on an uncertain income is entrepreneur and one who lives with a fixed income it is the worker who receives salary. Cantillon's entrepreneur acting under risk and uncertainty because buying goods at a price known at present, but they are sold at unknown prices in the future. In pursuit of profit, the entrepreneur must take risks because he operates in a market where uncertainty is always pervasive. Therefore, successful entrepreneur will always get profit, the less successful will lead a life in poverty or even go bankrupt. The role of entrepreneur is one of the most important Cantillon's contributions to the development of economic thought.

Speaking about salary as an income of worker and about the profit, that income that it receives entrepreneur, Cantillon approached (intentionally or not) a distribution theory. As for price, very close to the Austrian school vision, Cantillon considered it is determined by demand and relative scarcity. Demand is seen as a subjective concept that is more about system needs of the people, the intensity and diversity, and along with rarity, determine the market price, that price paid by the buyer. Richard Cantillon, separates the concepts of market price and market value for the price and value.

Market price and the market value is the price and the market value arising from economic forces confrontation. Price and value are used to describe the opportunity cost of the resources used in producing the goods (labor and land).

4. Conclusions

The beginnings of economic thought can easily be placed in the mists of time because the economy was in any period, the foundation on which the society was developed. The issues the economic phenomenon concerned people long before father economy, Adam Smith, and this edifice of science, we admire or blame it today, did not start with him, but it culminated with him.

Although the economic thinking has occupied a secondary place in antiquity to other sciences, economic ideas were not missing, they concerning society for a regulatory framework and from this perspective, once with the advent of money and the development of trade and exchange, interest about economy exceeded descriptivist and pragmatic heading, already enrolling on the line of economic theory.

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