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## Democracy and institutional change

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By  
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### **Abstract:**

*The present essay analyses decision making procedures concerning economic issues such as the choice of public goods in the prototype democracy, Ancient Athens of the fourth century BC (the “Age of Demosthenes”). It analyses the link between political democracy, “economic” democracy, the emergence of new institutions and the finance of public goods like defence, education and “social security”. The prototype political democracy was advanced in questions of public administration, finance and institutions, on which political democracy was based.*

*The paper concludes with some proposals as to what we could “learn” from the workings of “economic democracy” that is relevant for today’s democracies.*

**Keywords:** Hospital efficiency, productivity, health.

**JEL Classification:** I11, I12, I18

### **1. Introduction**

There is a vast literature on the history, politics, warfare the arts etc. of the ancient Athenian democracy, which is considered the prototype and the origin of Western democracies.<sup>1</sup> Much less attention has been paid till recently on the economics of the Athenian state, which is actually astonishing, since the Athenian state could not have developed its advanced political institutions without a sound economic basis, and advanced institutions and organisations, as I will purport to analyse later on in the present essay. (Kyriazis and Zouboulakis 2004, Kyriazis and Halkos 2005, Cohen 1997, Gabrielsen 1994).

The Athenian democracy was established first by Solon, sometimes during the 6<sup>th</sup> century BC, abolished by the tyrant Hippias and his sons, and re-established by Cleisthenes in 510-507 BC. It lasted, with small interruptions (during 404-403 BC after the defeat by the Spartans at the conclusion of the Peloponnesian War, and after 322 BC for about a decade following the defeat by the Macedonians) till Greece’s occupation by the Romans during the second half

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of the 2<sup>nd</sup> century BC. Even during the first centuries of Roman occupation Athens had some form of democratic self governance, within the limits of the Roman Empire (Kagan, 1991, Burn, 1962).

Athenian democracy was evolutionary in its character, with various political leaders like Cleisthenes, Themistocles, Ephialtes, Lykourgos, Euboulos and Demosthenes introducing political and economic reforms and developing more democratic and representative institutions. From a democratic point of view, Athens reached its highlights during the second half of the 4<sup>th</sup> century BC, for which we possess also substantial extant information from ancient sources, mainly contemporary orators and philosophers<sup>2</sup>. This period has aptly been called “The Age of Demosthenes” and I will focus my analysis on the workings of economic democracy on this period...

In the next section the concept of economic democracy is analysed, followed by a presentation of its application in the choice and finance of public goods and the emergence of new institutions. The essay concludes with some theoretical concepts and proposals as to what we can “learn” from economic democracy that might be of relevance for modern democracies.

## **2. The workings of economic democracy**

For Ancient Athenians, political freedom and economic freedom were perceived as being two faces of individual democratic freedom. It was self-evident to them that the one could not exist without the other, thus again leading to the same decision-making procedure applying to both kinds of decisions, i.e. political and economic. Both were to be decided by direct voting procedures in the Assembly, which needed a quorum.<sup>3</sup>

From many points of view, Ancient Athens could be characterised as the “first modern economy”. It was the first economy in history, where contributions from the services and handicraft (“industrial”) sectors to GDP and employment, exceeded that of agriculture<sup>4</sup>: It had an elaborate system of public administration, laws guaranteeing property rights and courts to solve differences of an economic nature. Also, as will be analysed later on, it was the first economy to adapt “modern” forms of progressive taxation and social policy measures.

The dictum “No taxation without representation” was fully applied in the Athenian democracy, with the difference that in a direct democracy representation meant at least a quorum of 6.000 citizens, and usually for important decisions, many more. Going one step further, they maintained, that taxes on income and wealth represented oppression and were not deemed fit for free citizens. So, for most of the period, taxes on income and wealth were not imposed. Only in extraordinary circumstances, such as protracted war, was an income tax imposed on wealthy citizens.

Further, they believed in the predominance of the private sector versus the state one, with some notable exceptions to be discussed later on, Xenofon for example writing: “Those who know how to administrate the private affairs are successful also in the public ones, those that are ignorant in the first, fail in both” (Xen, Mem. C. IV, 6-12)<sup>5</sup>.

Also, Athens was one of the first market economies, showing high specialisation and a great variety of skills within it<sup>6</sup>.

This was the economic framework within which economic democracy was practised.

Democracy is a constitution based on argumentation (Dem. 19.184). In an assembly democracy like Ancient Athens, debate plays a far more important role than in modern parliamentary (indirect) ones. In modern democracies there is often a gulf between political debate, which takes place in the media, and decision-making, which is mainly done in offices and committee rooms. Also, many modern critics maintain that the supply of public goods does not correspond to citizens' demand, either concerning the total supply (oversupply of some public goods) or their mix. Some authors, as for example J. Buchanan (1986) go as far as arguing that there are ethical limits to taxation, given by a point at which an individual citizen would rather choose to 'secede', i.e. to withdraw simultaneously from both the tax and the benefits sides of the fiscal account<sup>7</sup>.

Following this one step further, the existence of the 'black economy' and tax evasion can be interpreted as a conscious effort of economic agents to avoid excessive tax burdens that they feel goes to finance public goods that are of low quality or even of no benefit to them (Karayiannis, 2005, Halkos-Kyriazis 2006a).

In Athens debate took place in the Assembly and led directly to decisions therein, concerning all state matters, be it external policy, law making, and finances, i.e. the provision of public goods and how to finance them. Ancient Athens is of course well known as the 'prototype' political democracy. As I purport to show, it was also the prototype economic democracy, in the sense of active and general participation of its citizens in decision making concerning economic issues, such as the choice of public goods, mainly but not only, defence. I want to underline here, that decisions taken under the principle of 'economic democracy' are not necessarily better or more correct than those taken under other forms of decision making, although in many cases the solutions adopted do seem to be farsighted, welfare promoting and also more 'equalitarian', as I will analyze below. But what is indisputable is that decisions taken under 'economic democracy' increase responsibility of the individual citizen. By having the right to vote on every issue, and very often using actively this right, the Athenian citizen did not delegate authority in decision-making, as citizens of modern democracies do by delegating decision-making to parties and governments. He took the personal responsibility of shaping economic policy and public choice upon himself. Correct or wrong decisions were the outcome of his choice and voting. Using modern concepts, this decision-making procedure is the first example of internalising the benefits and costs of the outcomes of decision-making for every active citizen-voter. The outcome could not be perceived as an externality, i.e. something given and where the citizen had no, or at best minimal influence, as for example in today's decision making concerning defence, but depended on his own choice, expressed through his vote on every issue. In this aspect, I argue that Ancient Athens was more advanced than today's democracies, where decision-making is indirect. Since Athenians participated by lot in the main

“administration” bodies, like the Council of 500 and the courts, for a year each time, and most of them in the Assembly, each Athenian accumulated over the years a substantial amount of general, but also in some cases of more specialised knowledge. Compared to the modern average citizen, the average Athenian citizen was better informed on policy questions (Manville and Ober, 2003).

Economic democracy can be further viewed as a market place for the circulation of ideas, in the form of specific proposals on various issues, which could be introduced by any citizen. The debate in the Assembly led to the adoption (“buying”) of some ideas, and the rejection of others, but the system guaranteed the continuous generation of new ideas and proposals. The continuous debate in the Assembly can be further seen as a process of optimisation finding in collective decision making and the choice of public goods, under competitive conditions among those proposing the various policies (Kagan, 1991).

To paraphrase Arrow (1962), under economic democracy, Athenians ‘learned by voting’, i.e. they gained experience in financial matters and financial administration, learned from past mistakes and restructured their institutions as needed. One example is trierarchy. Under this, a rich Athenian was charged with the running expenses of a warship (trireme) for a year, as well as giving personal service as captain of the same ship. Trierarchy fell on the beginning on single rich Athenians. Athenians realised during the course of the 4<sup>th</sup> century, the limitations, both from a ‘justice’ and practical points of view, of this system. So, after a proposal by Demosthenes, they introduced the ‘symmorai’ system, under which a group of rich Athenians was collectively responsible for each trierarchy.

In the second half of the 4<sup>th</sup> century, for which we have sufficient information in the extant ancient sources, the Athenian state had the following sources of revenues: 1. Rents from state owned property. 2. Minerals and whatever lay beneath the soil belonged to the state, as the silver mines of Lavrion. 3. Custom duties, of which the most important was the “pentecoste”, a two percent one on the value of all imports and exports. 4. The “metoikion”, a personal tax on metics (non Athenian free citizens living and working in Athens). 5. The “pornikon telos”, the license fee paid by all prostitutes to carry out legally their profession. 6. Court fees, fines and confiscations. 7. “Eisphora”, property tax, which became established on a permanent basis during the second half of the 4<sup>th</sup> century. 8. “Liturgies” under which wealthy citizens undertook some “payment cum personal service”, of which trierarchy and the plays and religious festivals were the most important (Andoc. 1.92-3, 1.133-6, Arist. “Ath. Pol.” 47.2, 47.4, 52.1, Dem. 35.29-30, 23.167, 24.50, 47.31, 50.8, Aesch. 1.199-200, Harp., “metoikion”, “parakatabole”, and “theorikon”, Hansen 1999, Gabrielsen 1994).

Athenian state revenues varied during this time from a low of 200 talents per year to an average of 400 in the 340’s, rising to 1200 by the early 330’s after the reforms and the capable administration of Lykourgos<sup>9</sup> (Plut. Mor. 852F).

What is important to underline is that at that time Athens did not possess and empire like it had during the 5<sup>th</sup> century, so it had to finance its policies from its own revenues. What is truly important to keep in mind is that due to the changes in its economic structure, the Athenian economy was flourishing and generated enough revenues for the state to finance the various public goods that

will be discussed below. All the more, during the 4<sup>th</sup> century Athens showed social stability, without revolts, revolutions etc. that characterised many other Greek city-states. It offered enough opportunities of employment to its citizens so that there was no need for some of them to seek new “homes” abroad by creating new colonies. Even more, it offered so many good employment opportunities that it attracted substantial numbers of metics (free foreign citizens) to work in Athens, as many as one third of the number of free adult Athenian citizens. In this respect also, Athens showed modern characteristics like today’s developed countries (i.e. EU, USA, etc) where a substantial number of foreign citizens live and work (But in none of today’s countries, except perhaps some Arabic ones like Dubai, is the percentage of foreigners to citizens as high as above 30%!).

### **3. Financing of public goods**

The revenues were used to finance:

1. Administration (Assembly, Council of 500 and Courts, for an estimated total of 80-100 talents per year (Hansen 1999).
2. Military expenditure, which, as with most ancient states was the most costly item. This included the fixed naval berths and port installations, cavalry fodder, foreign mercenaries and citizens armies, the naval crews, and the “police force”, of mercenaries called “Scythian archers”. It did not comprise the upkeep cost of warships (trieres) when in service, which was the task of trierarchy. What is of interest here is the fact that Athens was the first state to have both a standing navy (the biggest in the Eastern Mediterranean at the time) and a standing army (although a small one, mainly a cavalry force). This was a decision taken many times during different periods under the principle of economic democracy. The citizens decided, after hearing the various arguments in favour and against, to provide for themselves the public good “defence” at specified amounts (i.e. so many ships to be build, to be in commission, the number of mercenaries to be hired for a specific time of service, the number of citizens to participate for duty and specific expeditions etc), at a specific cost, which would be financed out of state revenues whose burthen would fall on all citizens. (On some, the rich ones directly, in the form either of “trierarchy” or payment of the “eisphora” tax, or both, on the rest indirectly in the form of opportunity cost, since once the state revenue was earmarked for defence, it could not be used for other policies, some of them of direct benefits to some citizens groups).

But what was unique at the time was the introduction of financing of “public goods” which have a modern character: “Education” and “social policy”.

The Athenian state was the first one in history to introduce a ‘public education system’ and some ‘social policy’ measures.

It may appear strange to write that Athens spent revenue on the public good ‘education’. It is of course true, that ancient states did not have a system of public

education (schools, universities etc), this being considered a private choice, the cost of which should be born by the beneficiary.

The famous private philosophic schools of the 4<sup>th</sup> century, like Plato's Academy, are well known. But Athenians seem to have felt that these schools, as well as the children's private teachers (known as 'paidotrivai') could be afforded only by relatively well to do families, and not the poorer ones. They felt that poorer citizens should at least partake of some sort of education, financed through the state's (i.e. the Assembly's) decision to introduce the 'theorika' i.e. the production of theatrical plays. The cost of producing the play was one of the liturgies, falling on the richer citizens, and thus having again a redistributive function. But Athens went a step further, by being the first state in history to introduce at least one element of publicly financed 'education', this being the theatrical plays. As we have seen, theatrical performances had to perform one important educational function (teaching 'morals', history, mythology and religion). All Athenian citizens should be able to benefit from attending the performances. Since performances took place during daytime and lasted during the whole day for a four-day period, the poorer citizens would have to lose four days wages (or remuneration from work) in order to attend. Many would not be able to afford this loss. So, they had to be compensated, and the 'theorika' was introduced, being a payment to poorer citizens, allowing them to attend performances and compensation for wages and remuneration lost. Seen in this light, 'theorika' was the first educational programme in history financed by a state for the benefit of a substantial part of the citizen's population.

Lastly, social policy measures: Athens was again the first state in history to introduce social policy programmes that have a 'modern' character. They had a sort of 'social security' (or poor relief) for disabled persons with no means of support. These persons could be registered with the Council and receive a subsidy of one obol and later two obols per day. Further, if a citizen died in battle the state undertook the upbringing of any under-age sons. Moreover, at times of food shortages, the state often distributed corn, either free or subsidized (Lys. 24.26, Arist. Ath. Pol. 49.4. Aeschin. 3.154, 1.103-4). The re-distributive character of these social policy measures is clear and strong, since the beneficiaries, poor citizens, were paying no taxes at all, while the rich were taxed to generate the revenue used to finance these measures.

#### **4. Economic democracy as a system of check and balances**

By the middle of the fourth century (about 355 BC) new politicians appeared in the Athenian political scene, Euboulos, Lykourgos and Demosthenes among them. While the first two represented a new policy line, that of peace and concentration on internal affairs, Demosthenes represented the "war party", trying to make the Athenians aware of the new threat, that of the rising Macedon of Phillip. During the period up to 338 BC (battle of Chaironia, in which Philip decisively beat the Athenians and Thebans) the peace party seemed to have the upper hand, with some years of peace, and some of rather localised hostilities, but never full scale war like during the Peloponnesian and the first half of the fourth

century. Then, during 338-322, under Lykourgos, Athens enjoyed years of total peace (Sakellariou 1972).

During these periods, Euboulos and Lykourgos used the principle of economic democracy in order to propose and have accepted a new policy of check and balances between the various interest groups among the Athenian citizens, and possibly also metics. Metics did not vote, but I assume that they could exert some influence through Athenians with whom they collaborated.

Euboulos and Lykourgos proposed the following compromise: The poorer Athenians, the main benefactors in war time, since they had permanent employment and remuneration as rowers in the fleet, would refrain from voting for war, in exchange of remuneration in peace time. This took the form of increased payment for “*theorika*” (i.e. attending public ceremonies like the theatre, but also employment in the various public bodies like the Assembly and the Courts, as stated above). Through the continuous voting procedure under the principles of “*economic democracy*”, the poorer citizens-voters were guaranteed that they would have stable employment and remuneration in peace-time. The richer citizens, entrepreneurs, bankers, etc. gained from this compromise by having the possibility to pursue their interest (profit making) without the uncertainty and dangers of war. In exchange, they accepted some forms of contributions to the state (i.e. to the benefit of the poorer citizens) both out of the state revenues per se, (as exposed above), but also out of their own revenues, in the form of accepting “*liturgies*” and also the imposition, for the first time, of an income – wealth tax (*eisphora*).

This was the ingenious solution implemented by Euboulos and Lykourgos in order to achieve peace through a policy which balanced the interests of the various interest groups.

In today’s interpretation, it can be argued, that Euboulos and Lykourgos implemented for the first time a “*social contract*” which was not a fiction as postulated by philosophers of the Enlightenment like J.J. Rousseau, Voltaire, J. Locke, D. Hume, etc. but a reality that came about through direct voting on economic issues.

Through the system of continuous voting and consequently learning to calculate benefits as the outcome of each voting round (or game) the Athenians achieved a system of mutual advantage.

During this period, prosperity returned to Athens, which showed, as mentioned above, signs of economic strength and growth. In fact, public finances were so flourishing, that after paying for the various standard expenditures described above, these was a substantial surplus, which was used to continue the embellishment of the city with public monuments (like the theatre of Dionysus under the Akropolis).

In the light of modern theory, another additional interpretation is possible.

Buchanan and Tullock (1962, chapter 14) postulate that individuals in their constitutional roles do not choose directly the size and scope of the public sector. First, they choose the fundamental organisation of activity. Second, they choose the decision making rules. According to my interpretation of economic democracy in Ancient Athens, the above seems to be exactly what happened. First, during the

5<sup>th</sup> and early 4<sup>th</sup> century BC, the Athenians agreed and elaborated the fundamental framework of democracy, i.e. who would have voting rights (all free male citizens above the age of 18), who would have the right to be elected to various magistracies (all free male citizens according to some seniority rules, different for each body) and the various government bodies and magistracies. (Assembly, Courts, heads of different Funds, “President of the Democracy” (the “eponymous archon”, who was elected for a year in the beginning and later chosen by lot and who gave his name to the year), the heads of the military (“generals”, always elected) etc.

After establishing the framework (which evolved steadily during the two centuries), they established the decision-making rules, which were fairly simple and remained unchanged: Universal voting in the ruling body, the Assembly, and decisions under simple majority. All free male Athenians over 18 could vote, and a quorum of 6000 was necessary. Additional rules (again simple majority voting) were elaborated for the other bodies, like the Court (the “judges”, 500, were chosen by lot).

The finance of public goods, and thus also the size of the state budget and sector, resulted out of the voting-decision-making rules in the framework of economic democracy.

Again, Buchanan and Tullock (1962 p. 37) remark that private action forces the individual to exercise his freedom by making choices compulsory, while in collective choice the individual loses the sense of decision making responsibility. This seems to be one of the major problems of modern democracies, manifested in great abstinence from voting in general elections etc. Economic democracy, as practiced in Ancient Athens was a practical solution to this problem: Individuals were compelled by their own rational – individualistic calculations of their personal interest, to behave in matters of public choice (choice of public goods, their “quantities” and their finance) in exactly the same way as in questions of private choice.

Through economic democracy the effects of public choice are no more perceived as externalities (on which individuals can exert minimal influence, if at all) but they are internalised.

“Constitutional economics”, while accepting that politics are the adjustments of interests, postulate that this is done not statically (i.e. in a single point in time, the Election Day) but through a continuous process. In other terms, politics is a dynamic game, and participants can calculate their “returns” through a cost-benefit analysis over a certain time horizon. Allowing this, two very important conclusions follow: First, we have a learning possibility for each individual, which is taken into account after each decision and the calculation of its net welfare effect on him. Learning means in this case, that the individual decision maker includes each additional information resulting from past cost-benefit calculation in his decision making, thus enlarging the set of his strategic options for the next step of the “game”, i.e. the next decision. The individual tries to maximize his welfare on each step of the game, but taking account of past results, he can adopt new strategies in the future, which he believes will give better results. Within this set of new strategies, a more “dramatic” option would



be for him to try to change the rules themselves, for example by trying to establish a new coalition with other individuals having similar interests.

Again, we have the first example of this happening, in Ancient Athens in 482 BC. Then, perceiving the threat of a new Persian invasion, Themistocles proposed his famous Naval Law or Decree, to build 200 new “triremes” warships within two years. In order to pass the law in the Assembly, Themistocles managed to bring about a new coalition, mainly based on the poorer citizens, who up to then could vote, but could not be elected to offices. He convinced them, that the fleet would offer them employment and remuneration as rowers, and once the Persians were repelled, they would have full political rights (They would be eligible to all state offices). The new coalition united the poorer citizens with the then emerging entrepreneurial class (ship owners, merchants, “industrialists” and hand workers-artisans) against the old aristocracy of landowners and farmers. The new coalition won, and thus Athens was transformed into a sea power and the most representative democracy in the world till then (Kyriazis – Zouboulakis 2004).

Second, once we accept the possibility of learning and the formation of new coalitions, the possibility of side-payments within the coalition becomes also a possibility. This again makes the formation of larger and more stable coalitions possible. In a dynamic situation, logrolling becomes a possibility and this brings about compromises between the interests of the various individuals and groups. In the long run this may result in a positive sum game (Buchanan and Tullock, (1962, pp. 148, 151-154).

Economic democracy as practised in Ancient Athens, achieved such a result. The policy of Euboulos and Lykourgos described above corresponds exactly to a situation when logrolling is practised and side payments are involved. In this case, side payments were the “social policy” measures (“theorika” etc) in favour of the poorer members of the coalition.

The interpretation of economic democracy in the light of constitutional economics as applied to Ancient Athens can be extended further.

## **5. The emergence of new economic institutions and organisations**

In parallel to the evolution of political institutions, new economic institutions and organisation forms were developed, following Athens becoming a sea power after 480 BC.

Aristoteles proposed a thesis stating that sea power and democracy go hand in hand. Athens, his main example, shows that sea power and democracy are also linked to economic development and the emergence of new institutions and organisation forms, such as the safeguard of property rights, legal developments concerning contracts, the formation of share companies (predecessors of joint-stock companies), insurances and a banking system.

Athens is a case where we can observe these developments since we have sufficient extant evidence from ancient sources on this. Similar developments probably did take place in maritime Phoenician states and Carthago (for which we lack much evidence), Rhodes (the Rodian maritime law was very developed and

formed the basis for Roman law) and medieval Italian states like Venice and Genoa (Greif 2006, Kyriazis 2006).

Athens developed strong legal institutions to protect property rights. Property was held to be inviolable, and, as part of a system of incentives for economic activity, even slaves could own some types of property (excluding land). The courts were responsible for solving legal disputes concerning property rights, safeguarding among others, legal contracts of associations. It appears that business associations, especially in relation to seaborne trade and finance, were common. These associations were the prototypes of joint-stock companies (Hyper, *For Eux.*, 35, *Arist. Ethics E.*, 1942β, 14-17). Contracts were often written, and as Demosthenes writes (*Lacr.* 39) the written contract stipulates “that nothing has more validity than its conditions, and nobody has the right to appeal to any law or decree, or anything else against this written agreement”. Athenians understood the utility of this organisation form both as a means of raising substantial capital sums, and as a means of risk sharing, as is made clear for example by Xenophon (*Res. IV*, 27-32).

As Cohen (1997) has analysed, Athenian banking system was very developed during the fourth century, Athenian banks offering almost all services offered by modern banks (including, as the famous Satyros, King of Pontus litigation has preserved, offshore services). Among others, maritime loans with various collaterals, and the use of bills of exchange, were widespread (*Isoc.*, *Trap.* 35).

The Athenian institutional set-up consciously strived to reduce transaction costs, so as to enhance economic activity. A particularly striking example of this, is Nicophon’s law on silver coinage (375-374 BC), whose purpose was the safeguard against fraud and the facilitation of currency circulation and exchange. (Ober, (forthcoming), *Taxation and liturgies* (which can be regarded as a very special form of taxation) were also developed trying and in general succeeding, to generate low transaction costs (Lyttkens, 1994).

Ongoing analysis of Athenian institutions and organisations shows that they had some very modern characteristics.

## **6. Conclusions: Can we learn from the prototype democracy?**

I have analysed above the working of the Athenian democracy with emphasis on the decision-making procedures concerning public finances and the choice and provision of public goods. As ahead stated by Aristoteles and later taken up by many philosophers and political scientists, notably J.S. Mill (1861), perhaps one of the most important ideas to be found in relation to democracy, is the one which aims at the creation of a citizens society where they are active in politics and economics so that they achieve the completion of their personalities. They express their ‘virtue’ (the Greek word being ‘areti’) in taking part in decision-making in solving public problems for the ‘common good’. Sovereign citizens in a democracy must take part in this decision-making procedure, because this is the way, for them to be masters of their own fate, and the fate of their societies and their states (Macpherson 1977, Paparrigopoulos 1984). Seen in this

light, citizens' participation and involvement in decision-making is the cornerstone of democracy.

Modern authors, as Sen (1999, 1993) propose a conception of democracy as a way of constructing a more global point of view out of more local points of view, linked to the concept of "positional objectivity". People have often reason to change their position from a local to a global one, and democracy is a way to construct such a shared point of view. Democracy is government by discussion among equals and a collective engagement in practical reason (Devey 1927, Habermas 1996, Anderson 2003) and voting is a mechanism for aggregating individual preferences. Learning from experience, trying out different policies to see what works, experimenting with different public policies to see what works are paradigms of exercises in practical reason.

But, as pointed out by modern authors, (f.e. Downs (1957)) citizens of today's democracies are both ill-informed about the issues on which they have to decide (even if this decision takes the form of one all encompassing "general" vote for one party) and reluctant to vote. One of Downs' somewhat surprising conclusions is that a rational person will devote little effort to becoming well informed before voting. Throughout the history of political theory there has been much preaching aimed at "improving" the voter. Down's demonstration that the voter was behaving sensibly not only suggests why all of this preaching has been unsuccessful, but also indicates that the preachers have been wrong, or that preaching is not the correct means of "improving" the voter.

Buchanan and Tullock (1962 p. 204) support Down's finding by their introduction of the cost of decision making. These costs may become too large relative to the possible reduction in expected external costs that collective action might produce. If direct democracy were required, the individual, in his presumed role as constitutional choice maker, would leave many activities of the State to be organised in the private sector. Representative government is a means of reducing this decision making costs.

Economic democracy on the other hand, gives strong incentives to voters to be well informed, since through their decision making they internalise both benefits and costs.

Direct democracy, also in relation to economic questions, as practised in Athens, increases the knowledge of voters, moving them as postulated by Sen and others, from local to more synthetic, global viewpoints. This, in the sense of Buchanan and Tullock, increases consensus and also, enlarges the choice set of strategies. A particular example of this is the enlargement of the choice set inherent in Themistocles' Naval Law. He proposed to include in the choice set, which before included just one choice (i.e. to share the revenue of the Lavrion silver mines equally among all citizens) a second one, (i.e. to devote the revenue to finance a fleet, it to acquire a public good, defence, as against a private one, i.e. consumption).

It is clear, that the implementation of the second alternative involved increased knowledge for every voter: Themistocles made clear the effects of his proposal for the city as a whole, and for the individual. Benefits for the city (i.e. the public good aspect of the strategy) meant that the city's freedom against the

threat of Persian occupation would be preserved. Benefits for the individual voter (the private aspect of the strategy) meant that the individual voter would preserve his “immaterial” values, i.e. freedom, religion, way of life etc., combined with material ones, i.e., remuneration as rowers for the warships.

Athenian democracy, as practised also in the economic sphere, does show the workings of the postulates of the modern advocacies of democracy exposed briefly above. The exchange of views, permanent voting, resulted in increased knowledge and motivation in the Athenian voter, increased the choice set of strategies, and for a lengthy period brought about cultural and economic development.

Recently, some modern authors (Manville and Ober 2003, Doukas 2005) have pointed out that there is much to learn from the workings of Ancient Athenian democracy when applied to modern organisation theory, concerning mainly the motivation of persons working for organisations and enterprises. Manville and Ober characterise f.e. the Athenians as a moral community with a business orientation.

Athenians evolved under economic democracy an elaborate structure of decision-making, but also forms of revenues for the budget that have a very modern character, like progressive income-property taxation. They solved also successfully problems facing modern democracies concerning public choice and the provision of public goods like defence. Through the procedure of continuous voting (or ‘referendums’, as they may be called using modern terminology) they acquired knowledge, evolved an elaborate institutional setting, and expressed their preferences concerning both the choice and the amounts of the public goods to be provided.

Today’s representative democracies have gone away from the old Athenian (and other Greek city-states) ideal of participate democracy.<sup>10</sup> Still, during the last decades of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup>, some states and societies seem to have started to reintroduce elements of participative democracy at many levels, while some, like the Swiss Federation never stopped using it.<sup>11</sup>

Tomorrows technology, through for example an electronic ‘voting-card and signature’ for every citizen, may enable the increased reintroduction of ‘economic democracy’, while increased awareness by citizens of their rights, as well as of the repercussion of decisions taken which affect their lives, may force politicians to move in this direction. Once introduced, this is a self-reinforcing process, as it was in Ancient Athens. Citizens become more aware of the stakes, and they have incentives to acquire more information and become more ‘qualified’ in decision-making. Coupled with modern technology, which reduces the cost of decision-making, economic democracy is a practical means of improving the working of today’s democracies.

Thus “economic democracy” and “teledemocracy” become mutually reinforcing<sup>12</sup>.

Could we perhaps foresee in the future an emulation of the Athenian economic democracy, by introducing an electronic market place for debate on ideas and proposals on specific issues, in which every citizen would be able to put forward his proposal or counter-proposal? Could this lead then to referendums if

any issue invites a sufficient number of electronic votes? (i.e., some kind of quorum). In the sense of constitutional economics, this kind of electronic market place would lead to consensus building, at the same time lowering expected decision making costs (or transactions costs according to Coase) which without the existence of the electronic market place are sometimes very high and so inhibit the building of decisive coalitions.

Thus, it is worthwhile to study the model of Ancient Athenian democracy, also in the case of decision-making concerning public choice, finance and economics in general.

## Notes:

<sup>1</sup> For the political institutions etc of 4th century Athens, see Hansen (1999) and the extensive literature given therein, and for a review of the discussion concerning the economic and social aspects, see M.M. Austin and P. Vidal-Naquet (1980).

<sup>2</sup> This period was the “golden age” of letters and orators, like Plato and Aristoteles, Lysias, Aeschines, Hyperides and the greatest orator of ancient times, Demosthenes.

<sup>3</sup> The Assembly was one (the most important) political body in Athens. All free male citizens (about 30.000 according to most estimates during the 4<sup>th</sup> century) had the right to participate and to vote. The quorum required was 6.000. For details see Hansen (1999).

<sup>4</sup> The same may also have been true of the maritime Phoenician States in the 6<sup>th</sup> century, like Tyre and Sidon, and possibly 3<sup>rd</sup> century Carthago, for all of which we lack sufficient extant ancient evidence to “prove” it. This happened again during late Medieval times for some Italian maritime-commercial states like Venice and Genoa, and for the first time in the modern era with the United Provinces-Dutch Republic in the early 17<sup>th</sup> century.

<sup>5</sup> In this sense Ancient Athens anticipated the proposals of the monetarist school proponents like Friedman, Lucas, Sargent etc. and the liberals like F.A. von Hayek etc. by 24 centuries!

<sup>6</sup> Aristophanes in the “Birds” makes fun of it. Before the main character Pisthetairos creates his ideal state (a pun of course to philosophers attempts to create ideal states, like his near contemporary Plato) various experts come forward to him and offer their services, for a fee: Among them a lawyer to sell good laws, a geometrician to sell “urban planning services”, a seer, an overseer etc. For us, this is a good indication of the workings of a market of services and of the variety of services to be had! Xen (Mem. B. VII, 6) mentions many “tradesmen” who were wealthy enough to undertake liturgies, while about 170 different occupations have been counted (Karayannis 2007). This shows the high degree of specialisation in the Athenian market economy.

<sup>7</sup> Aristotle in the “Politics” (Arist. Pol. 1304<sup>b</sup>19-1305<sup>a</sup>7) points out that the majority decisions of the humble folk (who are the majority in a democracy and in the Athenian Assembly) may drive the well-to-do minority into rebellion. Yet, that never became a problem in 4<sup>th</sup> century Athens, showing that the Athenian state had managed to establish a system of, in modern terms, “checks and balances” so that the advantages of democracy, even for the well to do evidently outweighed the disadvantage of being sometimes in minority. (Lys. 19.57, Dem. 21.62-3, Hansen 1999). See also text for Euboulos policies in this context.

<sup>8</sup> According to Karayiannis (2005) answering a questionnaire, 56% of the Greek entrepreneurs of the survey maintained that they committed tax evasion as a purely defensive measure, because they felt that they paid too high taxes compared to the benefits derived from the states various policies.

<sup>9</sup> A talent was 6,000 drachmae, when at this period a skilled worker or artisan received a daily wage of about one and a half drachmae.

<sup>10</sup> For a history of 'participative' democracy within liberal democracy, see Macpherson 1977.

<sup>11</sup> An example of this are the referendums undertaken in some European (France, Netherlands) Union states concerning the new European Constitution.

<sup>12</sup> Concerning "teledemocracy" see Slaton (1992), Grossman (1995) and Morris (1999).

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