

Comments on Economic Development in Antiquity

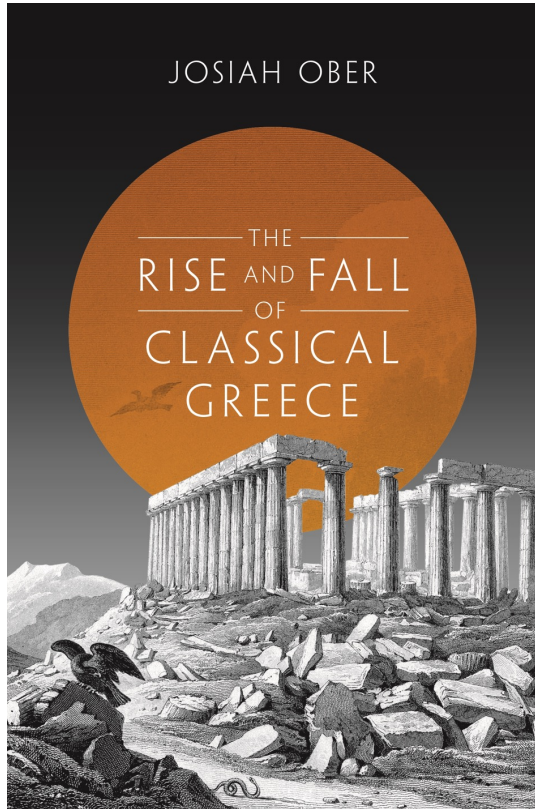
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Observation

Core Greek Poleis grew rapidly for 500+ years.

- The industrial revolution only started \approx 250 years ago.
- There is likely lots to learn about long-run growth from antiquity's growth miracle.

My comments are based on Josh's 2016 book



Richer exploration of the evolution of institutional arrangements facilitating growth.

Illuminating discussion of philosophers striving to understand and improve their world (efflorescence)

My comments are based on Josh's 2016 book



I focus on the book's most significant contribution to growth:

- Detailing the evolution of institutional arrangements that facilitated growth.

I amplify this message and stress a point Josh likely supports:

- Institutional evolution is necessary for growth.

I will not go into much detail here on my differences of opinion on the historical economic, political, military, and philosophical developments in classical Greece.

Why did growth occur? The basics

- Josh Ober, Professor, 2016
 - Fair rules and competition within a marketlike ecology of states promoted capital investment, innovation, and rational cooperation in the context of low transaction costs.
 - Political institutions and culture fostered growth “by protecting individuals against the theft by the powerful of the fruits of risk-taking and self-investment.”

Why did growth occur? The basics

Adam Smith, Professor, 1755

- “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice.”



Why did growth occur? The basics

Yen Jingchang, peasant, 1978

- "Work hard, don't work hard — everyone gets the same. So, people don't want to work."
- A little more on China ...



Yen's "Secret Document that Transformed China"

A group of starving farmers sign a secret pact in 1978.

- Divide land among families.
- Each family gives output to the government/collective.
- Each family keeps its surplus.
- If any farmers are sent to prison or executed, the others will care for their children until the age of 18.



1/20/2012

Production exploded

- "It was the same land, the same tools and the same people. Yet everything changed."

Cleisthenes (570-508 BCE) would be proud

Why did growth occur? The basics

$$Y = AF(K,L)$$

A: “It was the same land, the same tools, and the same people. Yet everything changed.”

- However: This does not yet explain long-run growth in Ancient Greece or elsewhere. Long-run growth is about ΔA not A .



Josh's book analyzes the “institutional experimentation, emulation, adaptation, and innovations” that enhanced the extent to which individuals viewed:

1. the rules and enforcement mechanisms as fair (peace & stability);
2. themselves as likely to reap the fruits of risk-taking and investment;
3. Themselves as operating in a competitive environment that encouraged them to undertake those risks and investments.

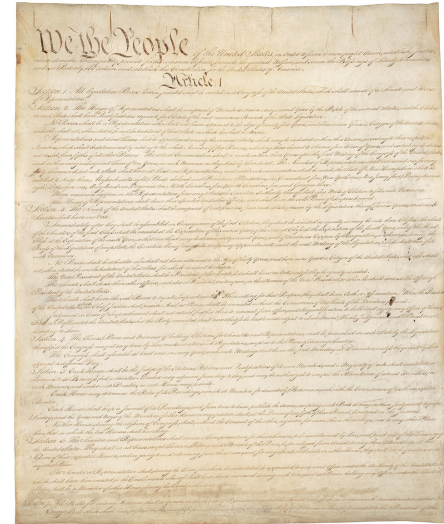
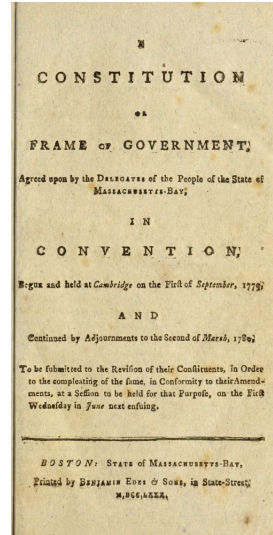
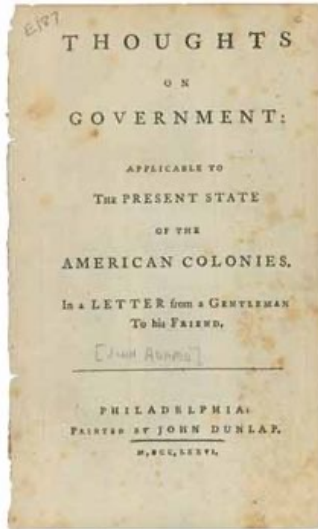
$$\Delta A = F\{A, K, L\}$$

Access to information about A can facilitate improvements in A.

Examples

- Cleisthenes
- JO: Aristotle's *Politics* is informed by studying 158 constitutions.
 - Studying the successes and failures of political institutions across poleis with the goal of improving one's own institutions was a constant activity.

U.S. Constitution(s)



- Adams studies colonial constitutions.
- Suggests a constitutional convention in MA. Instead, the legislature drafts it. Rejected.
- He is then asked to draft a constitution as part of a convention. Ratified by public.

- Builds on MA and other constitutions.
- Is part of a constitutional convention.
- Ratified by public.

Aside

- Not all institutional learning is necessarily socially advantageous.
- “There is no art which one government sooner learns of another than that of draining money from the pockets of the people.”

{The Wealth Of Nations, Book V Chapter II Part II, Appendix to Articles I&II}

AMPLIFYING JOSH'S MESSAGE ABOUT THE EVOLUTION OF INSTITUTIONS: ΔA



Example: The evolution of financial institutions
(See Amit's work.)

Trains ...

- Initially, railways were funded through local private equity
- Reliance on local finance restricted growth.
- Problem → profit opportunity ...



Institutional innovations

- New specialized investment banks emerged to screen /monitor
- New financial and accounting reports help screen.
 - Price, cost, repair, volume information available monthly
 - Then daily and even hourly by the close of the 19th century
- Yet, there were still frictions associated with raising funds from diverse sources.
- Problem → profit opportunity



These opportunities triggered more ΔA

- New financial instruments were designed, e.g., preferred stock, income bonds (contingent on railroad profitability),
- By providing a menu of securities, financiers expand funding and innovation

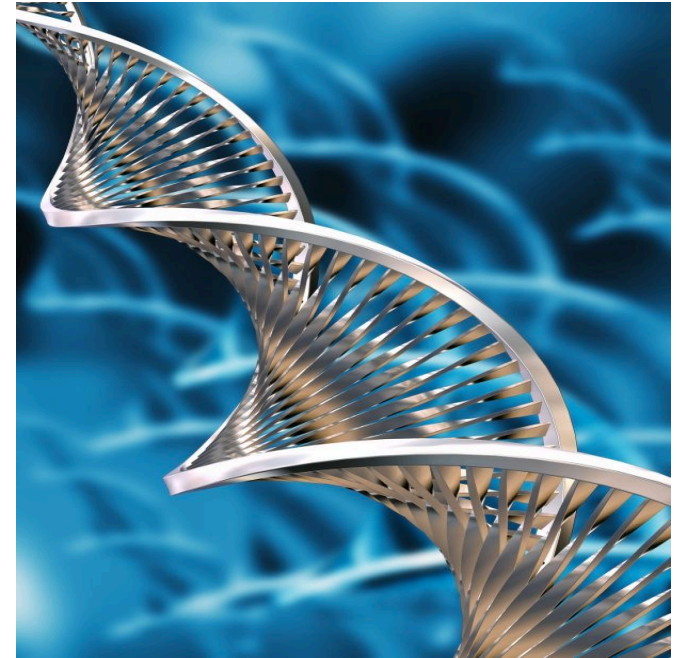


More recent & local institutional innovations

- Venture capital to ...

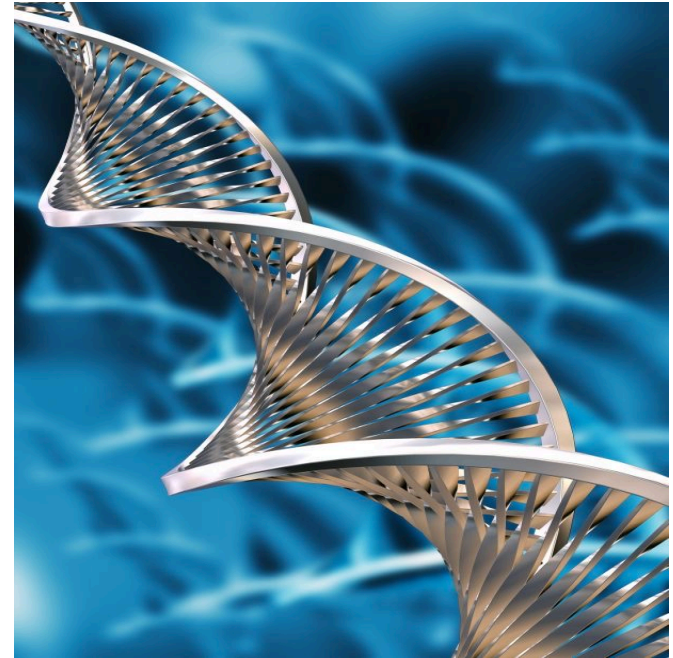


... to new financial institutions to
finance bio-technologies



More recent institutional innovations...

- Venture capital to ...



The narrow perspective from finance

- Financial institutional innovations can help prevent market frictions from endogenously intensifying as technology advances.
 - Without those institutional innovations, growth may slow.
- What allows those financial innovations to happen?
 - Political and legal institutions and their evolution.

The broad perspective from Josh

- Illuminating the evolution of the political institutions in ancient Greece is, IMHO, Josh's central contribution to the study of growth.
- I learned an enormous amount Josh's research.
- Since the evolution of institutions is often underappreciated by economists and perhaps other social scientists, I hope Josh's work enhances future studies of long-run growth