Many modern economic concepts can be found in ancient Greek thought as the philosophers wrestled with fundamental economic issues. Although Greece did not have a highly developed economic system, problems of scarcity prompted the search for efficient methods, and discussions of ethics included notions of economic justice. Like all who write about economic concepts, the Greeks did so from the perspective of their time. Their understanding of economics is perhaps simplistic by today’s standards, but it fit the institutional arrangements of the day.

The question facing historians of economic thought is, “To what extent did the ideas of Greek philosophers influence the development of modern economic thought?” Most agree that fragments of economic ideas are contained within Greek philosophy, but there is wide disagreement about whether this can be treated as a systemized body of thought. Some argue that economics was too tightly interwoven with other considerations (including religious and moral convictions) to be of intellectual value to our modern understanding. Others contend that the focus was strictly normative and of limited analytical value. Some conclude that the writing is too obtuse to discern clearly whether the content was economics or something else. Still others argue that modern economics is well rooted in Greek philosophy.¹ Even if well-developed economic theories emerged from ancient philosophy, it is not clear to what degree they have affected economists of the past 500 years. This chapter does not attempt to establish a clear lineage of ideas; rather, it points out a few modern economic concepts that have antecedents in Greek philosophy.

OVERVIEW OF GREEK PHILOSOPHY

Historical Setting

During the period in which Greek thought emerged (roughly 850–322 B.C.), Athens was the preeminent European country in terms of both intellectual and economic activity. Economic growth fueled by the expansion of foreign trade required that academics of the time engage the emerging economic questions even as they intertwined with political and ethical considerations. In the latter part of the fifth century B.C., war began to undermine the preeminence of Athens in

Europe and among the Greek city-states. With Athens eventually falling to Sparta and then Macedonia, Greek philosophers intensified their contemplation of the proper functions of the state. Economics constituted an important dimension of this inquiry, but it was subsumed under the ethical and political considerations of the Greek philosophers.²

**Major Tenets of the Greek Philosophers**

We must be cautious in identifying major tenets of the Greek philosophers. Although some ideas were held in common, there were also points of contention. It is also important to remember that the Greeks did not create a systematic body of economic thought. Economic concepts shared by the Greek philosophers include the following:

1. *Sufficiency.* Most Greeks devoted their efforts to discovering “the good life,” which was spent in contemplation and in the enjoyment of friends. Economic activity was a means to satisfy basic needs so one could spend time on higher pursuits, and often economic activity was carried on by the lower classes. Accumulation beyond necessity or simple comforts was disdained for two main reasons: (1) the focus on acquisition (“wealth-getting”) distracted from more important activities, and (2) it was often seen as coming at the expense of a neighbor.

2. *Dislike of trade and usury.* While recognizing the need for exchange to provide for their needs, the Greeks disdained trade as a profession or for gain. Usury (lending at interest) was the worst form of trade because it involved taking money from another with no real goods or production involved. Use of money in this way ran contrary to its intended purpose of facilitating exchange to satisfy basic needs.

3. *Poverty.* Beyond the provision of the most basic needs, wealth and poverty were seen as relative concepts. One could have an abundance of material possessions but still be poor if wants exceeded the means to satisfy them. Those with few possessions would not be seen as poor if their wants were modest and they were content with satisfaction of their basic needs.

4. *Wealth measured in real terms.* For something to constitute wealth, it had to be both real (nonmonetary) and useful. Money was a medium of exchange to facilitate transactions but did not satisfy any needs, so at best it represented what people could acquire. Note that wealth did not have to be something that could be exchanged in the market. Friends, for example, are viewed as wealth because they are useful at providing companionship and comfort in time of need. Conversely, a tradable commodity such as an agricultural tool would not be considered wealth to a person who possessed it but did not know how to use or sell it.

5. *Division of labor and trade.* Motivated much more out of necessity than for accumulation, the Greeks recognized that specialization was a more efficient method of production than total self-reliance. The surplus from specialization made possible the “just” form of trade—trade necessary to meet needs.

6. **Limited foreign trade.** As a means to acquire goods to satisfy needs and provide modest comforts, foreign trade was accepted. Exports should be limited to that surplus of goods not needed in the country. Imports for useful purposes should be allowed as well, but not, for example, to provide luxury goods. There was also concern that the mere exposure to foreign merchants might corrupt the morals of the people and distract them from their higher pursuits.

**Whom Did the Greeks Benefit or Seek to Benefit?**

In their pursuit of ethics and the good life, the Greek philosophers sought to benefit everyone. They supported specialization and the pursuit of efficiency as means to maintaining living standards or raising them to a more comfortable level. Their de-emphasis on acquiring material wealth helped lessen the tension over scarce resources. At the same time, however, their support of the class system and disdain for accumulation helped perpetuate a system of slavery.

**How Was Greek Thought Valid, Useful, or Correct in Its Time?**

Although Athenians were affluent compared to most other nations at the time, many of them lived at or near the subsistence level. To emphasize efficiency and downplay accumulation made sense given the level of economic development and activity. Greek thought rationalized the class system in such a way that it was both economically and politically manageable at the time.

One could even say that it was valid at the time to downplay economic thought, or at least to subsume it under other issues. Despite the many references to the subject, the actual level of economic activity was modest by any modern standard. Also, in a structured class system, little economic behavior requires explanation. People had well-defined roles, and they either performed their proscribed functions or suffered the consequences.

**Which Tenets of Greek Thought Became Lasting Contributions?**

We can identify ideas in Greek thought that are important today, but establishing the connections between the Greeks and economists of the last 500 years is more difficult. It is reasonable to imagine, for example, that economist and moral philosopher Adam Smith read Plato and Aristotle, but it is unclear whether Greek thought influenced his own. Although we recognize these ideas as lasting contributions because they are still around, the importance of the Greeks to making them lasting contributions is an unresolved question.

The Greeks anticipated many modern economic concepts and issues, including specialization, wealth, poverty, property rights, foreign trade, and communism. Although they held negative views on trade, they understood something of how buyers and sellers behave and the importance of institutions such as money.
Their attacks on usury have been echoed throughout the centuries, and although it has taken on a slightly different meaning, modern laws that stipulate maximum interest rates reflect some of their ideas.

**HESIOD**

Hesiod lived, farmed, and composed Homeric poetry sometime around 830–750 B.C. In what is regarded as his oldest poem, *Works and Days*, we see some of the first recorded economic ideas of the Greeks. Much of *Works and Days* chronicles the acts of Zeus and other gods in their relations with humans. It is these god-human interactions that have created problems such as scarcity. As Hesiod writes, “For the gods keep hidden from men the means of life. Else you would easily do work enough in a day to supply you for a full year even without working.”

Hesiod also acknowledges the existence of competition and, like Adam Smith more than 2,000 years later, views it as productive. Hesiod explains it in terms of “Strifes,” children of lesser gods. One Strife promotes evil and war, but the other is far kinder to men. She stirs up even the shiftless to toil; for a man grows eager to work when he considers his neighbor, a rich man who hastens to plough and plant and put his house in good order; and neighbor vies with his neighbor as he hurries after wealth. This Strife is wholesome for men.

Hesiod is saying that there are two basic struggles among humans. One is destructive (war) and the other is productive (economic competition).

Hesiod criticized idleness. Work is the path to attaining wealth, and poverty is a condition of which to be ashamed.

Both gods and men are angry with a man who lives idle, for in nature he is like the stingless drones who waste the labour of the bees, eating without working; but let it be your care to order your work properly, that in the right season your barns may be full of victual. Through work men grow rich in flocks and substance, and working they are much better loved by the immortals. Work is no disgrace: it is idleness which is a disgrace. But if you work, the idle will soon envy you as you grow rich, for fame and renown attend on wealth. And whatever be your lot, work is best for you, if you turn your misguided mind away from other men’s property to your work and attend to your livelihood as I bid you. An evil shame is the needy man’s companion, shame which both greatly harms and prospers men: shame is with poverty, but confidence with wealth.

Hesiod was the first Greek to be recognized for articulating economic ideas, preceding the likes of Xenophon, Plato, and Aristotle by roughly 300 years. Interestingly, today Hesiod might be considered the most modern of the Greeks in

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terms of his views on work and his recognition of the important role of competition. Many Greeks during the period viewed work as “a curse from the gods” and therefore sought to avoid it if possible.

**XENOPHON**

Xenophon (430–354 B.C.) is often credited with writing the first formal work in economics. In fact, *oeconomicus*, which literally translated means “management of the household,” is the word from which we derive “economics.” In *Oeconomicus*, Xenophon speaks through a discourse between Socrates and Kritoboulos. The focus is at the microeconomic level and is as much about the financial management of a household (the concept of a household is explored in great detail) as it is about more physical management, which might be characterized as “home economics.” The text deals primarily with practical ways to improve farm efficiency, but a number of fundamental economic concepts also emerge, including wealth, poverty, and specialization.

Xenophon begins with a discussion of *oeconomicus* as a profession, examining whether one must possess wealth in order to successfully manage someone else’s wealth. A central part of this discourse is the attempt to define what constitutes a “household.” Note that Xenophon’s use of this term is more synonymous with wealth—what a household possesses—than it is with the modern economic definition of a household as a collection of people residing at the same address.

(4) “Is it possible, then,” said Socrates, “for one who knows this art [of household management], even though he happens to have no wealth himself, to manage another’s household, just as a builder can build another’s house, and earn pay for it?”

“By Zeus, and he would earn a lot of pay,” said Kritoboulos, “if on taking over, he were able to do what’s necessary and, in producing a surplus, increase the household.”

(5) “But what in our opinion is a household? Is it just the house, or is whatever one possesses outside the house [a business, for example?] also part of the household?”

“To me, at any rate,” said Kritoboulos, “it seems that whatever someone possesses is part of his household, even if it isn’t in the same city as the possessor.”

(6) “Don’t some men possess enemies?”

“Yes, by Zeus; and some, at least, have a great many.”

“Shall we say the enemies are also their possessions?”

“But it would be ridiculous,” said Kritoboulos, “if the one who increases enemies should in addition earn pay for it.”

(7) “Because, of course, it was our opinion that a man’s household is whatever he possesses.”

“Yes, by Zeus,” said Kritoboulos, “at least if what he possesses is good; for whatever is bad, by Zeus, I do not call a possession.”

“You, then, appear to call possessions whatever is beneficial to each.”

“Very much so,” he said, “and whatever is harmful I hold to be loss rather than wealth.”
(8) “If, therefore, someone buys a horse he doesn’t know how to use and hurts himself in a fall, the horse isn’t wealth for him?”
   “No, at least if wealth is good.”
   “Then not even the earth is wealth for the human being who works it in such a way as to suffer loss in working it.”
   “No, the earth isn’t wealth either, if it brings hardship instead of nourishment.”

For Xenophon, a thing is wealth to a person knowing how to use it to his or her own benefit, but it is not to the person who doesn’t know how to use it. He then establishes that something can be wealth for a person even if the person doesn’t know how to use it, so long as he or she knows how to sell it. This, however, is not guaranteed if the seller does not know how to use the proceeds of the sale. Here Xenophon begins to reveal his views on money.

“You appear to be saying, Socrates, that not even money is wealth if one doesn’t know how to use it.”

(13) “And you seem to me to agree that whatever can benefit someone is wealth. Well, what if someone were to use his money to buy a prostitute, and through her he became worse in body, worse in soul, and worse in regard to his household—in what way would the money still be beneficial to him?”

“In no way, unless, of course, we are going to say that the so-called pig bean, which brings madness to all who eat of it, is wealth.”

(14) “Then unless one knows how to use money, let him thrust it so far away, Kritoboulos, that it isn’t even wealth. As for friends, if one knows how to use them so as to be benefited by them, what shall we assert they are?”

“Wealth, by Zeus,” said Kritoboulos, “and worth much more than oxen, if indeed they are more beneficial than oxen.”

There are a couple of key points in these passages. First, Xenophon saw wealth as potentially taking many forms and not being limited to the material (friends, for example). What constitutes wealth is a recurring question in the history of economic thought and one that is explored extensively in Chapters 2 through 5. Second, Xenophon argues that money is only wealth in the sense that it represents what can be acquired with it, and only then if something beneficial is obtained. The functions and role of money is another theme that will be revisited frequently in subsequent chapters.

Xenophon also explores the topic of poverty. As Xenophon continues the discussion between Socrates and Kritoboulos, it becomes apparent that Kritoboulos possesses much greater material wealth than Socrates. Despite this, Socrates tells his friend that he (Kritoboulos) is poorer, primarily because his material wants relative to his wealth are much greater than those of Socrates. Contained in this discussion is the concept that poverty is not simply a matter of possessions but of possessions relative to wants.10

8 A poisonous plant known more commonly as henbane.
Accepting Socrates’ claim that he is the richer man, Kritoboulos asks Socrates to help in management of his household. Socrates refuses on the grounds that he lacks the experience and knowledge to do so successfully.

(14) To this Kritoboulos said: “At any rate you’re trying eagerly, Socrates, to avoid being of any benefit to me in carrying on more easily my necessary affairs.” “No, by Zeus,” said Socrates, “not at all; on the contrary, I shall very eagerly explain to you whatever I know. (15) But I suppose if you had come for fire and I had none, you wouldn’t blame me if I led you to some other place where you could get it; and if you asked me for water and I, having none myself, took you to some place and took you to it, I know you wouldn’t blame me for that either; and if you wished to learn music from me, and I pointed out to you some who were much cleverer in music than I and would be grateful if you were willing to learn from them, how, again, could you blame me for doing this?”

(16) “I couldn’t justly blame you, Socrates.”

“Then I’ll point out to you, Kritoboulos, certain others who are much cleverer than I in those things you persist in wanting to learn from me. I admit I have been diligent in finding those in the city who are the most knowledgeable in each kind of thing. (17) For on learning that among those who are in the same line of work some were very poor and others very rich, I wondered greatly, and it seemed worthwhile to investigate why this should be. On investigating it, I found that these things happen quite properly. (18) I saw those who act at random suffering loss, and I noticed that those who are diligent and apply their minds do things more quickly, more easily, and more profitably. From these, I suppose, you too could learn, if you wanted to and the god did not oppose you, how to become an extremely clever money-maker.”

Two fundamental, related strands of economic thought can be gleaned from this passage. First is the notion of comparative advantage, the idea that people (and nations) should produce and sell that which they’re best at producing relative to others. Socrates recognizes his own inability to manage a household, so he encourages Kritoboulos to find someone with expertise in the area. Through this, Xenophon identifies the second and related idea of specialization, or division of labor, where people focus on their area of expertise to achieve the best result.

An even more direct expression of division of labor comes in Xenophon’s later work, Cryopaedia. Used as an analogy to explain why food served in the king’s palace is of the highest quality, he writes,

For just as all other arts are developed to superior excellence in large cities, in that same way the food at the king’s palace is also elaborately prepared with superior excellence. For in small towns the same workman makes chairs and doors and plows and tables, and often this same artisan builds houses, and even so he is thankful if he can only find employment enough to support him. And it is, of course, impossible for a man of many trades to be proficient in all of them. In large cities, on the other hand, inasmuch as many people have demands to make upon each branch of industry, one trade alone, and very often even less than a whole trade, is enough to support a man:

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11 Xenophon, Oeconomicus, 11–12.
12 Comparative advantage is developed in detail in Chapter 7.
one man, for instance, makes shoes for men, and another for women; and there are
places even where one man earns a living by only stitching shoes, another by cutting
them out, another by sewing the uppers together, while there is another who performs
none of these operations but only assembles the parts. It follows, therefore, as a matter
of course, that he who devotes himself to a very highly specialized line of work is
bound to do it in the best possible manner.  

Notice that Xenophon not only recognizes the benefit of specialization but also
that it is enabled by what modern economists call “extension of the market.”

Finally, in *Oeconomicus*, Xenophon neatly summarizes his basic understanding
of economics.

“It seemed to us that household management is the name of some kind of knowledge,
and the knowledge itself looked to be that by which human beings are enabled to
increase households; a household then looked to us to be the totality of possessions,
a possession we asserted to be whatever would be beneficial for the life of each, and
beneficial things were found to be all things that one knows how to use.”

**DEMOCRITUS**

Democritus (460?–370? B.C.) was a contemporary of Socrates and Xenophon. Although his emphasis was on the political structure of society, fragments of his
work suggest some understanding of economics.

Democritus saw poverty and wealth as relative concepts. “Poverty, wealth: these
are names for need and sufficiency. Someone in need is not wealthy; someone with-
out need is not poor.” Like Xenophon, Democritus advocated an ethic of suffi-
ciency and satisfaction over accumulation.

You must set your judgement on the possible and be satisfied with what you have,
giving little thought to things that are envied and admired, and not dwelling on them
in your mind; and you must observe the lives of those who are badly off, considering
what they suffer, so that what you have and what belongs to you may seem great and
enviable, and, by no longer desiring more, you may not suffer in your soul. For one
who admires those who possess much and are deemed blessed by other men and who
dwells on them every hour in his memory is compelled always to plan something new
and, because of his desire, to set himself to so some pernicious deed that the laws
forbid. That is why you must not seek certain things and must be content with others,
comparing your own life with that of those who do worse and deeming yourself fortu-
nate, when you reflect on what they undergo, in faring and living so much better than
they do. For if you hold fast to this judgement you will live in greater contentment and
will drive away those not inconsiderable plagues of life, jealousy and envy and ill-will.

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15 Democritus, as quoted in Michael Gagarin and Paul Woodruff, eds. and trans., *Early Greek Political Thought from Homer to the Sophists* (Cambridge: Cambridge University Press, 1995), 158.
Many of the Greek philosophers promoted the simple life. While this is clearly a normative position, the argument that the simple life is a happier life has an element of positive economics as well. Democritus makes the case that the desire or efforts to accumulate beyond sufficiency has adverse effects on both the individual and society. For a given amount of wealth, the individual content with satisfaction will achieve a higher level of utility than the one envying his or her neighbor. Also implied is that the “pernicious deeds” of those driven to emulate the wealthy will reduce total social welfare.

**PLATO**

Among the Greek philosophers, Plato and Aristotle wrote most extensively on economic matters. Plato (427–347 B.C.) had a keen interest in social and political reform. Discouraged by the corruption and abuse he saw in the Athenian political system, he turned to the world of ideas and education as a vehicle for change. In 388 B.C. Plato opened the Academy, a school of philosophy that he would lead until his death in 347 B.C. In both his teaching and his writing, Plato employed the Socratic method: Characters, one often being Socrates, engaged in a dialogue, and through a series of questions and answers Plato would reveal his ideas of right conduct and the ideal social state.\(^ {17}\) Though his main objective was to address the Socratic question of how to live the best life, in Plato’s writing we see recognition, if not understanding, of fundamental economic concepts.

**The Republic**

In *The Republic* we find Plato’s most explicit and complete expression of economic thought. The Socratic dialogue focuses on the components of the ideal state, of which economic activity is an organizing principle.

‘Society originates then,’ said I, ‘so far as I can see, because the individual is not self-sufficient, but has many needs which he can’t supply himself. Or can you suggest any other origin for it?’

‘No, I can’t,’ he said.

‘And when we have got hold of enough people to satisfy our many varied needs, we have assembled quite a large number of partners and helpers together to live in one place; and we give the resultant settlement the name of a community or state?’

‘Yes, I agree.’

‘And in the community all mutual exchanges are made on the assumption that the parties to them stand to gain?’

‘Certainly.’\(^ {18}\)

Plato continues by identifying the basic needs of an economy (food, shelter, and so forth) and by suggesting that to maximize both quantity and quality production

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of these goods should be based on specialization. To keep the argument simple, he assumes a minimal state of four or five men.

‘Then should each of these men contribute the product of his labour for common use? For instance, should the farmer provide enough food for all four of them, and devote enough time and labour to food production to provide for the needs of all four? Or, alternatively, should he disregard the others, and devote a quarter of his time to producing a quarter the amount of food, and the other three quarters one to building himself a house, one to making clothes, and another to making shoes? Should he, in other words, avoid the trouble of sharing with others and devote himself to providing for his own needs only?’

To which Adeimantus replied, ‘The first alternative is perhaps the simpler.’

‘Nor need that surprise us,’ I rejoined. ‘For as you were speaking, it occurred to me that, in the first place, no two of us are born exactly alike. We have different natural aptitudes, which fit us for different jobs.’

‘We have indeed.’

‘So do we do better to exercise one skill or to try to practise several?’

‘To stick to one,’ he said. . . .

‘Quantity and quality are therefore more easily produced when a man specializes appropriately on a single job for which he is naturally fitted, and neglects all others.’

Plato also recognized the importance of international trade to an economy, and the need for surplus output to provide goods for export.

‘What is more, it is almost impossible to found a state in a place where it will not need imports.’

‘Quite impossible.’

‘So we shall need another class in our community to fetch for it what it needs from abroad.’

‘Yes.’

‘And if our agent goes empty-handed, and takes with him nothing of which those from whom he is to get what we want are in need, he will return empty-handed, will he not?’

‘So I should think.’

‘So we must produce at home not only enough for our own needs but also enough goods of the right kind for the foreigners who supply us.’

By now in the discussion, Plato has acknowledged that the state will require many people. Production and trade are the organizing principles, but he recognizes that institutions are also needed to facilitate both domestic and international exchange and, at least implicitly, to organize resource allocation.

‘Then within our state, how are its citizens to exchange the products of their labour? For such mutual exchange was the reason for its foundation.’

‘Obviously they will buy and sell.’

‘And that will require a market, and a currency as the medium of exchange.’

‘Certainly.’

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‘And if a farmer or any other producer brings his goods to market at a time when no one who wants to exchange with him is there, will he sit about in the market and neglect his own job?’

‘Certainly not,’ he replied. ‘There is a class who see here a chance of doing a service. It consists, in a well-run community, of those who are least fit physically, and unsuitable for other work. For their job ties them to the market place, where they buy goods from those who want to sell and sell goods to those who want to buy.’

‘And so this requirement produces a class of retailers in our state. For that is what we call those who serve the public by buying and selling in the home market, as opposed to merchants who travel abroad.’

‘Agreed.’

‘There is another class whose services we need—those who have no great powers of mind to contribute, but whose physical strength makes them suitable for manual labour. They market their strength and call the return they get for it wages, and in consequence are usually called wage-earners.’

The society described by Plato thus far is relatively simple, with basic needs met and only a few small luxuries. He then goes on to describe a society of greater affluence, arguing that it must, by necessity, be much larger both geographically and in population. For Plato, the need to expand territory gives rise to war, and war (or the threat of it) necessitates a professional class of soldiers, the “guardians.” These guardians must possess the ability to protect the state and the morality not to abuse their power by exploiting their fellow citizens. Furthermore, resources are needed to support the guardians because their profession is only to provide security for the rest. One of the points that Plato comes to in this discussion is the normative economic position that society is better off if it is content with satisfaction of basic needs rather than accumulation of wealth and luxurious living.

**Laws**

In *Laws*, Plato sets out to describe the ideal society and the set of rules that should govern it. The approach is primarily normative, but fragments of trade and utility theories are contained in the dialogue.

For Plato, “The first and highest form of the state and of the government and of the law is that in which there prevails most widely the ancient saying, that ‘Friends have all things in common.’” He was advocating communism, where “the private and individual is altogether banished from life, and things which are by nature private, . . . have become common.” His support for communism was based in part on the belief that “the community which has neither poverty nor riches will always have the noblest principles; in it there is no insolence or injustice, nor, again, are there any contentions or envying.”

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Recognizing, however, that his idealized community was not practical, Plato proceeds to describe his “second best state.” It is this vision, tempered by reality, to which Plato would devote his attention. The laws that he advocates cover many facets of life, but here we focus our study on the ones most relevant to economic analysis.

As in *The Republic*, Plato recognizes the importance of foreign trade. He advocates a limited form of free trade, preferring only imports of necessity and exports of surplus.

Let no one pay any duty either on the importation or exportation of goods; and as to frankincense and similar perfumes, used in the service of the Gods, which come from abroad, and purple and other dyes which are not produced in the country, or the materials of any art which have to be imported, and which are not necessary—no one should import them; nor, again, should any one export anything which is wanted in the country.\(^{26}\)

There are modern arguments about why trade should or should not be restricted,\(^{27}\) but Plato’s real concern appears to have been protecting the morality of the people of Athens. The following passage reveals Plato’s fear of foreign trade as a corrupting influence.

Then there is some hope [from being somewhat inland] that your citizens may be virtuous: had you been on the sea, and well provided with harbours, and an importing rather than a producing country, some mighty saviour would have been needed, and lawgivers more than mortal, if you were ever to have a chance of preserving your state from degeneracy and discordance of manners. But there is comfort in the eighty staid; although the sea is too near, especially if, as you say, the harbours are so good. Still we may be content. The sea is pleasant enough as a daily companion, but has indeed also a bitter and brackish quality; filling the streets with merchants and shopkeepers, and begetting in the souls of men uncertain and unfaithful ways—making the state unfriendly and unfaithful both to her own citizens, and also to other nations. There is a consolation, therefore, in the country producing all things at home; and yet, owing to the ruggedness of the soil, not providing anything in great abundance. Had there been abundance, there might have been a great export trade, and a great return of gold and silver; which, as we may safely affirm, has the most fatal results on a State whose aim is the attainment of just and noble sentiments.\(^{28}\)

One of the fundamental assumptions economists make is that rational individuals attempt to maximize their own utility. Early expressions of this can be found in Plato.

We desire to have pleasure, but we neither desire nor choose pain; and the neutral state we are ready to take in exchange, not for pleasure but for pain; and we also wish for less pain and greater pleasure, but less pleasure and greater pain we do not wish for; and an equal balance of either we cannot venture to assert that we desire. . . . And


\(^{27}\) These begin in Chapter 2 with the study of the mercantilists.

\(^{28}\) Plato, *Laws*, 79.
when, as I said before, there is a balance of pleasure and pain in life, this is to be regarded by us as the balanced life; while other lives are preferred by us because they exceed in what we like, or are rejected by us because they exceed in what we dislike.”

Plato was concerned with many facets of life, and economics was an important dimension to his thinking. Although Plato touches on many economic concepts, some better articulated than others, it would be difficult to conclude that Plato produced a well-developed and coherent body of economic thought.

ARISTOTLE

Aristotle’s father was court physician to Amyntas II, King of Macedonia, and he passed along his interest and knowledge of medicine to Aristotle (384–322 B.C.). In 368 B.C. Aristotle went to Athens, where he became Plato’s most famous student, studying at the Academy for twenty years until Plato’s death in 347 B.C. For the next thirteen years Aristotle traveled in Asia Minor, lecturing and gathering biological samples before returning to Macedonia to tutor King Philip’s son, a young Alexander the Great. In 335 B.C. Aristotle returned to Athens and opened his own school, the Lyceum. Aristotle’s relationship with Philip and Alexander would come back to haunt him. Following Alexander’s death in 323 B.C., the Athenians, who had been conquered by the Macedonians, forced Aristotle to leave for Chalcis, where he died the next year.

One of the central questions of early economic thought was the source of value. Aristotle appears to be the first to formally anticipate the distinction between “value in use” and “value in exchange” in his discussion of wealth-getting.

[With] every article of property there is a double way of using it; both uses are related to the article itself, but not related to it in the same manner—one is peculiar to the thing and the other is not peculiar to it. Take for example, a shoe—there is its wear as a shoe and there is its use as an article of exchange; for both are ways of using a shoe, inasmuch as even he that barters a shoe for money or food with the customer that wants a shoe uses it as a shoe, though not for the use proper to a shoe, since shoes have not come into existence for the purpose of barter.

For Aristotle, wealth-getting for use was natural, but it was unnatural for exchange. That is not to say that all exchange is unnatural; only exchange carried out for the purpose of acquiring wealth was deemed so. As Aristotle points out, trade is born out of using the surplus in one type of good to satisfy an unmet need for another.

And the same also holds good about the other articles of property; for all of them have a use in exchange related to them, which began in the first instance from the natural order of things, because men had more than enough of some things and less than

enough of others. This consideration also shows that the art of trade is not by nature a part of the art of wealth-getting; for the practice of barter was necessary only so far as to satisfy men’s own needs.\textsuperscript{32}

For trade to work on a larger scale, Aristotle recognized the need for money. He identified its properties as a medium of exchange, a standard of value (or unit of account), and a store of value. In rough terms, Aristotle also seemed aware that its value should remain stable.

For a community is not formed by two physicians, but by a physician and a farmer, and, in general, by people who are different and unequal. But they must be equalized; and hence everything that enters into an exchange must somehow be comparable.

It is for this purpose that money has been introduced: it becomes, as it were, a middle term. For it measures all things, (not only their equality but) also the amount by which they exceed or fall short (of one another). Thus it tells us how many shoes are equal to a house or to a given quantity of food. . . .

Now it is money which gives us a guarantee of future exchange. If we need nothing at the moment, it guarantees that exchange will take place when the need arises. . . . [T]he price of all goods should be fixed, for in that way there will always be exchange, and if there is exchange there is a community. Thus, money acts like a measure: it makes goods commensurable and equalizes them. For just as there is no community without exchange, there is no exchange without commensurability.\textsuperscript{33}

Aristotle saw the creation of money, though necessary, as stimulating the desire to acquire and accumulate it.

For when they had come to supply themselves more from abroad by importing things in which they were deficient and exporting those of which they had a surplus, the employment of money necessarily came to be devised. For the natural necessaries are not in every case readily portable; hence for the purpose of barter men made a mutual compact to give and accept some substance of such a sort as being itself a useful commodity was easy to handle in use for general life, iron for instance, silver and other metals, at the first stage defined merely by size and weight, but finally also by impressing on it a stamp in order that this might relieve them of having to measure it; for the stamp was put on as a token amount. So when currency had been now invented as an outcome of the necessary interchange of goods, there came into existence the other form of wealth-getting, trade, which at first no doubt went on in a simple form, but later became more highly organized as experience discovered the sources and methods of exchange that would cause most profit.\textsuperscript{34}

As with many of the Greek philosophers, trade for gain was disliked, as was usury. Both were seen by Aristotle to be unnatural because one person gained at another’s expense. Usury, in particular, distorts the intended and proper uses of money—as a medium of exchange and a measure of value.

\textsuperscript{32} Aristotle, \textit{Politics}, 41.
\textsuperscript{34} Aristotle, \textit{Politics}, 43.
[Us]ury is most reasonably hated, because its gain comes from money itself and not from that for the sake of which money was invented. For money was brought into existence for the purpose of exchange, but interest increases the amount of money itself \ldots \textsuperscript{35} consequently this form of the business of getting wealth is of all forms the most contrary to nature.\textsuperscript{35}

Despite disliking trade for gain, Aristotle understood the strategies of those in the profession. In his story of Thales of Miletus, Aristotle makes a rudimentary venture into theories of competition and monopoly and public finance.

Thales, so the story goes, because of his poverty was taunted with the uselessness of philosophy; but from his knowledge of astronomy he had observed while it was still winter that there was going to be a large crop of olives, so he raised a small sum of money and paid round deposits for the whole of the olive-presses in Miletus and Chios, which he hired at a low rent as nobody was running him up; and when the season arrived, there was a sudden demand for a number of presses at the same time, and by letting them out on what terms he liked he realized a large sum of money, so proving that it is easy for philosophers to be rich if they choose, but this is not what they care about. Thales then is reported to have thus displayed his wisdom, but as a matter of fact this device of taking an opportunity to secure a monopoly is a universal principle of business; hence even some states have recourse to this plan as a method of raising revenue when short of funds: they introduce a monopoly of marketable goods.\textsuperscript{36}

Aristotle’s discussion of trade also addressed the issue of whether money should be treated as wealth. It anticipates the debate over what constitutes wealth that is developed in the chapters on mercantilism, the physiocrats, and classical economics.

Indeed wealth is often assumed to consist of a quantity of money, because money is the thing with which business and trade are employed. But at other times, on the contrary, it is thought that money is nonsense, and entirely a convention but by nature nothing, because when those who use it have changed the currency it is worth nothing, and because it is of no use for any of the necessary needs of life and a man well supplied with money may often be destitute of the bare necessities of subsistence, yet it is absurd that wealth should be of such a kind that a man may be well supplied with it and yet die of hunger, like the famous Midas in the story, when owing to the insatiable covetousness of his prayer all the viands served up to him turned into gold. Hence people seek for a different definition of riches and the art of getting wealth, and rightly; for natural wealth-getting and natural riches are different: natural wealth-getting belongs to household management, whereas the other kind belongs to trade, producing wealth not indiscriminately but by the method of exchanging goods.\textsuperscript{37}

Although Aristotle identified the concept of exchange value, he had difficulty explaining what determines the exchange value of one good relative to another. How does one compare the work of the farmer to that of the baker? Aristotle recognizes

\textsuperscript{35} Aristotle, \textit{Politics}, 51.
\textsuperscript{36} Aristotle, \textit{Politics}, 55–57.
\textsuperscript{37} Aristotle, \textit{Politics}, 43–45.
that money is the common measure used for such comparisons, but what he sought were the underlying reasons one bushel of wheat might fetch the same amount of money as five loaves of bread.\(^{38}\)

In *The Republic*, Plato advocated a form of communism (common property, shared possessions). Aristotle disagreed with his former teacher, although he did recognize the need for some common property.

There are three possible systems of property: either all the citizens must own everything in common, or they must own nothing in common, or some things must be common property and others not. To have nothing in common is clearly impossible; for the state is essentially a form of community, and it must at any rate have a common locality: a single city occupies a single site, and the single city belongs to its citizens in common.\(^{39}\)

Despite the need for some common property, Aristotle explains why it may be less efficient than private property.

Property that is common to the greatest number of owners receives the least attention; men care most for their private possessions, and for what they own in common less, or only so far as it falls to their own individual share; for in addition to the other reasons, they think less of it on the ground that someone else is thinking about it, just as in household service a larger number of domestics sometimes give worse attendance than a smaller number.\(^{40}\)

Furthermore, sharing of output when the workload has been unequal is problematic for Aristotle.

"If the citizens do the work for themselves, the regulations for the common ownership of property would give more causes for discontent; for if both in the enjoyment of the produce and in the work of production they prove not equal but unequal, complaints are bound to arise between those who enjoy or take much but work little and those who take less but work more. And in general to live together and share all our human affairs is difficult, and especially to share such things as these.\(^{41}\)"

Like many of the Greek philosophers, Aristotle’s ideas bear a striking resemblance to modern positive and normative economic thought. Whether that is more a product of intellectual lineage or a coincidence is far less certain.

**Questions for Study and Discussion**

2. List the major economic tenets of Greek thought. Which of these are also tenets of modern thought?

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\(^{38}\) For a more detailed discussion, see Meikle, *Aristotle’s Economic Thought*, 9–27.

\(^{39}\) Aristotle, *Politics*, 69.

\(^{40}\) Aristotle, *Politics*, 77.

3. On what major tenets did the Greek philosophers agree? On which did they disagree? Which of the Greek philosophers’ ideas most closely match modern thought?

4. What was Xenophon’s concept of wealth? If Xenophon’s view diverges from the modern concept, how do they differ and how might the differences matter in economic terms?

5. For Xenophon and Democritus, what determines whether someone is wealthy or impoverished? From this perspective, what might they say about the fundamental economic problem of scarcity?

6. According to Xenophon, what central economic concept explains why the food served in the king’s palace is of the highest quality?

7. According to Plato, what is the economic reasoning behind the formation of society?

8. What was Plato’s view of the role of markets and money?

9. According to Plato, what restrictions, if any, should be placed on foreign trade? What were Plato’s main concerns regarding foreign trade?

10. What did Aristotle mean when he said that “with every article of property there is a double way of using it”? How did he feel about the two uses?

11. What is usury? Why did Aristotle oppose it?

12. What were Aristotle’s views on property? on sharing of output? Are his arguments consistent with modern theory? Explain.

Selected Readings


