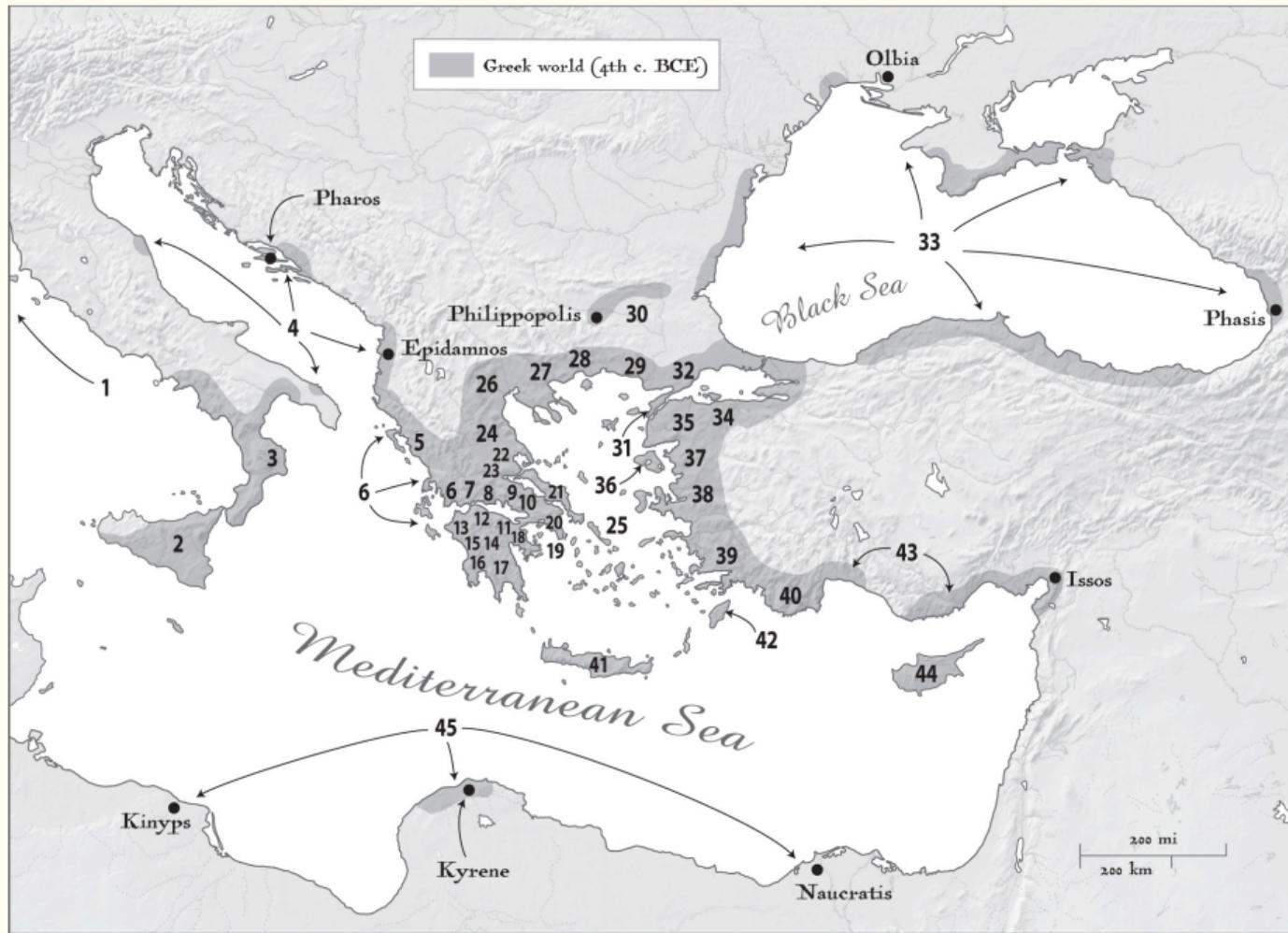


Markets in Classical Greece

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- Much (most?) of the Western world cultural tradition has its origins in Classical Greece (“Hellas”).
- Philosophy: Socrates, Plato, Aristotle...
- History: Herodotus, Thucydides, ...
- Literature: Homer, Aristophanes, Euripides, Sophocles, ...
- Art: “classical style” as represented in the Acropolis of Athens.
- Political forms: democracy.

Economics and Classical Greece

- Until two generations ago, most economists were educated in the classical tradition:
 1. Adam Smith's *Wealth of Nations* is full of classical references.
 2. Karl Marx's doctoral dissertation is a comparison of the natural philosophies of Democritus and Epicurus.
 3. John Maynard Keynes was a big fan of medieval Latin poetry.
- As we will see later in this course, there is a profound influence of Greece in the Islamic world (Avicenna, Averroes, etc.) and its economic thought.
- All modern theories of justice go back to Plato's *Republic* in one way or another.

Alfred North Whitehead, *Process and Reality*

The safest general characterization of the European philosophical tradition is that it consists of a series of footnotes to Plato.

Question

- How did a small, peripheral region of the Mediterranean (≈ 8 m. people) concentrate such creative spirit?
- Classical Greece (5th and 4th century BCE) achieved a surprising level of economic prosperity based on democratic institutions, division of labor, and trade.
- Political fragmentation ($\approx 1,100$ *poleis*, city states) within a common cultural area.
- As we will see, one of few exceptions in human history until late 18th century.
- Similar to other examples of decentralized power: Mesopotamian cities, Phoenicia, Etruscans, Hanseatic League, towns of Flanders, and North Italy in the Late Middle Ages.

- Obviously, Athens and other cities were not modern, liberal democracies.
- Slavery, limited rights for women and foreigners, etc.
- But the remarkable ideas of widespread participation and consent by citizens on government, equality, and rational inquiry have their inner dynamics.

- We have a fantastic amount of data regarding Classical Greece.
- Endogeneity of historical data.
- *An Inventory of Archaic and Classical Poleis*, by Mogens H. Hansen and Thomas H. Nielsen (2004).
See, also, <http://polis.stanford.edu/>.
- *The Complete Archaeology of Greece: From Hunter-Gatherers to the 20th Century A.D.*, by John Bintliff (2012).

Laborer's wages in wheat equivalent

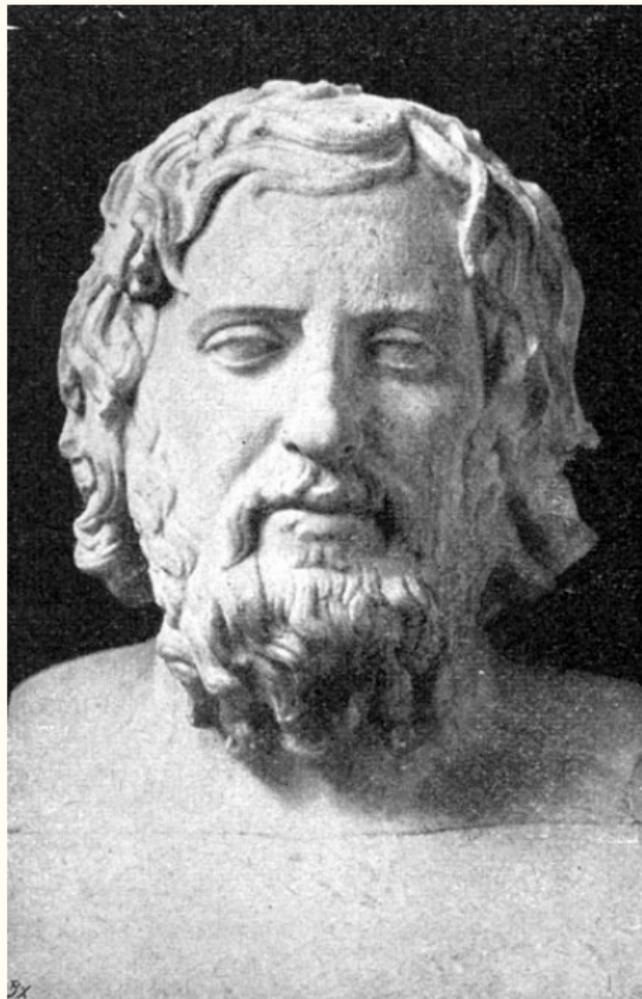
Ancient Babylonia	1800-1600 BC	15
Assyria	1500-1350 BC	10
Neo-Babylonia	900-400 BC	9
Classical Athens	408 BC	30
Roman Egypt	c AD 250	8
England	1780-1800	13

Appearance of coinage

- Introduction of coinage in the Hellenic world in 7th to 5th centuries BCE: Lydia.
- Why money?
- Gold and silver are:
 1. Portable.
 2. Precious (perhaps).
 3. Durable.
 4. Divisible and fusible.
- Coin are also (roughly) uniform.

Why not a Greek industrial revolution

- Why was Greek economic efflorescence not sustained?
- Possible reasons:
 1. Constant wars among city-states.
 2. Conquest by Macedon and latter Rome.
 3. Lack of market size.
 4. Lack of energy sources (organic and mineral).
 5. Lack of modern experimental science.



Origins of economic thought (I)

- No substantial traces of economic thinking in Middle East civilizations (Mesopotamia, Egypt, old Israel, etc.) beyond general statements about “justice” and “ethics.”
- The start of economic analysis in the Western tradition lies with Xenophon, c. 430-354 BCE (recall the difference between economic doctrines and economic analysis).
- Contemporary of Plato (427-347 BCE) and Aristophanes (c. 446-c. 386 BCE).

Origins of economic thought (II)

- Socratic discourse *Oeconomicus* (*Οἰκονομικός*).
- From “oikonomia”: *oikos* (*οἶκος*), a household, and *nomos* (*νόμος*), a rule of behavior.
- Thus “oikonomia”: household management (for instance, in Spanish, economics is “economía” and in Italian and Portuguese “economia”).
- *Oeconomicus* means the “good (or efficient) management of the household.”
- Key idea: the existence of an independent, rational body of knowledge about the management of household or the city.

Origins of economic thought (III)

- Use of “economics” as a word to refer to the investigation of income, distribution, etc. is, however, more modern.
- In 1621, Antoine de Montchrétien published “Traité d’Economie Politique.” It popularizes the expression “political economy.”
- In the 19th century, “political economy” simplifies to “economics.”
- Some remaining uses of “political economy.”

Topics of analysis

1. Division of labor and specialization.
2. Private property.
3. Value.
4. Trade.
5. Exchange.
6. Money, loans and the interest rate.
7. Economic organization of society.

- Perhaps the most influential thinker of the Western tradition.
- Encyclopedical range of interest: philosophy, biology, physics,
- He wrote surprisingly little about economics and markets.
- *Nicomachen Ethics* 5.5 and *Politics* 1, 8-10.
- More general point: [Laistner's Greek Economics](#) collection is a slim text.
- “Modernist” vs. “primitivists”.
- A general reference: *Aristotle's Economic Thought*, by [Scott Meikle](#) (1997).

- A central aspect of Aristotle's thought is the idea of justice.
- Relevant for us is the concept of *distributive justice*: how should goods be allocated in a society?
- We can distinguish, even if just for analysis, two different aspects:
 1. Where does the original allocation of goods come from?
 2. What type of transactions of goods are allowed?

- Aristotle did not have much to say about the first question.
- Aristotle emphasizes the idea that justice in an exchange economy is based on reciprocity.

Nichomachean Ethics, 5.5

But in communities concerned with exchange, the just in this sense -reciprocity in accord with proportion and not in accord with equality- holds them together, for the city stays together by means of proportional reciprocity. For either people seek to reciprocate harm for harm -if they do not, that is held to be slavish- or they seek to reciprocate good for good. And if they do not do this, there is no mutual exchange, and people stay together through mutual exchange.

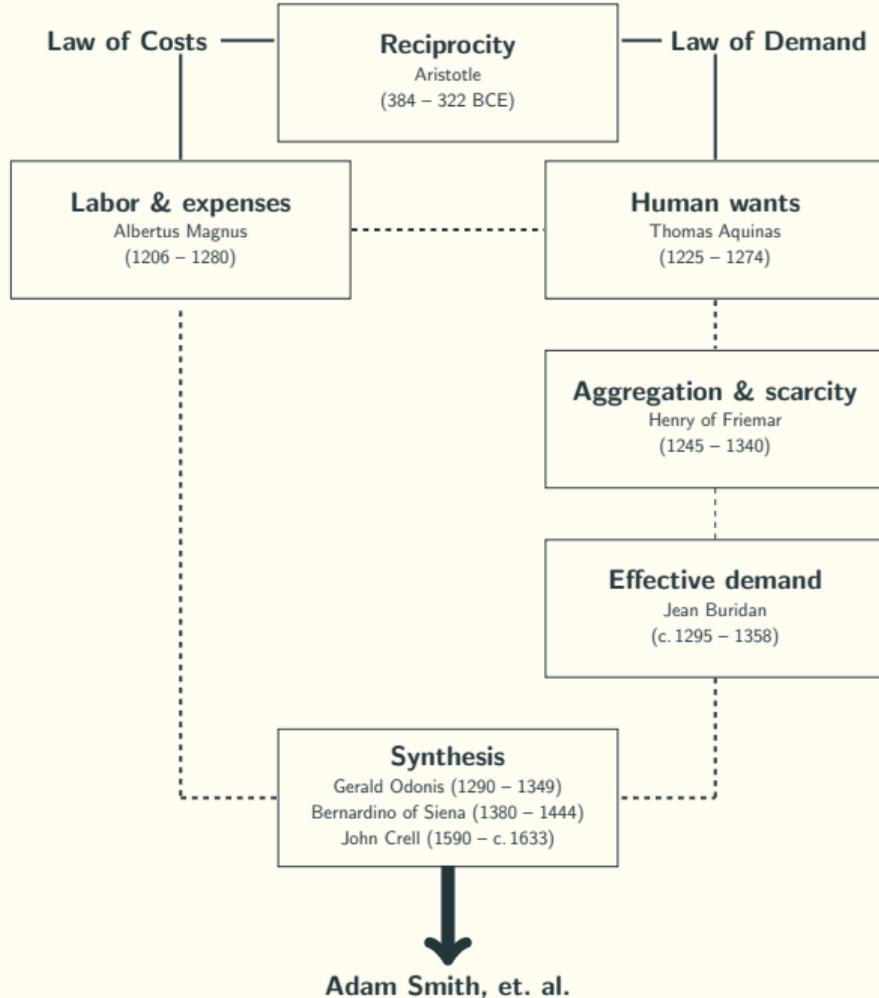
Fairness in exchange

- What does it mean in practice?
- Can voluntary exchange be unfair?

Nichomachean Ethics, 5.5

For example, let α be a house builder, β a shoemaker, γ a house, and δ a sandal. The house builder, then, ought to take from the shoemaker the work he produces and give in exchange a share of his own work. If, then, there is first proportional equality and then reciprocal exchange occurs, the proportional reciprocity spoken of will take place. If not, the exchange is not equal and does not endure. For nothing prevents the work of the one person from being superior to that of the other.

- Bilateral exchanges vs. market exchanges.



- Why do we have private property (*Politics*, 2.5)?
 1. More productive (moral hazard problem).
 2. Minimizes conflicts regarding common management.
 3. Gives pleasure to owner.
 4. Allows moral growth (i.e. charity).
 5. Practical experience: common property experiments fail again and again.