

PRECLASSICAL ECONOMICS

I. EARLY PRECLASSICAL PERIOD (800BC – 1500)

- The main economic problem was scarcity. Modern economies are market economies; the markets deal with the problems of scarcity and gives much less attention to the use of force, authority and tradition. The early preclassical thinkers gave greatest attention to nonmarket-allocating mechanisms.
- Back then people were very self-sufficient, and markets were of little importance on daily basis. Therefore, the thinkers in this period focused on the use of authority as an allocator of resources.

1. *Guan Zhong (Non-western thought)*

- Now I would like to focus on Guan Zhong and his light/heavy theory. His book Guan Zi included several ideas that are central to economic thinking. His light/heavy theory is an early anticipation of supply/demand theory.
- Guan Zhong argued that when a good was abundant, it became light, and its price would fall. When it was “locked away,” it became heavy, and its price would rise. There would be movements of goods into and out of markets based on their lightness and heaviness, with a definite tendency toward one price—equilibrium. Thus, the light/heavy theory is a statement of the law of supply and demand. Guan Zhong also used this light/heavy theory to develop a quantity theory of money, asserting that when money was heavy, its price should rise (prices of goods would fall), and when money was light, its price would fall (prices of goods would rise). To stop the fluctuation, he advised that the state should buy goods when money was heavy, thereby holding the price level up, and sell goods when it was light (thereby holding the price level down). This would not only help stabilize the price level, but also make money for the government.
- Guan Zhong’s writings indicate that there is a universality to ideas of supply and demand that transcends time and place. They are not Western ideas imposed on other cultures; rather they are aspects of reality that will show up in all institutional structures.
- However, when it comes to policy, the thoughts reflected in Guan Zi also suggest that economic insights have no direct policy implications independent of institutional structure. Change the institutional structure and one changes the policy implications. Guan Zhong actively structured policy to fit the institutional structure of his time, but with an activism that worked with market forces, not against them. Currently China is undergoing a significant economic transformation and is turning to Western economics for thoughts about how to structure and manage it. Coming as it does from a Chinese tradition, a study of Guan Zi might be more relevant to Chinese economics than the more conventional analysis of its Western counterpart, Wealth of Nations.

2. *Aristotle (Greek thought)*

- Aristotle is important not only for his contributions to philosophical thinking but for the impact he had on economic ideas during the period of scholasticism.