

History of Economic Theory
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Lecture No. # 10
The beginnings of modernity

We were talking about, rural Europe and the transformations that happened in rural Europe, and lead it to the status, in which it was or found itself in the dark ages. This practice of having farm labor bound to the estates; as we saw originates, during the trouble times of the Roman empire. But it becomes routed, and becomes the predominant socio-economical and political system of rural Europe for a long long time, for more than 2000 years. The system which eventually lead to and which found itself, manifesting itself in different forms across Europe, is a system called feudalism. Can somebody tell me something about feudalism? Krishna?

Student: Sir (())

Right

Student: And (())

Right

Student: (())

Right.

Student: (())

Right

What feudalism did was that, it created a political order, a political hierarchy through which rural society was organized. We already seen that it was a pyramidal structure; we already seen also, it was a some, it was a system based on the principle of fief. Does

somebody remember fief? Fiefdom? I remember writing something on the black board about this sometime. So what is fiefdom? Hari?

Student: Discussing higherarchy and

Hierarchy in the sense but, fief is a dual reciprocal obligation between members of people at two levels of hierarchy of feudal society. If you recall it, we found that the at the top echelons of society, you had the fief relationship between the local lord and the king emperor and the local lord himself had his vassals with whom he had a fief relationship. By in large, part of the fief relationship was security; part of it was economic. If you recall once again, you will remember that military obligation was an important part of fiefdom. You had to serve your lord not just through your own arms, but by providing certain number of armed men, equipment, and resources to support any venture which your lord might be interested in taking up. So one is military service, armed service; the other is economic, you pay a certain fee honoring the superior rights of your lord over you.

Now this fee varied across Europe and across times; a times it was quite exiting actually and the times, it was almost a token. Like a fist full of grain no more, but what was important was the reciprocal obligations; if you need protection the lord gives you the protection, but in ordered that the lord might give you protection, you serve the lord militarily. We have seen, how across the world is feudal system from Japan into Europe had different forms, it was not the same. Part of this whole fabric of society as we have seen again earlier, is a ideology of feudalism, the core of honor which bound different members of the hierarchy to each other. And finally, we have also seen how the whole structure was religiously reinforced and supported by the active involvement of the church.

The church itself was among the largest land holders in Europe. So, was actively participating in the feudal economy and feudal society. We have seen all these things. What is important is that; this combination of things lead Europe into a great stagnation, the dark ages was a period of also economic stagnation redoubled as batten rasal says, with the stagnation of a society which rests entirely in the faith; no enquiry, no speculation. The crusades have a huge impact on the feudal society. For one thing, the status of the rural political leadership the aristocrats, is to be constantly displayed

through conspicuous consumption. For another, now they have to make their contribution to the crusades in kind and in man power. So the crusades turn out to be a huge burden on rural Europe each time the crusade moves out, is a huge burden on rural Europe.

What is basically happening is that, the strain of always falls on the rural land lord first and the rural land lord as it is want, borrows to meet the expenses and so becomes in dated. One of the big reasons for the antisemitism that burst forth; one of the big reasons for the harassment of the Jews which burst forth during the crusades is that, the rural aristocracy was getting more and more entangled into debts. And who controlled the funds? The Jews. So systematically, the growth of antisemitism can be also connected to the poverty or the impoverishment of the rural rich, due to their own conspicuous consumption and due to their participation in war like activities such as crusades.

The other side of the burden falls right at the bottom of the feudal hierarchy, on the serf. You may recall that, the serf gets defined clearly right at the time when the Romans said, the labor in the estate cannot leave the estate; they have to stay there; that is how the serf gets defined in the system. Subsequently, it gets formalized, institutionalized, socially; it gets incorporated as a hierarchy so the serf is at the bottom. As you know, the serf has a little piece of land granted to him which, he can use for his survival and subsistence, provided he worked for his land lord on lords property not just on land lords property, but served the land lord in a number of ways.

Over time some of the serfs became free, were granted freedom. They were called free men, but they were also tenants of the land lord. So rural society became many layered, but what is important is that, when the economic burden falls, it falls not just on the serf, but also on the poor farmer who is a free man in the rural areas. So increasing rural discontent is another facet of the rural society with the advent of the crusades and after. So that from the 14th through to the 16th century, you had peasant rights, peasant movements in Europe in different parts.

Eventually, the breakdown of the rural society never happened in a complete form in Europe. For the simple reason that by about the 16th century, the newly growing class of urban bourgeoisie of the urban traders, the merchants, the artisans, the work men and so

forth. They developed a symbiotic relationship with the rural aristocracy. Politically, the new class of bourgeois learn to coexist with the older elite of aristocracy and such a coexistence is what you find in the British constitution today.

The aristocracy formally never gave up ground; in Britain although, industrialization brought enormous prosperity to the non aristocratic elite, but partly this non aristocratic elite was co-opted into aristocracy by grant of aristocratic titles to living business men, leading manufactures and so forth. So the breakdown of rural society proper never happened across Europe. But what happened was, there was a gradual breakdown of feudalism as a socio political institution. So you find the growth of cities through trade, through business, you find the decline of feudalism in rural areas. So what is happening here is a shifting political balance. The political balance of power is shifting from the rural aristocracy to the urban well to do. Which means, there is a monarch is astute; he or she will know with whom to be allied at what time and on what issues. In other words, the scope for monarchy has an independent source of power over and above the aristocrats, grows with the rise of the merchant class with the rise of the urban elite.

So from the 16th century onwards, you find all over Europe more and more alliance between the urban, merchant, trading, manufacturing elite on the one hand, and the king and the monarch on the other side. In this way, the decline of feudalism was expedited because as the king grew stronger, he could also put down the aristocracy into a modern more orderly conduct of political life. So decline of feudal elite, the decline of feudalism as an institution itself lead to the growth of another huge institution, which characterized modernity, the rise of the nation state.

The nation state comes into existence in place of a multi layered, vast and complex feudal society. By about the 17th century, by the time of the Stuarts in England, later Stuarts certainly in the latter half of the seventeenth century, much of the modern political structure of England had come to peace. The modern nation state of England had come to stay by the end of the 17th century. It had not done so in France. In France, it happened by early 19th century. In France, the whole of the 18th century is a period of enormous gestation, things are happening inside nothing is visible. Finally, there is an explosion in the last two decades of 18th century in revolutionary form with the demise of the monarchy of the old order and with a rise of new power in the name of the people. At that pointing time he threw up just another emperor, which was napoleon, but later it

consolidated itself in the next 50 years into a more democratic social organization of France.

In the Germanic states, I am saying Germanic states, because Germany has been as we know it now did not happen till the second half of the 19th century. The number of principalities and kingdoms which were Germanic; Prussia, Sacs any and so on and so forth; 28 or 29 such principalities were Germanic. They all became integrated by 1850s we had the modern Germany. But there again, when Germany gets integrated, it is integrated more in the form of modernity then, in the form of feudalism. Across the Italian peninsula, once again the aristocracy is giving the two more democratic forms of governance in the name of new nation states. So, demise of feudalism, growth of trade, and commerce and the cities and the new nation state on its way. With the coming into being of the new nation states or rather gradual emergence of these new nation states, the church starts declining, the Roman Catholic Church starts going through its decline.

There are three principle areas to think of when your thinking of the decline of the church. One, in the church is running conflict with secular power by secular we mean, non ecclesiastic power. The four great doctors whom I mentioned earlier, one of whom was saint Ambrose. Saint Ambrose drew the lines of demarcation between the secular state and the ecclesiastic power as held by the pope very clearly, but such lines can never be clearly drawn because politics is the matter of continuously shifting power. So when the emperor is more powerful, the pope is more subservient and when the pope becomes more authoritative, then the (()) emperor sub serves, complies. But, there is a shifting balance which happens through the period, but with a new nations states emerging, the secular power acquires certain economic mite, which it never had before.

This economic mite is something which we must talk about a little bit, because the churches main confrontation with the secular power quite aside from the fact that, it represented independent authority which very often the kings dint like. The fact is, the church was a major resource controller; it was among the largest land lords of Europe. Some other kings did not have enough land as the church did. In addition, the monasteries which were the another win of ecclesiastic power, they had immense property. So one way or other the eyes of European kings could not fail to notice the rising status of ecclesiastic power as growing land lords which means, they control much

more resources than the kings did, as simple as that; and the crises happens in Europe essentially starting with England with the Tudors.

The Tudor dynasty of whom the important one with it is, with whom the struggle started was Henry the 7th. It was not Henry the 7th, who was so powerful a challenge to the church as his son, Henry the 8th. We do not want to go at this point in time into the details of the marriages and divorces of Henry the 8th, which lead to the crises with the pope. The fact remains that the pope disallowed the annulment of his first marriage and Henry the 8th said well; if you are annulling my marriage, I do not need you. So the first breakaway church was formed, the church of England with the king as a head.

The English monarch declared that the secular and the ecclesiastic head of the church was one and wasted in his person. So this was the first way in which, the crises of power between the state and the church was breaking out. Subsequently in next 30 years, vast quantities of monastic and church lands were taken over by the state in modern parlance nationalized. So, after that every time in Europe a king became powerful, he eyed the church lands covetously. I need that land; how can I get it. The second area, where the church and the king or the secular ecclesiastic power came face to face was with the emergence of secular institutions of learning.

The Europeans kings encouraged secular learning quite aside independently of ecclesiastic learning. If you remember, by the time the 5th century had arrived, it was more or less clearly established tradition that the church would not encourage secular learning. It would not be learning encourage; it would not encourage learning has propagated by the church. So the opening of universities, institutions of learning, sponsored by the royalty across Europe meant that, knowledge was becoming secular; the society was being opened out to thinking and the kings were instrumental in creating forms of thinking, growth of ideas which were not strictly favorable and friendly to the ecclesiastic power; this was the second. And, the third feature as we see of this growing conflict between the church and the state is the increasing corruption in the church.

There was this practice which are gone on for some centuries, where by a king, or a potentate, or a prince, or some secular power could have his man elected and appointed as a bishop. And on payment of certain fees to Rome to the pope, the pope would conduct or the church would conduct the investiture ceremony of making official

declaring this person as a bishop. So, members of the aristocracy could become bishops and therefore, also enjoy (()) ecclesiastic power. Now this was done with the connivance of Rome; in the sense that it amounted to the pope and his organization selling bishoprics for money. So this practice had gone on for quite some time. Till the 16th century, he came to a point of no return when the church itself had to go through a reformation, it broke under the tremendous attack of Martin Luther and his main point of attack was these investichers as they were called.

These investichers, which were basically source of corruption and a source of dilution of the ecclesiastic purity of the church, these were questioned by Martin Luther, Calvin and other protestant leaders. So the church had three perspectives from which it could fall; it could fall due to its struggle with the king for political authority; it could fall due to its loss of control over education and development of knowledge; it could fall also due to increasing loss of credibility for its own organizational and institutional structure; whatever the church went into crises. And finally, there was a reformation of the church and as a church was reformed newer forms of Christianity came into existence, Protestantism. Have I talked you about the rise of Protestantism earlier? No. So this is the time.

Martin Luther, what was Martin Luther's main contention when he opposed the Roman Catholic Church. His first contention was, the Roman Catholic Church was a corrupt organization; it sold offices for money. Second, the language of the God in the Roman Catholic Church is Latin, which nobody in Europe understands. So he started writing and printing in large quantities the bible in German. That was also the time when Caxton had invented the printing press and vast quantities of; this is the political acumen of Martin Luther. Vast quantities of printing of bibles in German was under taken in such a short period that, it tried to ensure that every German home had a German bible and then, he started to make people rethink about Christianity and what Christianity means.

One thing he showed clearly that all the pomp and luxury and the show and the vast number rituals, which were involved in Roman Catholic forms of worship were totally unnecessary for a good Christian. He argued that, to be a good Christian was only to be a virtuous person. It did not mean going through all these purpose conspicuous consumption. Next not only he, but all other far mists were stressing on the fact that, Christianity is defined by the church as an other worldly religion.

You know, I am a Christian and I might commit a thousand sins as I live and then, as I die my body is entered in a piece of land which the local church provides. So that, my sole my might await within the bounds of the religious institution. It is being summoned on the day of judgment to be judged by the lord and master by God. So eventually, all Christians brought up in this faith look to their salvation after death. I die and then I await judgment and then I will have to either go to heaven or hell or stay in a limbo which is neither, heaven or hell. Now, this other worldly aspect of Roman Catholic Church was dismissed by all the protestant reformers. They said no; religion is a religion relationship between you and God and it is here now. God judges you not on some day of reckoning a day of judgment which is somewhere in the future. But now, you judge yourself in the eyes of God with every activity that you do today. So the world of Christians is a world of today, not life after.

So this was a major stress laid by protestant reformers. In other words, they gave a paradigm, a model to the Christians through which they could evaluate their own day to day conduct. Max Webber of whom you might have heard, protestant ethic and the spirit of capitalism says, that the conversion of Christianity into a religion of day to day practice from a preoccupation with other worldliness was so pronounced in the areas, where the reform had taken place that people were looking at the virtue and vise of their living in terms of looking at, and reflecting on their day to day activity. So what happens, you have to be thrifty. You do not want to live conspicuously because, it is a it is a sin, it is a virtue (()) live thriftily. So you are thrifty; in the process you save money, you are not wasting it and the saving, you invest in a business and the business grows and the growth of business is further encouraged by the fact that your efficient not because, you want to maximize profit so much but because you say, everything I do must be in the service of God; so I must run this business efficiently, competently in the service of God, it is my calling; that is the time, they use the word calling.

So efficiency is encouraged by the notion of calling; thrift is encouraged by the notion of virtuous living. So Webber says, the whole sprit of capitalism was born through protestant ethics. This is a revolutionary ideology because, along with your freeing yourself from several centuries of shackles imposed by a theological faith system. As Russell says, the mind becomes free again by the 6th 16th century because by then, your

mind is free to look at other things because, the (()) of such organized belief system is credible.

Copernicus was writing about the heliocentric astronomy whereas, church insisted that the earth was centre of the universe and when Galileo went further along in this area of writing, he had to retract. He had to retract for the simple that, the church compelled fear in minds in the minds of people. So Galileo retracted and as we will see shortly, somebody like the Dekarth incredible mathematician, whose mathematical works lay at the very basis of the Newton's physics, but Dekarth was very soft when it came to his theology. He did something which some of the Greek speculative philosophers were trying to do; trying to establish the existence of God by means of reason, by means of rational thought. If you recall, what we did in the last class; this is the kind of thing which we found many Greek philosophers trying to do. This habit carried through in even in the times of Dekarth. The reason this happened was because of the power; power of ideas or power over ideas which the church had. So with the decline of the church, human thought and human action became much more liberated. So, that by the 18th century, you had arriving in front of you an age, which was known as the age of enlightenment. Can somebody tell me something about enlightenment? Have you studied it before? Sharanya.

Enlightenment has to do with it has to do with few distinct concepts that is, nationality and the use of logic reason rather than faith based. Have you heard of the encyclopedia movement in France? Have you studied at that movement some were in part of the sports?

Student: No.

Touched upon it. Touched upon it. Have you have you heard somebody called Russo? What did he say?

Student: (())

Lovely. So he spoke up general (()) then what else did he speak of? Did he speak of something called social contract?

Student: Yeah.

What was that?

He said that the collective leaving is a (()) contract. The individual gifts to the society by contributes to the society by keeping society intact, because it is a collection of individuals and the society in term protects the individuals from himself and from other individuals.

And?

Student: From other individuals (())

Very nice very nice. Do you have anything to say about the state of nature; that is the nature of man before the contract.

Student: He told (())

All right. Did you have anybody talking about social contract at that time?

Student: Hobs.

Hobs. Tell me about hobs.

Student: Sir, hobs is state of nature who is a barbaric man. Whom unless you know, there is there is some sort of compulsion, some regulation and his behavior each one is on his own (()).

Is that in the state of nature or is it after?

Student: This is the state of nature and after.

Who regulates him?

Student: In the state of nature and absolute sovereign

That is not in the state of nature no.

Student: (())

The state of nature is an anarchy and how.

Student: (()).

Perfect. Beautiful and anything goes and therefore, what happens? How can you attain security in this kind of a situation?

Student: (())

No, not code of conduct. It is a lot bigger than that. Code of conduct is more like lock.

Student: (()).

In fact Hob says, give all your liberty into the hands of the ravaitham right. The ravaitham is supreme authority to hang yourself in completely into the care and protection of the ravaithams; surrender all your freedoms into the hand of ravaitham. So that, you might have security because hob says, in a state of freedom you have no security; in a state of freedom you tend to destroy yourself through your acquisitiveness. So the best thing to do is to hand yourself in to the hands of a ravayatan. So that was a social contract in order to give away your freedoms. So you have Russo talking of a social contract, then you have Hobs talk of a social contract. Is there anyone else who talked of social contract that time? Lock. Can you tell me something about what lock was saying?

Student: (())

Will talk about lock separately no problem we will talk about lock separately no problem. But, what I was aiming at in all these discussions on social contract is that, this is all part of the age of enlightenment. Your talking for the first time in human history after the Greek period of people who decided that or people who argued that, the decision of people about how they live must be in their hands, not in the hands of anybody which is larger than them, except for Hobs of course.

So in lock, the social contract is formed by people to surrender part of their freedom, not all of their freedom, part of their freedom so that they might have security. And more important, locks was lock was very clear that, if at any point of time the state into which hands these freedoms were handed over partially. At any point of time it became evident that the state is crossing its own bounds then, it was within the rights of the individual to work towards the overthrow of the state. So the state had its authority completely determined by the boundaries of the social contract. Now this kind of a political thinking

is part of age of enlightenment. This kind of political thinking occurred only at that time or it was leading up to that time when all these articulations came up.

All the politics of modernity that we see today democracy, a welfare state, rights, and the privileges of the citizens, all these things came at this time. It was from Lock, (()) he had the modern forms of government; the three four center of authority the executive, the legislature, and judiciary and montasky. The French man wrote about Lock and propounded this, as a universal system which the world must follow. And it is stated that, the American constitution is substantially influenced by Lock's ideas via the writings of montasky. So, this was a period the mind was breaking out into new political concepts. It was breaking out into individualism of an order unknown. It was a period when, the French symbolized the extreme ends to which the freedom might go by simply knocking the heads of the monarchs which ruled them.

So the age of enlightenment, the 18th century is where, all the developments from the crusades culminates know. The whole thing starts with the crusades very inadvertently, but moves very progressively and very clearly; where does it culminate? In the age of enlightenment, where not only in new science has come in to being; new philosophies have come into being; new political ideologies have come into being; and most important the industrial revolution is a matter of fact, it is not speculation any more.

So, economics as we know today is a product of this time economics. And all the universes that economics is talking about is a creature of the times when the age of enlightenment was on. So it is this, at this point that we start talking about the history of economic thought. How it comes to acquire the state of knowledge as a science; and what happened just prior to that, and finally and how the science formulated itself; this is our discourse in the times to come.

So next week, we shall begin by talking about mercantilism, which was one of the earliest economic ideas of modernity. It is still on the science at the time of mercantilists. It is still pragmatic. How to make a prosperous rich nation is the concern of the mercantilists and we shall see mercantilism and its critic next week, and then move on from there to the study of physiocracy, which in my opinion is a first formulation of economics as a theoretical structure. The core of most of what you know today as economics lies in the writings of physiocrats, who are not writing economics in that

sense, they were thinking of the economy as an organic system and how its flows can be analogues to an organic flow, in an organic system. So we will do physiocrats, mercantilism next week good evening.