

## THE NEW INSTITUTIONALISM

A new theoretical approach to the study of classical economics<sup>1</sup>

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*My aim at the present paper is to show that the New Institutional approach to economics is a useful tool of study for ancient economics, in contrast to neoclassical economics, and getting over the theoretical shortcomings which social sciences have shown on the matter. Making a short overview of the New Institutional theoretical basis and giving some guidelines regarding the reasons why most ancient societies did not develop an efficient economic system, being nevertheless able to survive in many cases for long periods of time, I give a tentative explanation of why this was a generalised case of affairs until the Modern Age. I also make a point on the desirability of developing new behavioural models which help to explain more realistically the way humans make economic decisions the way they do.*

### I

The evidence showing that the neoclassical theoretical approach in economics is inadequate for the study of the ancient economy and, in general, all pre-industrial economies (Govantes-Edwards, 2007) presents us with a dilemma. Should we substitute the neoclassical theory with another conceptual body of equally comprehensive spirit? Or is it better to develop short-range, tailor-made theories for every cultural horizon under study?

It appears that the second option is currently gaining prevalence, as the abandonment of the dogmatic positions of authors such as Finley and Rostovtzeff is a growing academic trend, along with the increasingly accepted idea that the ancient economy cannot be seen as a single subject of study and that the specific varying circumstances in different places and epochs should be considered more

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(Andreau 2000) than they have been to date. This undoubtedly favours the chances of arriving at more complex models and more precise contextualisations (Parkins 1998). But, on the other side, it involves a risk which is becoming increasingly conspicuous; usually, theoretical dispersion also implies different nomenclatures, approaches, ideological prejudices and basic units of study, etc. (Davies 1998). This lack of cohesion limits the diffusion of much of the work currently being undertaken into academic, linguistic and administrative niches, thus reducing the pace of real progress in the state of our knowledge.

Furthermore, strong modernist reluctance to accept the empirical evidence disabling neoclassical theory as an appropriate tool of study has led primitivists and substantivists to concentrate on discrediting the neoclassical model rather than developing alternative theoretical proposals. In the best of cases, they suggest poorly articulated and functional models as in Polanyi (Polanyi 1994), Sahlins (Sahlins 1972) or, more recently, Gudeman (Gudeman 2001). This might explain why most scholars interested in aspects of classical antiquity which are not specifically economic, accept a basic neoclassical viewpoint when they come across economy-related matters. It seems clear that we need to go one step further, creating a conceptual body which is solid enough to structure the empirical evidence in a systematic way while answering the questions arising from ancient economic phenomena both coherently and according to the data (Ayala, 1999). To quote S. Meikle, "*Scholars have shown, over and over again, that antiquity did not have the institutions, ideas and practices which modernist claims wittingly or unwittingly attribute to it. This detailed empirical refutation ought to be enough, but it never is, and this suggests that there is an underlying problem which empirical evidence on its own is failing to resolve*" (Meikle 1995). A general model would have the same problems as neoclassical economic theory, and other models which have in the past attempted to combine arguments based on grounds as divergent as Marxism, structuralism and neoclassical economics (Gregory 1984; Eggertson 1996) do not work when confronted with the data, so we need a medium-range theory which proves valid for economies sharing similar production relation structures (Godelier 1984). We are assuming the three theoretical levels in the social sciences postulated by Trigger in his *A History of Archaeological Thought*. Low level theories are those which are nothing more than generalisations based on regular behavioural patterns; they can be challenged with the mere observation of contradictory behaviour. Medium range theories are those which explain regularities occurring in two or more bodies of variable data. They must be broad enough to cover all sides of all data collections and specific enough to be applicable to a single case study. High level theories attempt to discern the relationship and dynamics between relevant theoretical models within a given area of knowledge (Trigger 1989).

In my opinion, the theoretical *corpus* developed by the so-called New Institutionalism (NI) offers very promising expectations as, on the one hand, it satisfies the decades-old historians' demand that the analysis of historical economic performance should consider factors which are irrelevant for neoclassical theory (this was

demanded by no other than Max Weber) and, on the other, it presents a theoretical model which consistently integrates economic variables. Obviously, and here we are returning to a previous point, the model requires several adjustments which, as they do not have a negative effect on and are permitted by the flexibility of the NI general model, will enable us to establish a hierarchy of relative significance for all factors requiring consideration; our guide for this should be the general nature of the structure of production relations in antiquity (Morris 1986; Godelier 1984). This unorthodox variant of historical materialism will foster the generation of a theoretical model which, springing from the same roots, will take on a slightly different form when studying ancient economies and, say, our modern market society. A failure to distinguish between the two would mean applying the theoretical NI model in the same way as neoclassical theory has been implemented in the past, probably with the same negative outcome. What we should do now is probably to briefly describe the basic contents of the institutional economics model while making such appreciations as we go.

## II

Our study object should be the dichotomy between economic structure and economic change; for the sake of brevity, we can call it “economic growth”. We assume that it is not true that economic growth is a phenomenon exclusive to the societies arising from the Industrial Revolution, as there are previous instances in which sustained economic growth can be detected. Economic growth takes place when, in the long run, per capita income grows more than the total population, either due to the absolute increase of productive factors or the improved efficiency of one or several of such factors derived from the implementation of economies of scale or reduced flaws in the exchange process (North and Weingast 1996). The processes which lead economic factors in that direction vary from the optimisation and maximisation championed by A. Smith to the increase in capital investment posed by neoclassical economics (followed by improvement on the credit technology, to avoid diminishing returns) and the investment in technology and in human capital proposed by the Chicago school (Saller 2002). Notwithstanding, the neoclassical theory sees these variables as the cause of growth, but in truth they are nothing but indicators of such growth. Real growth is the increase in the efficiency of the economic system, based on equilibrium between private and social profit rates (North and Thomas 1976).

So far we have been using basic concepts which are also easily reconcilable with a more or less orthodox approach to economics. However, this is precisely where the problems begin. The first concerns methodology. We have been referring to income, rates, scales, etc. They are all quantitative concepts and, therefore, incompatible with the study of the ancient economy where we simply lack enough figures to enable a mathematical model, due to the scarceness of precise data (North 1996; Davies 1998). Demography is a perfect example because, being as it is one of the key variables in economic analysis, although systematically

ignored by the neoclassical approach (North 1984), it is one of the most obscure subjects of study for antiquity, because the data are very scant and unreliable and, I believe, of questionable analytical value.

Our analysis will therefore have to be performed in qualitative terms. But how can we evaluate economic efficiency quantitatively? The answer lies in the structural/critical dimension of an economic system over time. Every economic system is determined by a series of guiding principles which form the basis for production relations (Godelier 1984) and are manifest in the form of the institutions building the socio-political system. The system will be efficient if it proves itself able to survive intact or progressively evolve (evolution), so the guiding principles of its production relations remain unaltered; this will not be the case if those same guiding principles are substituted by others due to stochastic reasons (e.g. natural disasters of cataclysmic consequences), internal tensions (revolution) or the imposition of a new system by a more efficient neighbour/competitor. This notion which sees States as almost living organisms aiming for survival and resisting change, violently if necessary, is not new. It was already put forward by G. Childe in his theory of social evolution, and further developed by M. Harris from the ranks of cultural materialism and M. Godelier from those of neo-Marxism (Trigger 1989). As a result, the efficiency of a system can only be rated in relative terms and over time. Institutions, as the visible manifestation of the guiding principles, become the detailed subject of study with, as we shall soon see, their own (r)evolution revealing the economic performance of the system in which they originate. This theoretical framework will also enable us to fill one of the largest gaps in the current state of our knowledge of economic history, with which the neoclassical approach has been unable to come to terms, which is the explanation of the prolonged survival of economic systems which are profoundly defective in econometric terms (North 1984; Morris 2001).

Institutions are compounds of formal rules which delimit and govern individual and collective behaviour, thus regulating the social interaction process, the mechanisms devised to identify and punish deviations from such behaviour and the moral and ideological frame of reference (informal institutions) on which the rules depend (Eggertsson 1996). The good performance of an institution will depend on the diffusion and acceptance of its knowledge and the coercive power of the political structure by which it is supported, in the case of formal institutions, and on the legitimacy of its contents in the case of informal ones (Ayala 1999). Consequently, in order to analyse an economic system, the institutional framework in which it operates will have to be dissected, as institutions limit the economic practices available (Szostak 2006).

Property rights are among the most important institutions in relation to economic performance. Property rights regulate the right of agents to make use of a particular resource, be it material, political, social or religious, etc. and, as institutions, their impact on actual behaviour will depend on the degree of recognition of said institution by society and on the degree of efficiency of the political structure in its enforcement, either by governmental intervention or internal means of

control, such as economies of scale (Eggertsson 1996; Libecap 1996). Conceived as exogenous elements from the neoclassical point of view, the two main factors affecting the nature of property rights are the level of guarantee of exclusivity and the capacity for voluntary transfer that they provide. Both factors are subject to gradation and their value shows the degree of flexibility with which the assets concerned can be managed. They also have an impact on the value of the resource, as an increase in the freedom and security with which an agent can administer a resource will necessarily evolve into an increase of the resource's value (Ayala 1999), although this function is not so clear when the property right/value ratio exceeds a certain optimum due to transaction costs. The structure of property rights determines the distribution of power in society.

Economic, political and social transactions all incur transaction costs (Morris 2001). Economic phenomena also have production costs, but they are well covered by neoclassical economics and are of no interest here. It is an important notion, which must be remembered at all times, that exchange is not limited to goods, but it also extends to ideas and policies, and so on, as they arise wherever property rights change hands, and such exchange is always costly (Ayala 1999). Political organisation, that is the structure of institutions and property rights, has a direct impact on those property rights and thus on economic performance (Horden/Purcell 2005). An economic organisation, therefore, and this is the key to this entire theoretical model, in which property rights are well defined and efficiently protected and enforced by the authorities will result in increased economic efficiency (in neoclassical terms), protecting agents' property and encouraging investment, which in turn will provide the possibility of equilibrium between individual and social profit rates; if, on the contrary, property rights are not well defined and/or enforced, the individual and collective stimulus for investment and for maximisation of resource potential will decrease (Eggertsson 1996). This would explain the apparent lack of interest in technological progress throughout the Greco-Roman world. The absence of clear (if any at all, outside fields such as the arts and philosophy, in which sponsorship was common for prestige reasons) property rights over intellectual production discouraged individuals from investing in technical innovations (research), which consequently did not occur on an economically relevant level (North 1984). The main types of transaction costs are: a) information costs, b) negotiation costs and c) execution costs (contracting, enforcing, monitoring). Efficient institutions help to reduce uncertainty by diminishing the available alternatives to a more or less narrow range, making the acquisition of information less costly (by limiting the surveying needs to a restricted number of alternatives), abating negotiation costs (by defining the rights, and therefore, the relative standing of agents in a bargaining situation) and cutting the costs of enforcing agreements (with the creation of a legal and judicial system), and, in short, adding to the transaction's efficiency (Ayala 1999).

However, the number of societies in which institutional and property right structures have been designed to favour interests other than economic efficiency throughout history clearly represents a majority. Ideology plays a vital role in this,

and we shall return to it shortly. We can now better define the issue with a dramatically short overview of the theory of complex societies, so that we can fully understand the dynamics to be developed in the following paragraphs.

### III

Complex societies breed hierarchical systems which, according to the intricacy and stability of their political body, can be divided into pre-states, proto-states and states. We will not linger to consider the reasons why a pre-political state evolves into a political state, because it is beyond our scope, but (although these and others are subject to debate) we can epitomise the conditions required for the rise of a state as the specialisation of governmental roles, centralisation of the authority, stability of structure and emancipation from kinship forms of organisation (Runciman 1982). This political body has to have a comparative advantage in its ability to use violence, a conglomerate of legal norms and an bureaucratic apparatus to guarantee that they are enforced, and control over the belief system, which make the aforesaid conditions less costly (North 1984). Only societies which reach a certain threshold of complexity will develop a formal establishment for the exercise of power, such as councils and magistracies (Sakellariou 1989), and an even further degree of complexity will consecrate the separation of the political elite and its superstructure from the rest of society, and an administrative organisation will be needed for assuring communication between the two. If the ranks of the dominant elite feed upon minority groups (for kinship, political or religious reasons, for instance) there will be a formal social stratification equivalent to the political one. If their members belong to a majority group, this sort of social stratification will not occur. If it does, the stratification will be complex, as multiple factors will be taken into consideration, including kinship, economy, religion, etc (Smith 1977). In all circumstances, it is important for the definition of a given polity (of whatever grade) to be assimilated to the nature of its political system. With this we mean that a Greek *polis*, in which the political establishment is assimilated to a great extent to the entire citizen body, cannot be considered on an equal footing with, for example, a modern state, articulated through an impersonal bureaucracy (Cartledge 1998).

These complex structures embody individuals, kinship groups, social classes, lobbies, religious bodies, etc. with their own respective, and more or less divergent, interests. The reasons why governing elites choose to implement inefficient institutions and property rights are many, and we will only consider a series of basic possibilities. But, in general, in such contexts in which economic decisions are taken for political reasons, economic efficiency will be unavoidably related to the typical inefficiency of political markets.

The state or the government can prefer to defend its own interests or those of the social class supporting it, by maximising its own income. This deprives the economic system of the body which is in a better position to support an efficient institutional structure (North/Thomas 1976), because private agents can only impose

the self-enforcement of institutions facing enormous costs. Indeed, instances in which profit can be obtained at a low cost in a self-enforcing institutional environment are exceptional (Ayala 1999). The only element of control suffered by the state is the potential threat that internal competitors or neighbour states offering alternative structures of property rights can pose for its stability. If those threats become ominous, the state will have to rearrange income distribution (changing the property rights distribution) among other social groups, in order to ensure their support and thus increase its chances of survival. The ability to exercise monopolistic power will be inversely proportional with the likelihood of such threats actually endangering the system's stability (North 1981).

There is a series of property rights which cover the entire citizen body, such as military security and the legal system, and the state alone is responsible for providing them because their universality is beyond market capabilities (if any). If the state does not protect those property rights efficiently, or if it only does so partially, redistributing them at discretion and benefiting some groups over others, or if, simply, the citizen body does not represent the entire physical population, economic performance will be negatively affected because transaction costs will rise in any exchange in which those rights are in any way involved (Ayala 1999). When the social body is made up of competing heterogeneous groups, redistribution solutions are more likely to be chosen, and this does not only apply to key but to all property rights. If the society is homogeneous or the interests of different groups are reasonably convergent, an optimising alternative is more to be expected although it cannot be taken for granted (Higgs 1996). Generally speaking, any system in which the state primes redistribution, more often than not for political reasons, plays against economic growth in neoclassical terms.

The causes leading to a change in the state's property rights structure from within include a change in military technology altering the relation of forces and the relative bargaining capacity of one or several social agents, or a change in economic conditions which also leads to a change in the relative status of agents' bargaining potential (North 1984). In order for these changing conditions to actually induce a change in the institutional structure, the costs of doing so will need to be lower than those of another alternative, such as, for instance, strengthening the state's control apparatus to erase the relative advantage obtained by opposing groups due to the new circumstances. Finally, the change in the structure of property rights will not necessarily lead to increased efficiency of the economic system, as there is no guarantee that the new structure will reduce transaction costs while satisfying the demands of the newly benefited groups by maximising their income (Eggertsson 1996).

If a change actually occurs, it will generally affect secondary institutions springing from the primary institutional body, manifest in the form of formal constitutions, a customary law fabric or an informal belief system, because the transformation of those primary institutions is much more costly and they often even include explicit provisions against mutability, so they can only be changed through revolution (North 1971; North/Thomas 1971). If primary institutions

remain unaltered, the resulting system will keep the same ruling principles over production and social relations, and the change will only affect the superstructure. The ability of groups not integrated into the political elite to induce change in the institutional body is limited by their hierarchically inferior status, even though they may be more dynamic or flexible (Weber 1996). This limits their access to property rights, making them organically inferior. Furthermore, non-governmental groups are particularly sensitive to the effects of the “free rider theory”, because if they carry out their collective action without an institutional structure properly designed to get all of the potential beneficiaries of the group’s action involved in its operations, they will have to impose transaction costs on those same operations, transaction costs that will inevitably burden their effectiveness, in order to prevent “rascals” from obtaining a share in the possible outcome (North/Thomas 1978). This “free rider theory”, and the absence of strong bargaining status in the opposing groups it involves, means that, generally, if a negotiation process between them and the governing elite in any of the aforementioned circumstances (changes in military technology or economic conditions, or both) takes place, the aftermath of such bargaining process will still be favourable to the governing groups which, in exchange for some of their power, will impose a control system which will be both more effective and less susceptible to further modifications, thus strengthening their position in the long run. We now start to question how we can still foster the classical notion that better defined formal regulation systems (written constitutions, weight and measure systems, legal tender money, etc.) are developed in order to implement more egalitarian political dynamics, or whether they are actually established by elite groups to increase the foundations of their secular power (Von Reden, 1997). In the specific case of ancient Greece, all this raises some interesting questions. First, it could establish a new truth about the writing of constitutions in the archaic period, Solon’s, for example, which would no longer be seen as major progress for the lower classes but as reassurance of the former *status quo*. Another question which comes to mind and could be worth considering is the role played by a control device which, rather unusually and almost uniquely in the ancient world, was not under the control of the ruling elites. I am referring to writing, which could explain many of the peculiarities of Greek ancient history (Bowman and Woolf, 1994). This “free rider theory” can also be considered the other way round, when the “rascal” is actually so because he breaks solidarity within the elite group in order to obtain some personal gain, weakening the bargaining potential of the group to which he belongs. Greek tyrannies are an obvious example of this kind of individual behaviour (Smith 1977). The “free rider theory” is perfectly compatible with our transaction costs theory, as the “rascal” will act as such if he sees that the costs he is about to incur are smaller than the potential gain<sup>2</sup>.

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<sup>2</sup> Any introduction to the development of game theory will give the reader sufficient insight into the unpredictability of human behaviour regarding cooperative and non-cooperative strategies. The ‘free rider theory’ simply takes this unpredictability into account as an active factor in history.



In short, most institutions appear for reasons completely unrelated to the economy although they may have an enormous impact on economic performance. When they are informal institutions, they are not even created but just spring up because of the confluence of more or less stochastic circumstances. We cannot even assume that when an institution is specifically devised for economic reasons its aim will be to promote economic growth. What institutional change clearly and unequivocally reflects is the interests of the various groups competing for power (Eggertsson 1996).

Obviously, we have only been listing a series of basic possibilities, and the study of the institutional evolution of a given society will necessarily have to simultaneously take many factors into account. But the dynamics explained earlier should be useful as a promising although basic research guide.

#### IV

However, there is still one element missing if this model is to be applied to historic societies. So far, the model explains why most societies in history chose an inefficient institutional framework, but not why many of those societies managed to survive for long periods of time, even in highly competitive environments, a circumstance not yet clarified by institutionalism (or neoclassical theory). This is a conceptual conundrum similar to that which applies to the very concept of the economy/economics. The only way to solve the linguistic problem which has made the concept of economics equivalent to that of the economy itself is by defining the difference between real economy and formal economy. Real economy is the process by which man satisfies his material needs, and formal economy (or economics) is the rational abstraction of the means with which man satisfies his needs and the choice of alternatives to manage their scarcity (Polanyi 1994). Here again, we will have to make a distinction, which is already implicit in our former arguments but requires further clarification. We have to distinguish between formal efficiency, which is the conscious rational abstraction that equates efficiency to economic growth expressed in neoclassical terms, and real efficiency, which is the ability of a given system to reproduce itself through time, either because it is strong enough to remain unaltered or because it is flexible enough to change its secondary institutional fabric without altering its primary institutions. The explanation of the prevalence of formally inefficient systems in a world in which the rational abstraction of economic efficiency is indeed new, and in which the terms in which political competitiveness is contemplated are different from those related to formal efficiency may lie in this distinction.

Until the birth of political economy at the end of the 18th century, from the roots of physiocracy, we can say that there was no well defined abstract model of economic analysis (Naredo 2003), so concepts such as that of economic growth were not available. Nevertheless, although there was no theoretical model of economics as a logical unit of analysis, the economy of Western Europe had, for a few centuries, already been experiencing dynamics in its economic relations that we

categorise as capitalism, and the empirical experience accumulated during those centuries lead to establishing a basic idea of economic efficiency in neo-classical terms. The two states (England and the Netherlands) which most conspicuously undertook reforms to change their institutional structure according to the ideas suggested by this empirical experience, moved along a new road, in contrast with the other two great powers of the time (France and Spain). The outcome is quite clear. I am no expert in the economic history of modern Europe, but some case studies, such as the one published by North and Weingast (North/Weingast 1996) seem to suggest that the process I am proposing may not be far from the truth. Deeper insight into the economy-related writings of the critical centuries, probably from the 15th to the 18th, could provide us with a clearer and more comprehensive picture. My point is that if I am reasonably close to the mark, it would mean that this was the first time in history when political success and economic growth were related through a rational and abstract system based on empirical experience, leading to the conscious design of policies with that aim in mind. Returning to our main argument, what we want to highlight here is that economic growth can only be recognised as a target in a market economy.

I am thus asserting that until the birth of capitalism and the development of a market system, the perception of economic growth in neoclassical terms could not possibly have arisen, which is why it cannot be considered in the analysis but as a marginal rationalisation; in no case can it be included as an active factor in the definition of the motivations of economic agents, which is something that to my knowledge has not been considered by NI. Summing up, states, governments and economic agents did not yet know that economic growth was something to be desired because they did not even know what economic growth *was*. We can thus liken the struggle of states for survival before that time to a duel between two swordsmen who are only guided by their sense of hearing, because they have been blindfolded. Such a duel can last for a very long time indeed.

It is also possible to find institutional answers to the absence of a market system in antiquity. More often than not, and for reasons which are beyond my understanding, the communication difficulties in a world in which travelling was slow, costly and unsafe, are ignored. These obstacles inevitably hinder attempts to create even poorly integrated markets (North 1971; Ayala 1999). Price information, essential for the maintenance of a market system, would have such astronomic costs (North 1984; Silver 1999) that commercial initiatives would be strongly discouraged, unless they had unequivocal institutional support or aimed at profiting from trading in prestige goods, the value of which would far exceed the costs of the venture. The first case is institutional market<sup>3</sup>. I do not mean that every com-

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<sup>3</sup> Here we face another linguistic and conceptual insufficiency, as there is no word to define an economic system which cannot be included within the category made of the 'typical' models of exchange (*i.e.* reciprocity, redistribution and market). This obsessive mania for categorisation, which is not got over with by merely saying that all of these exchange systems are subject to gradation and combination, forces us to use expressions as 'institutional market' to define something that probably had very little to do with the current concept of the market, which does not add to the simplification of what is in itself a complex issue.

mercial venture not related to prestige goods was carried out by the state, but that institutional support must have been almost mandatory, due to the hostile environment for free economic activity, and institutional support did not follow economic guidelines so such a system is definitely not a market system, but something else. The second case falls into the (perfectly orthodox from a neoclassical point of view) category of isolated exchange. Isolated exchange is a transaction in which the agents act upon their own subjective perceptions without reference to other alternatives available on the market. Furthermore, is not at all rare to find that merchants prefer this sort of exchange, as their profit expectations are not limited by the circumstances of the market (Weber 1969; Lowry 1987).

When the state does not accept responsibility for producing information, it is very rarely produced at all, because the “free rider” problem discourages private initiative, resulting in incomplete information among disperse, non-centralised and poorly institutionalised exchange niches, generating a tendency towards non-cooperation, in which coordination is highly unlikely. If the state produces information, but its supply is not universal, the outcome is asymmetric information, encouraging the emergence of monopolies (Ayala 1999).

Second, hierarchical or autocratic political fabrics aiming to maximise the governing elite’s income (or that of the state itself, which is identified with it) generally favour an economic organisation in which economic institutions will coincide with the rules governing the socio-political process, a procedure which is least costly than creating additional mechanisms designed to tax optimal income from a free market economy (North 1981).

A market system requires a well designed and enforced property rights structure. If this is not the case, and there is little doubt that this is the most common state of affairs in the ancient world, agents will very rarely commit themselves to investment ventures due to the high degree of uncertainty (North 1981). If this property rights structure is either absent or inefficient, agents will have to cover negotiation and execution costs themselves, dramatically burdening a fluid exchange system (North 1984). The first condition for a well defined property rights structure, rarely met in antiquity, is that the state should neatly define and dramatically downgrade its own confiscatory powers; this is rarely found because fiscal demands are a temptation difficult to overcome for states struggling to survival in a competitive environment (North/Weingast 1996).

If we dissect the issue more carefully we will see that some of the main reasons for this state of affairs are ideological. There are three characteristics which describe ideology, valid for everywhere and all times: it is a system by which individuals simplify reality, enabling decision-making without gathering all the relevant information, which would be too costly (North 1971); it is tied to moral and ethical perceptions about justice and is not susceptible to change unless the empirical experience sufficiently contradicts the previous system. Indeed, the appearance of alternative ideologies, challenging the predominant system, is one of the main ingredients of change through history, and, indeed, the degree of ideological legitimacy of a given policy is essential for calculating the costs which the

state will have to incur in order to maintain the system (North 1981). Notwithstanding, ideology is formed by institutions which belong to the primary structure, and their substitution is very costly, so informal belief frames of reference are in general much longer lasting than formal institutions (Eggertsson 1996).

In the specific case of ancient Greece, because other factors would have to be considered for other eras, such as the impact of Judaeo-Christian doctrine, the conceptualisation of time and the associated idea of progress, an organicist vision of reality and the subsequent view of wealth as limited (ideas that predominated until the so-called Copernican Revolution), the essentially collective ways of social interaction, etc. (Naredo 2003) did not make even unconscious concessions for the appearance of maximising attitudes. States explicitly aspired to stability, not growth (this balance would allow physical, quantitative, but not qualitative growth) and the economy would be subject to the same conditioning factors which burdened politics, and totally dependent on them (and their hierarchies) (Vernant 1983; Davies 1998)<sup>4</sup>. NI has learned that a good understanding of mentalities and ideology is essential for a complete and consistent appreciation of historical phenomena, but has attempted to integrate it into the general model, whereas mentalities would be better seen as a more flexible factor and due more individualised treatment.

The debate about the nature of the economic analysis of Greek authors has been going on for centuries, and we will not study it now in depth, as it is well beyond the scope of this paper, but we can go as far as to say that the preserved texts seem to be clearly and consistently in favour of a series of values incompatible with a market system. We are referring to values such as an understanding of the monetary system in which money is only seen as circulating currency, and thus unable to develop credit mechanisms worthy of that definition, the categorical priority given to use value over exchange value (Meikle 2002), profit beyond the ideal of autarchy seen as negative in moral terms, and the consecration of redistribution as justification for individual wealth (Gallant 1991; Polanyi 2001).

The existence of the above ideological system is often challenged by producing contradictory examples taken from the sources and generally interpreted rather tendentiously, not least because they ignore the potential perversity of the art of translation. In any case, extraordinary examples do not construct well founded arguments when used to challenge complex and elaborate doctrinal constructions. It is also necessary to get rid of the solipsism that Finley detected, one of its aspects consisting of the appropriation of egoism by economic science ever since it was first considered a morally acceptable value, as an exclusively capitalist attribute, leading to the identification of capitalism wherever egoistic behaviour is detected, whereas it is perfectly possible to find it in economic dimensions

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<sup>4</sup> World views in antiquity are often characterised by a degradation process from a supposed Golden Age or similar mythical constructions. In fact, these cosmologies manifest a generalised aversion to change.

other than the market (Mayhew/Neale/Tandy 1985). Another idea that has been launched against our concept of the ancient authors' economic thought is that the documental *corpus* has no analytical value, as it suffers from a prejudiced and aristocratic point of view. There is simply no evidence to support such an argument, and indeed, for Aristotle, the author who most acutely analysed economics during Greco-Roman antiquity, the idea of the economy that we have been defending is compatible with a moderate political position (Meikle 1995; 1996).

## V

The question of ideology takes us to another issue that has to date resulted in further analytical distortions of economic history. The narrow model of rationality in the decision-making processes fostered by neoclassical theory needs to be profoundly revised, as it gives very poor (not to say incorrect) insight into human behaviour dynamics. D.C. North says rather accurately that "*the simple fact is that dynamic theory of institutional change limited to the strictly neoclassical constraint of individualistic, rational purposive activity would never allow us to explain most secular change ranging from the stubborn struggle of the Jews in Antiquity to the passage of the Social Security Act in 1935*" (Rutherford 2001; Wilson 2006). We must therefore develop a model of bounded rationality, considering the impact of factors such as incomplete or asymmetric information, which is the basis for the economic problem of agent-principal, and limited human capacity for calculation in decision-making processes (Ayala 1999). But the articulated models of bounded rationality which, to my knowledge, have been suggested to date are not entirely convincing (Eggertsson 1996), probably because they still use the market system as the only possible frame of reference, as is the case with G. A. Cory Jr, whereas, to be really useful, these efforts should be multiply focused (Cory 2006). At least we now know, thanks to the analytical methods that provide insight into brain activity and application of game theory, that the simultaneous interaction of the three basic systems present in the brain, the reptilian, the limbic and the neo-cortex, results in an equally simultaneous operation of the rational and the emotional intelligence (Wilson 2006). Bounded rationality, fuzzy logic and others, are new concepts, and they will take their time to root, but they might be the way out of dead ends to which Cartesian logic has led; indeed, the mathematical basis on which this logic is based has been already seriously challenged by system theory, quantum physics and relativity theory (Govantes-Edwards 2007).

The combination of an institutional structure in which property rights are poorly defined and imperfectly enforced with the necessity of *fides*, or shared trust, in which an element as unlikely to be reduced to neoclassical terms as oxytocin plays a vital role, if any economic process between agents is to take place, might explain the rise and prevalence of personalised procedures of exchange, such as client-based hierarchies, hospitality, reciprocity networks (vertical, horizontal or transversal), gift and counter gift dynamics, making economic co-operation pos-

sible (Govantes-Edwards 2007). It is important to remember that these kinds of socioeconomic process and models of exchange are not present only in basic societies, but perfectly applicable to complex and stratified social systems. The fact that the structural complexity of a given society might transform these mechanisms into formal regulations does not prevent them from being included in the ideological category of social obligation and reciprocity (Gallant 1991).

Another element which is key for understanding this institutional overview is also linked to the concept of bounded rationality. The limited availability of information and calculation capacity leads economic, social and political decision-making processes not to a precise cost evaluation but to a rough estimation of *perceived* costs. Ideology is the most frequent short-cut, resulting in decisions that are inevitably seen as irrational from an all-rational, motivated-by-individualistic-utilitarianism, neo-classical perspective.

## VI

Therefore, to sum up all our arguments, in order to create an economic history which goes beyond the limitations of the neoclassical theoretical body, we require a history of institutions. Economic History will thus necessarily have to be based on political history and a history of mentalities, with a deeper analysis of the brain functions which model our behaviour (a kind of historical micro-economics, as it were), while broadening our doctrinal base. The latter reminds us of the scarce attention paid to the productive sector in the economic history of classical antiquity (Cartledge 1998; Davies 1998). It is time for economic history to come of age, in the understanding that Marxist approaches have made a major contribution our knowledge, and to rescue them from the outcast status to which they have been confined, for reasons not related to science but to poorly understood ideological loyalties. Limiting the study of economics to the rational abstraction of exchange dynamics has inspired the following thought in I. Morris. It is interesting enough to be quoted in full: "*It seems to me that the hard surfaces that are so prominent in the Greeks own account of their archaic history do indeed disappear behind the complexities of the negotiations of meaning*" (Morris 2001).

Scarceness of data and fear of vacuum are among the main reasons for this limitation, but new methods such as landscape archaeology and comparative ethnographical techniques are now providing new opportunities for the study of the productive sectors, particularly agriculture, of pre-industrial economies (Horden/Purcell 2005). It is fair to say that archaeological methods have to face the problem of the visibility of economically relevant evidence, and the validity of ethnography could be challenged with regards to the credibility of the information with which it works, but it is also true that neither of these flaws are sufficient to rule out these methodologies as irrelevant or unpromising.

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