

**The city-state of ancient Athens as prototype for an
entrepreneurial and managerial society**

By

George C. Bitros

Athens

March 8, 2018

1. Motivation

- Past studies have attributed the economic development of ancient Athens to many reasons, including the imperialist policies of the city and the high rate of slaves.
- Unlike them we argue that a significant part of the wealth of the city emanated from the entrepreneurial incentives and functions that Athenians adopted, rather deliberately.
- To establish this proposition we give first a brief account of the economy within which entrepreneurs operated.

- Afterwards we explain why Athenians established an economy based on international trade and identify the incentives that applied for everyone (including slaves) to pursue an entrepreneurial career.
- Next, we present a “protagonist of management science,” i.e. Xenophon, who developed explicitly the first principles and imperatives of managerial actions,
- Finally, we conclude with a synopsis of the political institutions and rules of governance that maintained law and order and validated the operation of entrepreneurial incentives.

2. The economy in ancient Athens

- In addition to the public sector, the economy comprised a large sector in which production and distribution, import-export activities, and money and banking, were operated privately.
- Enterprises were small-scale, sole proprietor operations, run by their owners as free citizens, freedmen or metics with the help of slaves. Also, there were partnerships in which profits and losses were shared in accordance with the share of capital contributed by the partners.
- The supply and demand for goods and services met in a marketplace called *agora*, where in cases of excess demand or supply prices changed as required to restore equilibrium.

- With the exception of grain, there were no price controls, and the city with its various officers monitored closely the quality and the weight of the goods sold. So, the circumstances for sellers to practice opportunism were extremely limited and this enhanced the efficiency of the market.
- Banking functioned much like to day. Athenians encouraged the intermediation in the demand and supply of interest paying loans to potential entrepreneurs, because they attached prime importance to their activities for the survival and economic development of their city.

Synopsis:

- The Athenian economy in the 5th century BC functioned much like a modern market economy.
- Its dominant sector was agriculture and animal husbandry. But mining, manufacturing, banking services, and export-import activities were also present and contributed significantly .
- The distribution system comprised retail and wholesale markets. Exchanges were facilitated by silver base money and the financial intermediation of banks.
- The state supervised markets through special officers and mostly without imposing price controls, whereas trade disputes were resolved through an efficient legal system and arbitration.

3.The reasons for an open market economy

- Due to the relative scarcity and low fertility of soils, Athens suffered perennially from shortages of grain.
- Thus, to feed its population, it had to rely on export-import activities.
- Not only citizens, but also metics established and directed wholesale enterprises in importing grain and exporting Athenian products. They were considered as offering a special and valuable service to the city. In particular, Athenians recognized that the importers of grain by assuming various risks deserved special profit and their riches were justified.

Synopsis: The city-state of Athens established an open market economy to confront the scarcity in fertile lands that it faced.

4. Entrepreneurial incentives

- The laws and the courts provided full guarantee for private property and property rights.
- Taxation was least coercive. It imposed fair taxes, enforced through various means that included the famous mechanism of *antidosis*, and cultivated willful giving through *liturgies*.
- The society accepted that: a) profit and/or wealth seeking activities benefited their city, and, (b) a moderately unequal distribution of wealth promoted the work effort of individuals. For these reasons they encouraged entrepreneurial activities under three conditions: first, that entrepreneurs would seek to realise “moderate” profits; second, that wealth would be spent according to certain social and ethical standards; and, third, that the distribution of wealth would not become “too unequal”.

- Athenians esteemed rich citizens who had not inherited but earned their wealth by employing their resources for productive and risky trade activities and then “shared” their wealth with the rest of the citizens through the voluntary undertaking of public expenses.
- They blamed rich citizens and metics who did not undertake public expenses commensurate with their wealth. Moreover, they did not respect rich citizens who spent their wealth and property in luxury consumption.
- Successful entrepreneurs received social and many times political distinctions, which in the cases of some slaves reached the level of gaining their freedom.

- Metics who obtained their wealth from fair entrepreneurial practices and spent a part of it in undertaking “liturgies” gained a “ticket” to their social advancement and reputation.
- The incentives for citizens applied equally for slaves. A famous case of a slave who gained his freedom is the banker Passion.

Synopsis: Athenians had embedded into their values and institutions a sophisticated system of incentives for undertaking entrepreneurial activities and for using the wealth created thereof in a socially responsible way. For citizens and metics entrepreneurial success meant social and economic advancement, whereas for slaves the same success led frequently to their freedom.

5. Managerial functions and qualifications

- Xenophon had a very clear view of the market. He perceived that prices brought about equilibrium between supply and demand in the short run, whereas in the long run they determined the number of enterprises in the market.
- In this environment, he envisioned that equilibrium was established through three functions at the individual firm level. These were: a) discovering disequilibrium situations or previously unforeseen opportunities for profit (entrepreneurial function); b) providing the required capital and assuming the risks and uncertainty involved (capitalist function); and c) managing operations so as to increase productivity (managerial function).
- For the head of an enterprise as manager he singled out the following functions and qualifications:

- Organize, control and supervise all activities to enhance productive efficiency.
- Introduce division of labour according to the skills, training, experience and knowledge of laborers and slaves. Select the most efficient laborers and/or slaves.
- Teach and properly train through learning-by-doing those placed in managerial positions.
- Behave properly towards laborers and/or slaves and convince them to increase their work effort and performance.
- Rationalize activities so as to gain a surplus.
- Exploit price variations by buying low and selling high.

- From the above it follows that Xenophon identified and analyzed accurately the roles of the manager and that is why his views received detailed analysis by many economists from the time of Smith and Marshall to the present.

Synopsis: Athens became the first ever-entrepreneurial and managerial society. They put in place the right incentives to motivate entrepreneurship. In the management of enterprises they stressed the division of labour and the accumulation of knowledge and skills. And not the least they introduced the following institutions to maintain law and order and validate the incentives in place.

6. Institutions and principles of governance

- The city-state of Athens was governed by the Assembly (*Ekklesiatou Demou*), the Council (*Boule*), and the 10 Generals (*Stategoi*). The Assembly was the supreme decision-making body with executive, legislative, judicial and auditing powers.
- Equally important with the process of democracy were the following principles that Pericles proudly declared in his epitaph (Thucydides, II, 34):
- The government was in the hands, not of the few, but of many (i.e. **the majority principle**).

- In legal affairs all citizens were equal for the settlement of their private disputes (**the principle of equality before the law**).
- Public honors were conferred not because a citizen belonged to a particular class, but because of personal merits (**the principle of meritocracy**).
- There prevailed freedom from suspicion of one another in the pursuit of every-day life (**the principle of personal liberty**).
- Every citizen had an independent “voice” to all state mechanisms and departments (**The principle of isigoria**).
- All state mechanisms and departments were subject to auditing by citizens (**The principle of transparency**).
- Citizens were educated to praise democracy, spill their blood to defend it, and have a strong spirit of solidarity (**The principle of solidarity**).

- Violations of the law and particularly those that influenced the general spirit of society were severely punished after due process (**The principle of Justice**).
- The city-state cared for the children of those killed in wars as well as for the less well to do (**The principle of compassion**).



EUROPE

ASIA

AFRICA

Countries that border the Mediterranean Sea

France

Spain

Algeria

Morocco

Italy

Libya

Tunisia

Slovenia

Croatia

Bosnia & Herzegovina

Yugoslavia

Albania

Greece

Turkey

Syria

Cyprus

Lebanon

Israel

Egypt

300 mi

300 km

1. Motivations leading to entrepreneurship

- Individual autonomy
- Social advancement

2. The nature of entrepreneurial climate in ancient Athens

- The philosophers, the politician and the generals enjoyed greater civil and social status than those pursuing wealth-creating activities
- They were not against because entrepreneurship promoted the welfare and the strength of the city-state.
- Policy for encouraging metics (i.e. resident aliens) and slaves to assimilate into the Athenian society through success in business
- Were metics and slaves able to take advantage of the institutional set-up ?