

5. **Philosophical approach:** This was first adopted by Greek philosopher, Plato. In the past economics was considered as a handmade of ethics. Naturally philosophical approach was adopted by the very early writers/thinkers to discuss economic ideas.
6. **Neo-Classical approach:** This approach aims at improving the classical ideas by modifying them. The Neo-classical approach was first adopted by Marshall. The Neo-classical approach believed that "Inductive and Deductive reasoning are necessary for the science of economics just as the right and left feet are necessary for walking".
7. **Welfare approach:** This approach mainly aims at providing the basis for adopting policies which are likely to maximize social welfare.
8. **Institutional approach:** The institutionalists questioned the validity of the classical ideas and gave more importance to psychological factors.
9. **Keynesian approach:** This is a major development in modern economics and is associated with the name J.M. Keynes. His approach is new and different from the classical school. It takes into consideration the operation of business cycles that affect the entire economic policies. Keynesian approach deals with the problem of the aggregate economy as a whole.

SIGNIFICANCE/IMPORTANCE OF HISTORY OF ECONOMIC THOUGHT

The Study of History of economic thought is important for the following reasons:

1. The study of history of economic thought clearly shows that there is a certain unity in economic thought and this unity connects us with ancient times.
2. The study helps us to avoid committing the same mistakes of the earlier economic thinkers.
3. The significance of history of economic thought is that it is an important tool of Knowledge.
4. The study will help students realize that economics is different from economists.
5. It helps students to know that economic ideas are conditioned by time, place and circumstances.
6. The study enables us to know the economic thinker responsible for the formulation of certain important economic principles and concepts.
7. The study of History of economic thought will help us to understand the origin of economics as a discipline.
8. The study will help students to know that economic ideas have been instrumental to the shaping of economic and political policies of different countries of the world.
9. A study of the History of economic thought will help to provide a broad basis for comparison of different economic ideas. It will enable a person to have a well-balanced and reasonable judgment.

HISTORICAL VIEW OF ECONOMIC THEORIES

Ancient Economic Thought

The study of the Ancient of Economic Thought may not appear to be fascinating to modern student but there can be little doubt that for a clear understanding of economic theories and institutions in a proper sequence,

such a study has more than mere historical value. It gives us an insight into the life, habit and customs of ancient communities and also provides a wider spectrum of the growth of modern economics. It shows the origin of economic thought and the factors responsible for its development. Ideas are passed from one generation to another with the necessary modification and adoptions. There for they have to be judged in their historical perspectives.

The study of ancient economic thought do not provide only the necessary bridge between ancient and modern but also between accidental and oriental economic thought. Its importance lies not only in providing a continuity of ideas but also in an understanding of the interaction of these ideas in their proper relationship. It is a very important link between the old and the new. Between East and west and between ethics and economics.

Economic Thought of Hebrews:

The beginning of the science of economics and economic institutions are often traced back to the Hebrew and the Jewish time. The society discussed in the Old Testament mentioned some of the characteristics of modern capitalism and private property. The Hebrews belong to the ancient civilizations of the world. Their period dates back to 2500 B.C. It is believed by some scholars that western civilization has its origin in Hebrew civilization.

Division of labour, Market, Exchange, Money etc. were the institutions of those times. The philosophers of those time were real founders of all social theories even though their writings were in a scattered form.

The economic philosophy of the Hebrews was simple. The society in which they lived was also a simple one. Economic problems were never studied separately. Economics, Politics, Ethics and philosophy were interconnected. But the religion and Ethics were given greater importance. Economic life was controlled by priests. They gave importance to agriculture. The Hebrews had definite ideas on subjects such as interest, agriculture, property taxation etc.

ECONOMIC IDEAS OF THE HEBREWS:

Interest – The Mosaic Law prohibited interest taking or usury (High rate of interest) However the Hebrew prophets did not use the term interest. The law applied only to the Hebrews. Lending of money at interest to strangers was allowed. The Hebrews were told or directed not to collect interest on money from the poor because they borrow money mainly for the purpose consumption. The rule was modified in the time of King Solomon when charging of interest at low rates was justified. Security for loans was in the form or nature of pledge with well-defined rules for it. Thus the ideas of the Hebrews on interest were similar to those expressed by the ancient Hindu thinkers.

Just Price – Both Hebrews and Hindus exercised great care in formulating laws against false weights and measures and adulteration of articles of consumption. These were strictly prohibited. Raising price for speculative means was disapproved. There were also ceiling on the profits of the retail shopkeepers which could not exceed the limit of $\frac{1}{3}$ percent. The export of food grains was prohibited and in times of scarcity and famine, hoarding of food grains was not permitted. Thus the concept of just price included correct weight, competitive price and reasonable rate of profit.

Labour and wages - The Hebrews recognized labour but the pride of place was given to agricultural labour. There was no wage issues as we have now. Then wages of workers were common to the knowledge of all. They did not lay down any rules for regulating the relationship between the employer and the employee. The chief regulations were concerning mercy and justice to them. Payments were made in kind .

Agriculture - The Hebrews gave greater preference to agriculture. At that time the purpose of lawgivers was to fix the people in agricultural life which was a settled one. There was the tendency to disregard trade and the mercantile community. They were encouraged to be great farmers and owners of farm lands.

Money – The Hebrews seemed to have understood the functions of money. Money was used mainly in the form of bullion. There was no question of stamped money.

Seventh and jubilee year - There was a peculiar institution of seventh and jubilee year in the history of the Hebrews. It was their culture to work for six years and in the seventh year they rest after cultivating the land for six years so as to preserve the fertility of the soil. At this time slaves serving for six years are freed in the seventh year. In this year all debts should be cancelled or forgiven. The jubilee year was another peculiar institution of the Hebrews.

It was the fiftieth year. According to this provision the land bought from someone would be returned to its original owner in the 50th year. In those days of the Hebrews land was a very good source or main source of wealth. They tried to prevent the acquisition of small lands from their owners by the owners of large lands. By this the Hebrews tried to or desired to prevent inequality in wealth.

Sabbath - The Sabbath was the corner stone of Hebrews economic thought. It was their weekly day of rest, relaxation, and good living. It was enjoyed by the masters and their households with their slaves and servants. According to Spiegel, "the institution of the weekend was a social invention that has no parallel in the civilization of Greek, Rome or other ancient culture.

Property – The Hebrews in those days used land as their main form of property. They measured wealth in lands, slaves, talents, silvers and other precious metals. The owner of a land is the owner of all that is above it and below it including all natural resources. According to the law of inheritance Hebrews the land goes to the first son. In the absence of a son it goes to the first daughter, In her absent to any other relations of the land owner like brother, sister or close relation.

Trade – In those days only surplus was sold in the market. The Hebrews wives were craft – women who used spin wool and flax. Commerce flourished in the reign of King Solomon. He made successful voyage to distant lands including India.

Taxes – Taxes did not exist in the Hebrew economy. Labor services were utilized for the construction of bridges, roads, and other public utility services. Customs and toll tax were also collected.

The toll tax was known as a tribute realized from every male for the maintenance of temples. The Hebrew laws helped the dependents, fatherless, and widows. The corner portion of the field and vineyards were available for the poor.

In conclusion the whole economic life of the Hebrews was very simple. Their life was dominated by the priestly class. Religion, law, ethics, philosophy and economic ideas were bound together. Their education system was very much influenced by religion and ethics. Though their economic ideas were simple and scattered they had a greater power to influence the minds of people.

Greek Economic Thought

The Greek were the first to develop an economic theory, but it appeared in the form of incidental observations, thrown off in the pursuit of a more worthy end. "It was in the Greek writers that theorizing on economic matters first explicitly emerges" according to Alexander Gray.

Though the Greek being the pioneers in many branches of Knowledge, they did not contribute much to the growth of economic ideas. There was no demonstration between politics, economic and ethics.

The ancient world was founded on a system of cast distinctions. The masters did not give due respect to odd jobs done by slaves. In the absence of freedom of choosing one's occupation there was hardly any incentive for economic activities.

According to Prof. Haney the contribution of Greek ideas in the development of modern economic thought demands no small attention.

We give credit to Plato for giving some attention to the economic aspects of social organization. Plato was the first of a long line of reformers and his student Aristotle was the first analytical economist.

PLATO (427 – 347 BC)

Plato was a Greek philosopher who was born in Athens in an aristocratic family. He was a pupil of Socrates. He taught mathematics and philosophy in the first great school of philosophers.

The academy founded by him. His famous writing, "the Republic and The Laws" are the most important sources of his economic thought. Credit goes to Plato for giving some attention to the economic aspects of social organizations.

Plato attempted to offer a systematic exposition of the principles of society and of the origin of the city state, as well as a plan for the ideal social structure". He regarded economics a branch of ethics and politics.

The Origin of the State:

Plato traced the origin of the state to economic considerations. Plato said "a state arises out of the needs of mankind. No one is self-sufficient. All of us have many wants". The state in order to supply the necessary commodities to satisfy human wants gathered together.

The partners and the helpers of this gathering is called the state. In Plato's ideal state there were two classes, the rulers and the ruled.

The rulers were the Kings and the Warriors while the ruled were the artisans and the unskilled workers. The members of the ruling class must be set apart from early childhood and they should be educated in philosophy and arts of war because they will have to protect the state against foreign attack.

At age thirty they will have to pass an examination. This examination selects the future philosopher King and those who cannot pass are concerned with general administrative duties.

Plato distinguished five types of government. They are;

1. Aristocracy - Rule by the best.
2. Timocracy - Rule by the Soldiers

3. Oligarchy - Rule by a Few
4. The rule by the Wealthy
5. Democracy

Economic ideas of Plato in Greek:

Division of Labour: Plato's main contribution was his account of division of labour. By this he means the division of employment as an aid to social organization. He based the origin of the state on division of labour. Plato believed that the essential needs of mankind are food, clothing and shelter.

Therefore to Plato a city state must include a builder, a weaver, a farmer and a shoe maker or a representative of some other similar occupation.

To Plato every individual should do the job suitable for him. This enabled the production of products or commodities in large quantities. The division of labour into various trades was thus recognized as a necessary condition to economic welfare even though division of each trade into various tasks was not conceived by Plato.

Plato did not consider the necessity of a wider market for the application of the principle.

Thus Plato's idea of division of labour is different from that of Adam Smith in the following ways;

1. Adam Smith's Division of Labour is determined by the market, but Plato's division of labour determines the market.
2. To Adams Smith the advantages of division of labour go to only the employers, but to Plato it is beneficial to the entire society.
3. The cost of division of labour according to Plato is the difference in skill and talent. But according to Adams Smith division of labour leads to differences in skill and talent.

Size of the Population: Plato analyzed the size of the population in his state on the basis of the best results of division of labour. He provided a careful regulation of the population to maintain stability in the economy. The right number of population suggested by Plato for a state was 5040.

Only such a number provided opportunity for everyone to be familiar with all the other persons and help the economy to achieve self-sufficiency. It also helps to reap maximum productive efficiency.

If the number showed a decreasing tendency, the state should offer prizes to encourage the growth of population. But if the number exceeds 5040 new colonies must be established.

Money: Plato recognized the value of money as medium of exchange. He did not favour the idea of allowing gold and silver to be common to men. Instead Plato suggested the use of domestic coins for payment of wages and other transactions. Plato wanted the state to have a common Hellenic currency for the use of travellers, ambassadors, visitors etc.

Interest: Plato prohibited interest taking for loans in the ancient Greek. But later on he permitted interest taking as a penalty for delayed payment.

Value: Plato considered value as an inherent quality of the commodity. To him a man should not attempt to raise his price, but simply ask the value of the commodity.

Agriculture: Plato and the Greek's like the Hebrews considered agriculture as the most desirable occupation.

ARISTOTELIAN ECONOMIC VIEW

Aristotle (384-322 B.C.), The Greek philosopher who really laid the foundation of economics as a science. The most important thinker, who has ever lived, advanced a body of thought with respect to the development of the components of a market economy. He was the student of Plato. He analyzed the economic processes surrounding him and endeavored to delineate the place of economy within a society that included commercial buying and selling. He was the first analytical economist.

Aristotle provides his philosophical analysis of human ends and means. He explains that means or instruments of production as valuable because their end products are useful to people. The more useful or desirable a good is, the higher the value of the means of production is. Aristotle then goes on to derive a number of economic ideas from axiomatic concepts including the necessity of human action, the pursuit of ends by ordering and allocating scarce means, and the reality of human inequality and diversity.

Aristotle explains that actions are necessarily and fundamentally singular. For Aristotle, the individual human action of using wealth is what constitutes the economic dimension. The purpose of economic action is to use things that are necessary for life (i.e. survival) and for the Good Life (i.e. flourishing). The Good Life is the moral life of virtue through which human beings attain happiness.

Aristotle taught that economics is concerned with both the household and the *polis* and that economics deals with the use of things required for the good life (virtuous). As a pragmatic or practical science, economics is aimed at the good and is fundamentally moral. Because Aristotle saw that economics was embedded in politics, an argument can be made that the study of political economy began with him.

For Aristotle, the primary meaning of economics is the action of using things required for the Good Life. In addition, he also sees economics as a practical science and as a capacity that fosters habits that expedite the action.

Economics is a type of prudence or practical knowledge that aids a person in properly obtaining and using those things that are necessary for living.

Given that human actions are voluntary and intentional, it follows that action requires the prior internal mental acts of deliberation and choice. Human beings seek to fulfill their perfection via action.

Observing that human nature has capacities pertaining to its dual material and spiritual character, Aristotle explains that economics is an expression of that dual character. The economic sphere is the intersection between the corporal and mental aspects of the human person.

SAINT THOMAS AQUINAS:

St. Thomas Aquinas, a medieval theologian and philosopher, is an important figure in the history of economic thought. Aquinas understands the economic ideas that economists rely on today, such as the law of supply and demand, subjective value theory, and the theory of time preference.

However, St. Thomas Aquinas had misunderstandings in his economic understanding as well, such as in his philosophy of the society and of global trade. Aquinas applies his economic understanding to determine justice in economic matters such as pricing and usury. While economists study economics as a value free science, Thomas Aquinas readily enters into a value-laden form of practical economics.

The just price is a theory of ethics in economics that attempts to set standards of fairness in transactions. With intellectual roots in ancient Greek philosophy, it was advanced by Thomas Aquinas based on an argument against usury, which in his time referred to the making of any rate of interest on loans.

Usury; is concerned with money lending and interest. He emphasized that usury is good if it increases the production of goods which are used to satisfy human needs.

MEDIEVAL ECONOMIC THOUGHT (1500 – 1750AD)

Mercantilism

Mercantilism or Commercialism: It is defined as a system, a policy or an initiative or strategy or an economic theory and practice, dominant in Europe from the 16th to the 18th century that promoted governmental regulation of a nation's economy for the purpose of augmenting or enhancing state power at the expense of rival national powers (other nations or countries). The enhancement was to be achieved through a number of policies and strategies that formed the frame work of the system that included government protection for native industries and commerce (protectionism), favourable balance of trade with emphasis on more exports than imports and the stockpiling of precious metals (i.e. Bullionism) among other policies and strategies. It is the economic counterpart of political absolutism.

Among the researchers and writers of mercantilism was Adam Smith who according to a number of scholars coined the word mercantilism in his book, "The Wealth of Nations". Other scholars also wrote on mercantilism and explained bullionism as generally a policy aimed at regulating gold and silver movements in and out of a state. This scholars include Thomas Mann, Cantillon David Hume among others

It is an economic system which developed during the decay of the feudal system (Feudalism) to unify and increase the power and especially the monetary wealth of a nation by a strict governmental regulation of the entire national economy usually through policies designed to secure an accumulation of bullion, a favourable balance of trade, the development of agriculture and manufactures, and the establishment of foreign trading monopolies.