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Morality, institutions and the wealth of nations: Some lessons from ancient Greece ☆

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ABSTRACT

The character and the morality of citizens are important for prosperity because they go hand in hand with the great institutions of private property, democracy, and free markets. We establish this result by reference to the city-states of Athens and Sparta during the period 490–338 BC. Consequently, we conclude, countries in search of policies to escape from the trap of poverty should not only try to emulate the institutions of economically advanced countries but furthermore they should set up educational systems to infuse into the value systems of their citizens' compatible "ethos".

(From a dialogue between Pope Benedict XIV and Voltaire somewhere in the grateful memory of mankind)

Voltaire: I still think that philosophers can dispense with morality.

Pope Benedict XIV: How naïve you are. Are children capable of philosophy? Can children reason? Society is based upon morality, morality is based upon character, character is formed in childhood and youth long before reason can be a guide. We must infuse morality into the individual when he is young and malleable; then it may be strong enough to withstand his individualistic impulses, even his individualistic reasoning. I am afraid you began to think too soon. The intellect is constitutional individualist, and when it is uncontrolled by morality it can tear society to pieces.

Durant and Durant (1967, 791).

☆ In this paper we do not address the influence of ancient Greek philosophers on Adam Smith in the context of his celebrated treatise on the nature and causes of the wealth of nations. From the discussions in Smith's works and the voluminous literature that has developed since then we know that their influence was significant. But to preclude such an association we should like to make it clear from the outset that our interest is to investigate the relationship of morality and institutions to the wealth of two ancient city-states, i.e. Athens and Sparta.

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1. Introduction

In the two decades following World War II economists thought, and policy advisors from international organizations suggested to poor countries, that the quickest road to prosperity was to save and invest, to educate their labor force, to give emphasis to exportable goods, and in general to follow strategies based on the dominant growth theory and policy. However, subsequently, in view of the persistence of poverty in many parts of the world, economists turned to other hypotheses. For example, to explain why many countries located in disadvantaged regions remained poor, they hypothesized that the culprit was geography. But since policy makers cannot exercise meaningful control over variables such as climate, resource endowments, etc. the *geography hypothesis* presented a gloomy outlook for these countries and this induced some researchers to look for more efficient development strategies in other directions. This search led to the realization that poor countries lack well defined systems of property rights, the rule of law is lax, the freedom of exchange is restricted, etc. Thus, by attributing partly the differences in living standards between rich and poor nations to these fundamental deficiencies, they proposed the so-called *institutions hypothesis*.[1]

Yet establishing efficient institutions is not an easy undertaking. This is so because the choices of their desirable forms and effectiveness depend on various factors, which arise from differences not only in geography but also in history, political economy circumstances and other initial conditions. Moreover, research by Platteau (1994), Yaffey (1998), and others, has documented that there are certain fundamental context invariant processes that contribute positively, either by improving the quality of life per se, or by facilitating the establishment and the functioning of wealth-enhancing institutions, one of them being morality that Pope Benedict XIV stressed in the captioned passage from his imaginary discussion with Voltaire. Thus, for us it is fascinating to add to this literature by looking at the difference that morality and institutions made to the distinctly disparate economic circumstances that classical Athens and Sparta experienced at the peak of their power.[2]

With this agenda in mind our plan is to adopt the type of analysis econometricians call difference-in-difference in order to investigate whether the wealth outcomes between two ancient Greek city-states, Athens and Sparta, were due to some extent to differences in their systems of morality and institutions. Clearly, in view of the lack of quantitative data, we cannot conduct a formal statistical analysis that would enable us to control for the differences in other wealth-enhancing factors. Yet it may be possible to conduct a somewhat weaker test. This would require to establish that, if we were able to account in some way for the other influences that worked in the period under investigation, the level of wealth in the two city-states would have been essentially the same, had it not been for the differences in their moral norms and institutions.

The paper is organized as follows. In Section 2 we present a brief account of what we know with relative certainty about the differences regarding the size and composition of the population, the size and fertility of the land, and the moral norms and institutions that prevailed in the two city-states over the period from 490 to 338 BC. In Section 3 we describe the differences in the structure and the performance of the two economies. Then, in Section 4, we advance the possible reasons why Athens achieved a superior level of wealth relative to Sparta. From this analysis it turns out that the particular institutions that were put in place in Athens, together with the moral norms that secured their efficient operation, played a pivotal role. Finally, in Section 5, we conclude with a synopsis of our findings and some lessons for today.

2. Stylized differences of the two city-states

As family ties loosened up and individuals got liberated, the powers of the city-state in ancient Greece increased at the expense of the families that constituted it and started to pursue objectives in the interest of all citizens.[3] So making the best out of their advantages the city-states took different paths to social and economic development. The following account confirms that the differences were nowhere more striking than in the cases of Athens and Sparta.

2.1. Differences in land and population

The size of city-states in ancient Greece was small. Generally, they covered an area not exceeding the limits of a contemporary municipality. But Athens and Sparta stretched over exceptionally large areas. In particular, as mentioned by Glotz (1928, 34), when Sparta added to Laconia the region of Messinea in the middle of the 7th century BC it became the first power in Greece, because it controlled a land of 8,400 km^2, whereas when Athens added to its territory the island of Salamis and the district of Oropos in the 6th century BC, it extended over an area of 2,650 km^2.

Turning to the population, a simple average of the estimates mentioned by Amemiya (2007, 36) points to a size for Athens in 430 BC of about 300,000 inhabitants, whereas from the estimates quoted by Andreades (1928, 65, ft.2) the population in Sparta during the same period was about 250,000. As for its composition, the same sources indicate that while in Athens lived 180,000 citizens, 50,000 resident alien (*metics*) and 70,000 private slaves, in Sparta inhabited 15,000 citizens (*Homoioi*), 80,000 non-

[1] The switch to this hypothesis was certainly precipitated by the failure of the so-called transition economies like Russia to achieve rapid economic growth. For an extensive bibliography in this regard, see, for example, Acemoglou (2003).

[2] Recent studies have shown that elements of morality, such as sentiments of guilt or virtue and trust enforce social welfare and increase the rate of investment and economic growth (see, e.g. Kaplow and Shavell, 2007). Similarly, numerous economists (see e.g. North, 1990; Platteau, 1994; Tanzi, 2000) have established that the decline in general morality and the increase in opportunism (Williamson, 1985, 64; Nooteboom, 1998, 172) raise transaction costs, thus reducing the available resources for wealth-enhancing activities. Last, but not least, Schultz (2001, ch. 2,3) has proved that a Pareto-efficient equilibrium allocation is not attainable without moral constraints such as full security of property, impossibility of false information and zero cost of enforcing contracts.

[3] For a more detailed analysis for the development of the Greek cities see Mitchell and Rhodes (1997), Lyttkens (2006).