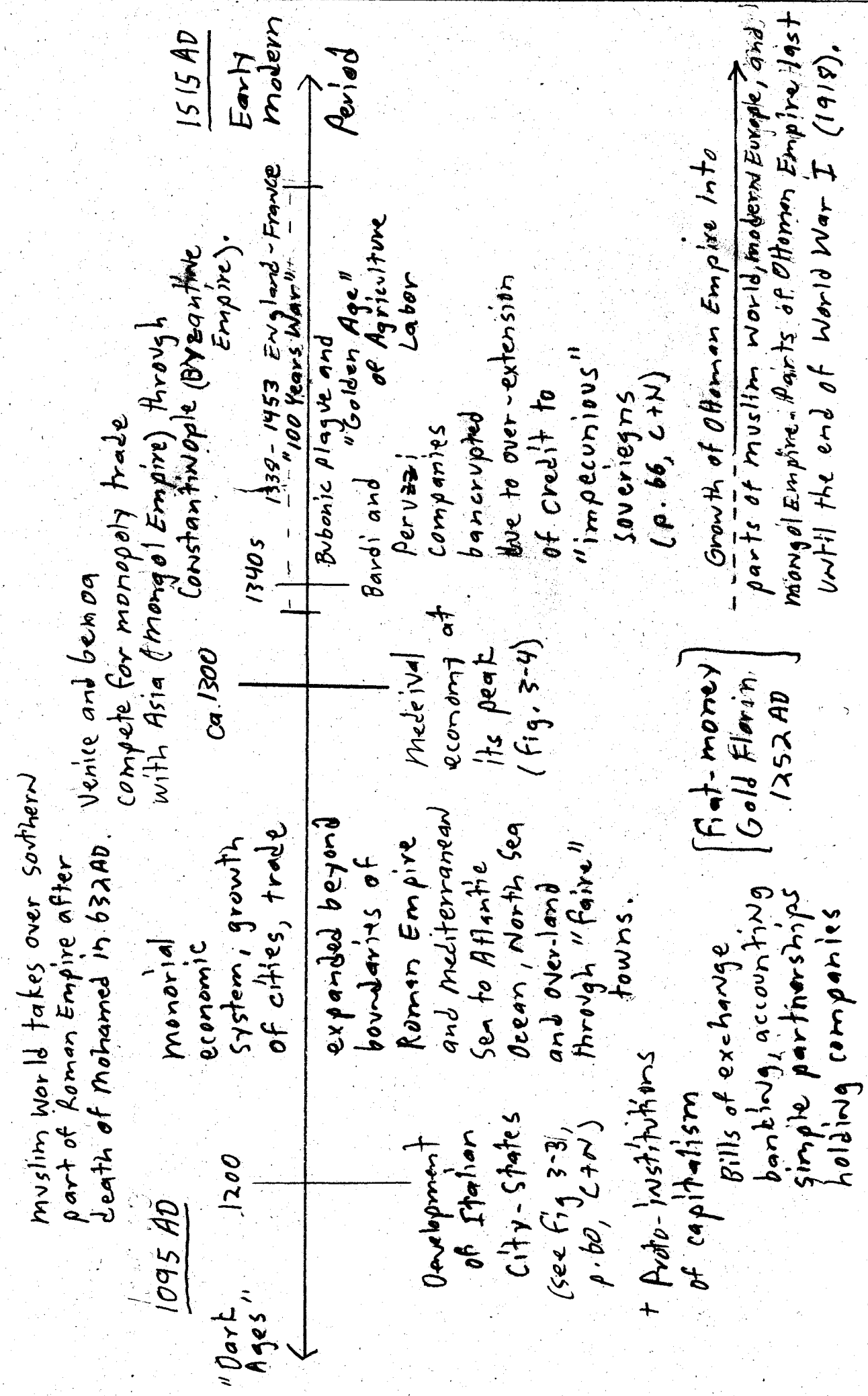


Lecture Notes for Economic History

Timeline for Chapters 3 + 4, Medieval Europe and "Non-Western" Economies

1095 - 1515 A.O. Period of "Religious Dominance"



A note on the 'Social Contract'.

The Oxford Dictionary of Philosophy defines the social contract as, "A basis for legitimate legal and political power in the idea of a contract."

This idea became formalized most pronouncedly by Hobbes, Locke and Rousseau writing in the early-modern Enlightenment period when man began to question the divine right of kings to rule over them. This of course became most manifest in "the rule of law" having more legitimacy than "the rule of man" in the modern period. The social contract theory can be seen as a part of social and political philosophy.

St. Thomas Aquinas ca. 1260 wrote of what he termed the "theory of Just Price," which has become a part of the canon of philosophy of economics; this in a simplified manner, might also be seen as social contract theory, before the development of the nation-state and constitutional government, or, "what do we owe to each other" in society as it is or as it has developed to date.

Social Contract (cont.), "Just Price" (cont.).

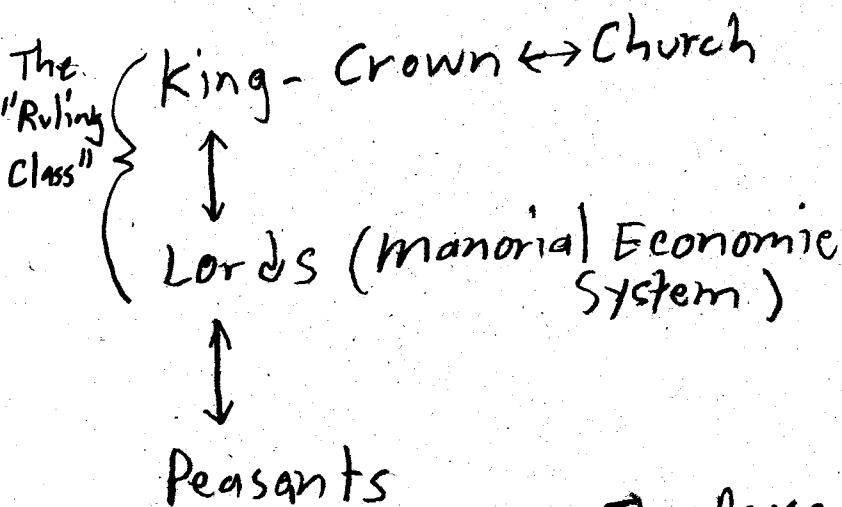
Aquinas wrote of the following concepts in his "Theory of Just Price".

- first and foremost we should live by the Golden Rule (do unto others as you would have them do unto you).
- you should not sell something you do not own.
- usury was seen as wrong as it was gaining a profit without actually creating anything.
- the charging of interest was seen as uncharitable.
- increasing the price of something when the demand increased was seen as wrong.
- profits (gains through) trade were seen as necessary (if not necessarily good) because trade tended to increase the public good.
- It was not until Eugen Böhm-Bawerk ca. 1890 that interest was seen in economics as to have a moral base, where interest was a means by which people could trade "time-preferences" with each other. This was Böhm-Bawerk's response to Marx' critique of interest.

Social Contract Theory (cont.)

We learn when studying the role of the rule of law in industrialization that laws can develop through evolution and custom (such as the development of the bills of exchange in the medieval economy) or through state dictate, for example "common law" versus "commercial code".

One form of social contract which developed during the medieval period is the theory of kingship, describing what the different classes in society owed to each other.



The king gained his power from the church, in return supported the church financially.

The Lords were granted their land by the king, in return offered military service, and, later, taxes.

The Peasants were born into and were "attached" to the manor and the Lords had to ensure their health and safety, including protection from undue hardship by the king. The Lords of the manor also built schools and churches in the villages surrounding the manor. In return the peasants worked the land owned by the Lords.

Social Contract (cont.)

Some interesting developments in the history of the social contract; from "Divine Law" to "Rule of Man", to "Rule of Law."


- John Calvin's "A short treatise on political power" (1556), stated:
 - The monarchs claim to rule by grace of God was a "cheat" so they could reign "without control."
 - Kings and Princes were bound to people by covenant to depose themselves when they acted as despots, and the duty of magistrates was to curb tyranny;
 - It was legal to depose an evil governor and to kill a tyrant. A tyrant was someone who removed "armor and harness" from the people.Calvin's ideas were used directly by John Locke (ca. 1690), and Thomas Jefferson and John Adams (ca. 1776).
- Beza (1574), "On the Right of magistrates over their subjects and duty of subjects towards their ruler", coined the term Just Revolution as meant people were enforcing the contract.
- Tractarians (Pamphleteers) wrote of the right of the Dutch to rebel against the Holy Roman Empire in 1580.
- The English Glorious Revolution of 1689 was a revolt of Parliament (magistrates) and some Aristocracy (Landed class) against the monarch, and separated the finances of the state from that of the crown.

Social Contract, interesting historical developments (cont.).

- Jean-Jacques Rousseau, "The Social Contract" (1762), wrote that government was only legitimate if sanctioned by the people and reflects the "general will".

$$\sum_{h=1}^N X_h + [] = \text{Society}$$

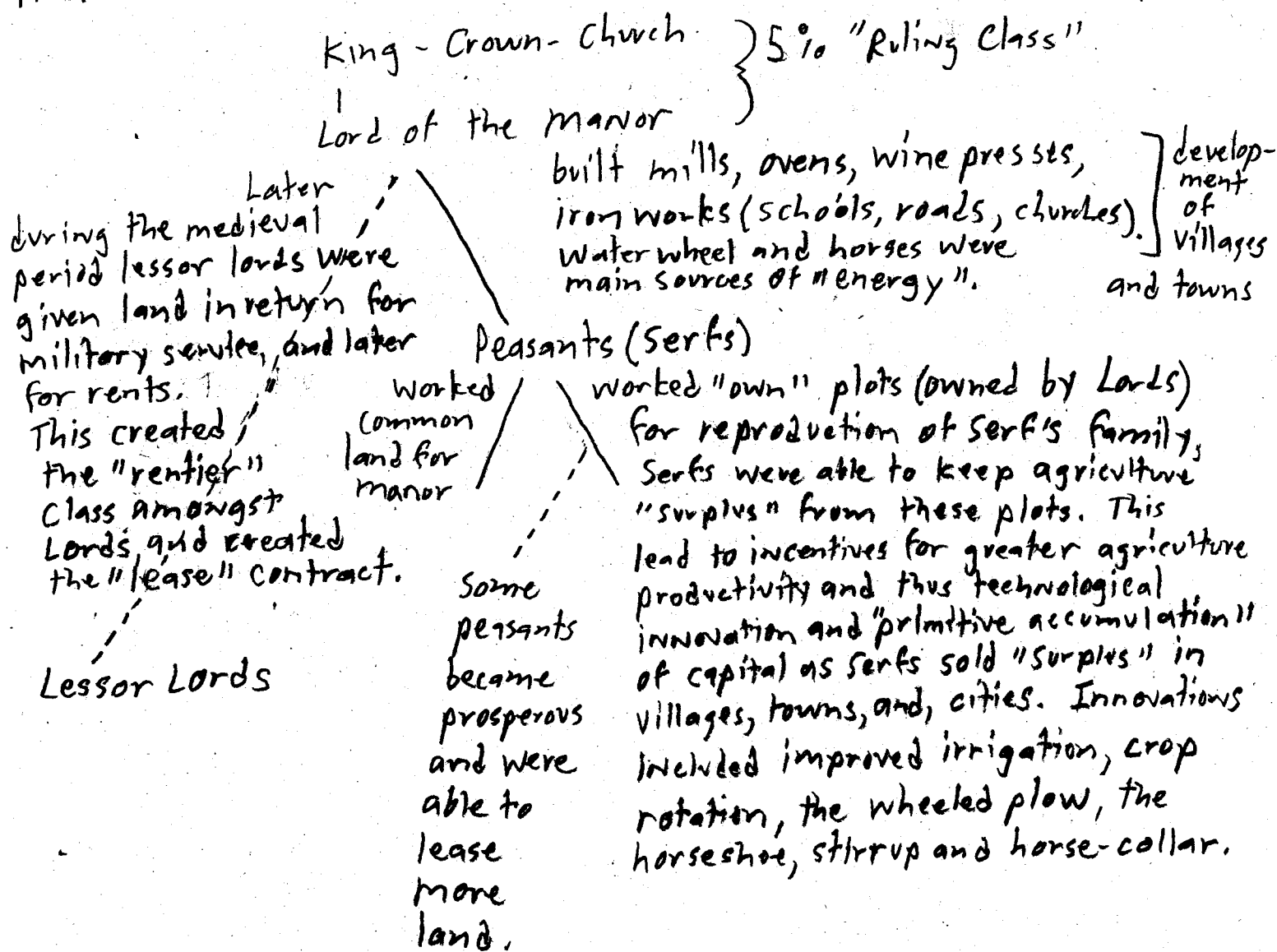
general will general good



the role of government is to equate the General will and General Good. This can be seen as analogous to "Keynesian Economics" where an active role for government in macroeconomic management is necessary because the actions of individuals in society (the general will) does not create enough "demand" to create "full employment" (the general good).

- The American Revolution of 1776, like the English Glorious Revolution of 1689, was seen as the theory in action, with the 13 states acting as magistrates.
- The French Revolution of 1789 is seen by some as a direct outcome of Rousseau's "social contract".

Manorial Economic System - Medieval Economy



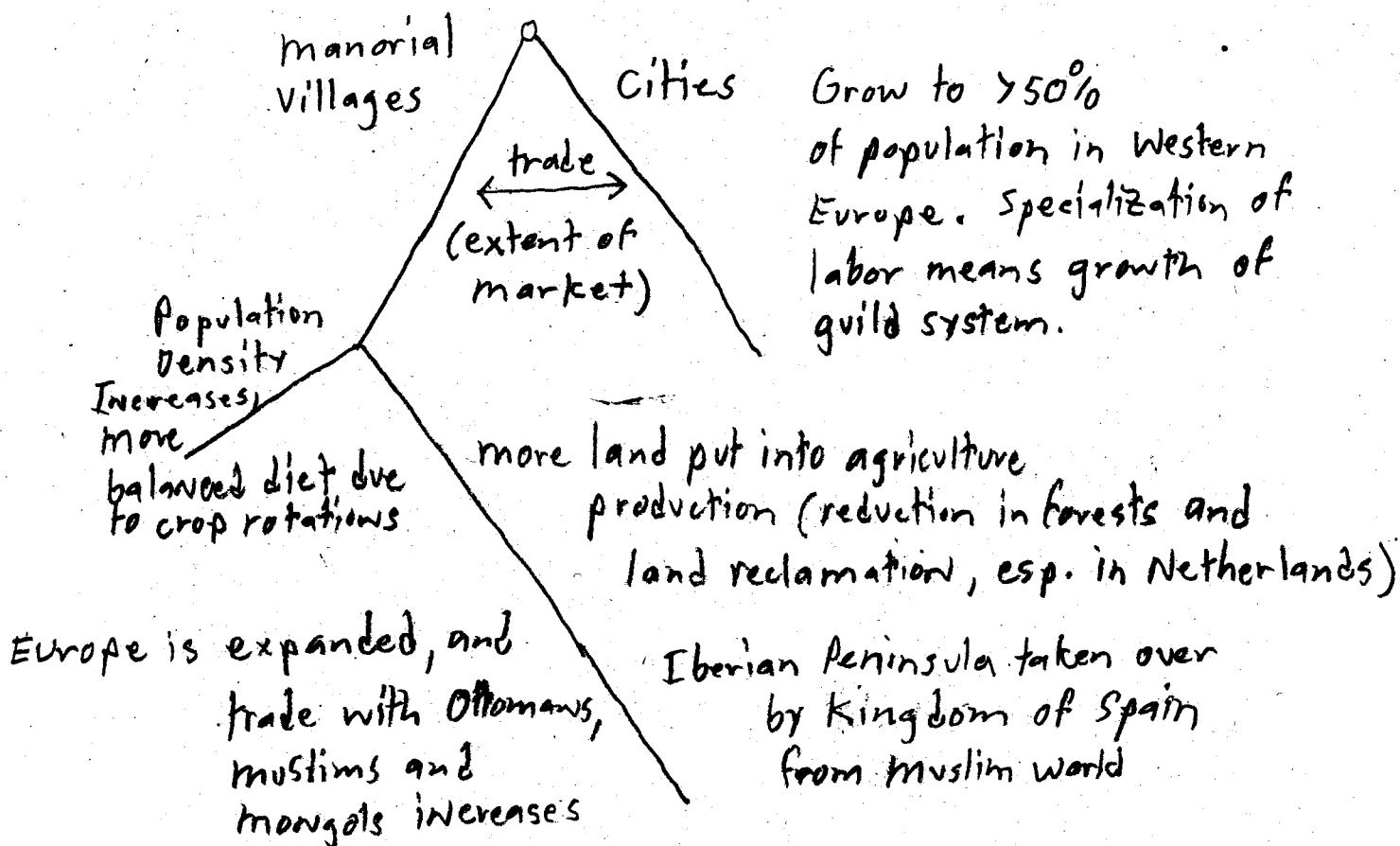
The development of the "rentier" class, the "primitive accumulation" of capital and economic growth created by improved agricultural productivity and trade with growing cities (prosperous serfs and "rentiers" moved to cities), leading to growth of the extent of the market and increased specialization of labor, and finally to the "withering away of the institution of serfdom in some areas of Western Europe" (Cameron and Oreal, p. 49).

Medieval Economy.

In Marxian terms a change in technology, ΔT , the development of more productive agriculture techniques, lead to a change in the social relations of production, ΔS , eg. $\Delta T \rightarrow \Delta S$, due to "withering away" of feudalism. Primitive accumulation of capital due to the market exchange of surplus agriculture and creation of the rentier class lead to the growth of cities and the next stage of human development, capitalism. The ex-serfs now had Marx' "double freedoms", the freedom to live where they'd like and to work for whom they'd like, and, the freedom to starve if they did not work.

This economic (population) growth is called the first "logistic" by Cameron and Neal, or, "The growth of Europe" and "Western expansion", and represents the development of Europe in the Middle Ages.

Medieval Economy (cont.)



Regional specializations

muslims Cotton, Sugar Cane, Citrus, rice, silk (Silk road)

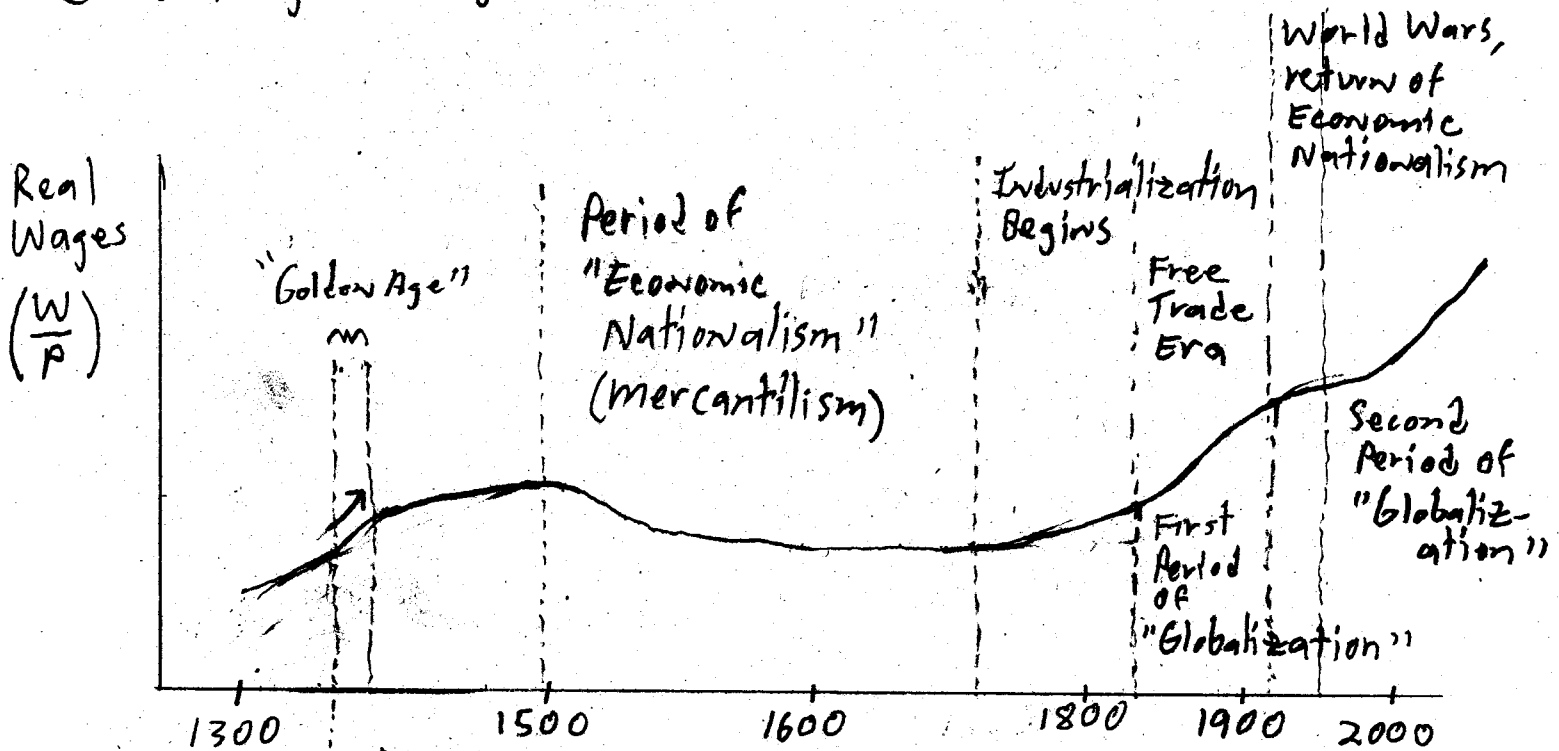
Textiles N. France, S. England, Belgium, Italy, Spain

Iron Working (Charcoal-based) N. England, Germany (Ruhr Valley)

Cities (Guilds) Dyers, shearers, weavers, merchants, textile spinners

Productivity ($\frac{Y}{L}$) increases 300% during middle ages due to agriculture productivity, water mill, spinning wheel and pedal loom

Golden Age of Agricultural Worker



Bubonic Plague 1347-1351
 Population decrease means move backward towards "reproduction" economy and thus relative importance of agriculture increases with corresponding increase in agriculture wages relative to price level in rest of the economy

Growth of guild power in cities means that prices of goods rise as economy recovers to surplus economy and average real wage of agriculture workers increases less quickly relative to rest of the economy.

Over-turning of British Corn Laws in 1846 lead to Free Trade Era in Western Community until the "Bubble of 1873"

A note on Roman Law as rediscovered during the Renaissance.

From Giambattista Vico (1725), rule of law on property rights under the Roman Emperors were based on the following hierarchy of rights:

- 1) bonitary rights natural ownership and perpetual possession, or, the right to self possession. note this may be analogous to "Natural rights".
- 2) quiritary rights rights given to "plebes" by "nobles".
- 3) optimal rights free of public or private encumbrance. might be seen as right to contract.
- 4) civil rights eminent domain. Note that this concept of "civil rights" is different than in useage today.

Note that these rights are "top-down" rights, where rights are defined by the state through law.

This can be juxtaposed with the rights developed in the English-speaking world where rights were "bottom-up" and mostly developed through common practice. North and Thomas (1973) argue that this is why the "Western World" became economically dominant.