

# Chapter 19

## The City-State of Ancient Athens as a Prototype for an Entrepreneurial and Managerial Society

George C. Bitros and Anastassios D. Karayiannis<sup>†</sup>

**Abstract** In this paper we argue that a significant part of the wealth amassed by Athens in classical times emanated from the entrepreneurial incentives Athenians, rather consciously, instituted and applied in their city-state. To corroborate our view, we give a brief account of the political institutions and rules of governance of the city-state of Athens; we describe the economy within which entrepreneurs operated, and we explain the reasons why Athenians chose to establish an open society, based on international trade and incentives for almost everyone (including slaves) to pursue entrepreneurial activities. Lastly, we focus on a “protagonist of management science,” i.e. Xenophon, who developed explicitly the first principles and imperatives of managerial actions.

### 19.1 Introduction

Past studies have attributed the economic development of ancient Athens to many reasons, including the imperialist policies of the city and the high rate of slaves. Unlike them we argue that a significant part of the wealth of the city emanated from the entrepreneurial incentives and functions that Athenians adopted, rather deliberately. In classical Athens, values and institutions encouraged all types of entrepreneurship. Successful entrepreneurs received social and many times political distinctions, which in the cases of some slaves reached the level of gaining their freedom. However, to deter phenomena of extreme individualism, success in business was judged by the means used to acquire wealth. For, only those entrepreneurs were esteemed socially, who worked hard and used ethical and fair

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<sup>†</sup>Author is Deceased

G.C. Bitros (✉)  
Department of Economics, Athens University of Economics and Business, 76 Patission St,  
Athens 10434, Greece  
e-mail: [bitros@aueb.gr](mailto:bitros@aueb.gr)

means, who did not consume their wealth conspicuously, but shared it with the rest of the people by undertaking public expenses, and who abided by the laws and the ordinances of their city-state.

The layout of the present paper is as follows: [Section 19.2](#) presents a synopsis of the institutions and the rules of public governance by means of which the authorities in the city state of Athens maintained law and order and validated the operation of entrepreneurial incentives in the economy. [Section 19.3](#) describes the structure of the Athenian economy and explains briefly why and how it evolved into a vibrant, open, market-based economy. [Section 19.4](#) addresses the entrepreneurial climate that prevailed at the time. In this regard we argue that Athenians: (a) were not negative to efforts at making “moderate” profits that were used also for promoting the well-being of the city; (b) had an active policy for encouraging individuals (including metics, i.e. resident aliens from other Greek cities living in Athens, and slaves) to assimilate into the Athenian society, through success in business; and, (c) were well aware of the particular attributes that characterised successful entrepreneurs. [Section 19.5](#) focuses on Xenophon’s ideas regarding the distinct roles of capitalist, entrepreneur, and manager and establishes him as a precursor of some theories proposed by contemporary thinkers in these areas. Finally, [Section 19.6](#) closes our presentation with certain conclusions.

## 19.2 Democracy and Rules of Public Governance

In classical times the city-state of Athens was governed by three main bodies. These were: the Assembly (*Ekklesia tou Demou*), the Council (*Boule*), and the ten Generals (*Stategoi*). The Assembly was the supreme decision-making body with executive, legislative, judicial and auditing powers. It convened 40 times every year and consisted of all male citizens over the age of 18. The Council had consultative as well as auditing functions and comprised 500 members that were selected annually by lot, 50 from each of the 10 Athenian tribes. Eligible to serve in this body were male citizens over the age of 30 who were declared as candidates by lot from lists of volunteers in the various local municipalities (*Demes*). Lastly, the ten Generals were appointed by the Assembly from citizens esteemed for their knowledge, experience and previous accomplishments. These were selected annually by ordination, i.e. through raising of hands, and could be recalled at any time.

From the above it follows that those who participated in the Assembly were in charge of all city-state authorities. That is why ancient Athens has been acclaimed as the inventor of democracy. However, ancient Athenians had gone through a lot of hardships to trust that direct democracy was sufficient to safeguard their liberties. For this reason, having found by experience that the ultimate guarantee of their freedoms was the dispersion of political and economic power, aside from assigning

the government in the hands, not of few, but of many (the majority principle), they put in place the following arrangements.<sup>1</sup>

### ***19.2.1 Political Institutions***

- In legal affairs all citizens were equal before the law for the settlement of their private disputes (the principle of equality before the law).
- Public honors were conferred not because a citizen belonged to a particular class, but because of personal merits (the principle of meritocracy).
- There prevailed freedom from suspicion of one another in the pursuit of everyday life (the principle of personal liberty).
- Every citizen had an independent “voice” to all state mechanisms and departments (the principle of *isigoria*).
- All state mechanisms and departments were subject to auditing by citizens (the principle of transparency).
- Citizens were educated to praise democracy, spill their blood to defend it, and have a strong spirit of solidarity (the principle of solidarity).
- Violations of the law and particularly those that influenced the general spirit of society, were severely punished after due process (the principle of Justice).
- The city-state cared for the children of those killed in wars as well as for the less well to do (the principle of compassion). Namely, there functioned a welfare state under detailed examination and monitoring of those who deserved it.

### ***19.2.2 Economic Institutions***

- The city-state guaranteed property right through several institutional and legal provisions.<sup>2</sup>
- There was freedom of exchange and the city-state enforced fairness in business through various administrative and judicial mechanisms.<sup>3</sup>

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<sup>1</sup> For a detailed analysis of these arrangements as well as an extensive bibliography from which they derive, see Bitros and Karayiannis (2006, 2008, 2010) and Kyriazis and Karayiannis (2011).

<sup>2</sup> Athenians regarded that the protection of the private property except being under a “statute law” was also a kind of “natural law” (Demosthenes, *Against Aristocrates*, 61). By adopting the institution of private property, the middle class grew significantly and this development helped the establishment of democracy (Aristotle, *Politics*, 1295b, 30–40).

<sup>3</sup> For the extensive description of the judicial arrangements through which Athenians enforced fairness in business, see Kyriazis and Karayiannis (2011).

- Spending of wealth was considered acceptable by the general public, only if it met certain well-defined social and ethical standards.
- Monopolistic practices and externalities were controlled by state rules and were enforced by particular city-state authorities.
- There existed fair taxation and tax evasion was controlled through various social mechanisms including that of antidosis.<sup>4</sup>

Under these political and economic arrangements, there emerged a democratic society with institutions that were very encouraging for the development of entrepreneurship in all its important functions. For a penetrating view of why Athens turned into the first ever entrepreneurial and managerial society, we have to look no further than Pericles' funeral speeches (Thucydides, I, 141; II, 39–41) and the response of Corinthians to the Lacedaemonians (Ibid. I, 70–71). From these texts we learn that Athenians were: laborious, energetic, progressive, fond of learning, risk takers, responsible, decisive, and innovative. In addition, they were: generous, moderately materialists, optimists and rational. All these characteristics were the product of their values and institutions and particularly of their educational system (*paideia*).<sup>5</sup>

### 19.3 The Athenian Economy

Entrepreneurs and managers were well recognized and socially esteemed in classical Athens. To understand why, one has to appreciate how the Athenian economy operated on the above principles, how it was structured, and what results it delivered. To this end, we start below with a brief account of the stylized features that characterized the economy at the time and comment on the economic environment and the business climate that prevailed.

#### 19.3.1 Production

The production sector consisted of agriculture, including animal husbandry, mining and manufacturing. Dominant among them was agriculture. But mining and manufacturing expanded rapidly and contributed significantly to the wealth of Athens.<sup>6</sup> Their stylized features were the following.

##### 19.3.1.1 Agriculture

The arable land of Attica was devoted predominantly to the production of wheat and barley. The productivity of land used for wheat was roughly half of that cultivated with barley, and this explains perhaps why wheat was produced only in

<sup>4</sup> Isocrates (Antidosis); Demosthenes (*Against Phaenippus*).

<sup>5</sup> For the Athenian system of *paideia* see Bitros and Karayiannis (2011).

<sup>6</sup> For the high wealth level of the Athenian economy see Ober (2011).

as little as one fourth of the cultivated areas. But the consensus is that Athens experienced significant deficits of grains, which had to be covered with imports (Isager and Hansen 1975, 20–29; Amemiya 2007, 74–75).

Agriculture was organized mostly in small lots owned by citizens. Metics were not allowed to own land, but they could rent farms and cultivate them for their own account.<sup>7</sup> Cultivation was performed as a family activity but there were also large farms using good numbers of slaves.

### 19.3.1.2 Mining

When the new vein of silver was discovered in Laureion in 483 BC, Herodotus (VII, 144) informs us that the revenues of Athens increased significantly. From the comment by Aeschylus (*Persians*, 240), the testimonies by Herodotus (Ibid.) and Thucydides (VII, 91), and a joke by Aristophanes (*Knights*, 362), we can conclude that the mines were an exceptional source of wealth. Andreades (1933, 339) estimates that around 450 BC state revenues from the Laureion mines amounted to 50–100 Talents. However, according to the evidence cited by Amemiya (2007, 97), in addition to the leases, the miners had to pay 10 % tax on their total output of silver, the value of which amounted to about 1,000 Talents. Hence, the estimation by other authors that state revenues from mines amounted to 160 Talents is reasonable.

### 19.3.1.3 Manufacturing

It has been established that many citizens and metics in Athens pursued manufacturing activities and became quite wealthy (see e.g. Xenophon, *Memorabilia*, II.VII. 6). Craftsmen of just about everything one can think of, are represented in the list of 170 occupations cited by Harris (2002, 88–99).<sup>8</sup> Hence, all indications are that manufacturing aimed not only for covering local consumption but generating exports as well (Isager and Hansen 1975, 38–42).

Particularly active in this sector were manufacturers from the class of metics. The majority of metics were entrepreneurs or trained metal workers and potters (Isager and Hansen 1975, 70–73). Aside from farming, their entrepreneurial activities were concentrated in small-scale industrial enterprises. An example is that of Kephalus, the father of orator Lysias. Kephalus had been invited by Pericles from Syracuse in order to bring to the city his special knowledge and experience in shield production as well as his capital (Lysias, *Against Eratosthenes*, 4). Also, the well-known and rich banker, the metic Passion and his freedman Phormio, directed a shield production enterprise (Demosthenes, *To Phormio*, 4–5). Thus, the city-state of Athens became the center of expanding manufacturing activities, which aimed at covering local consumption as well as generate exports.

<sup>7</sup> An example in this regard is that of freedman Alcias (Lysias, *On the Olive Stump*, 10).

<sup>8</sup> Aristophanes, in his comedies, mentions many small-scale industrial and trade occupations (see e.g. *Birds*, 488–495; *Peace*, 445–450, 543–550, 200–205, 1220–1225, 1240).

### 19.3.2 *Distribution: Agora*

In Athens the supply of and demand for goods and services met in a marketplace called agora. Harris (2002, 75) notes that: “the market in Athens was so large that it was divided into several different sections. Parts of the agora were named after the goods sold there. Prices cleared the market”. In cases of excess demand or inadequate supply, prices increased and equilibrium was thus restored.<sup>9</sup> Also, as Loomis (1998, 248–249, 253–254) argues, wages were determined mainly through the supply and demand mechanism, which implies that there existed a well-functioning labor market. More than that, the function of retail merchants reduced transaction costs, there were no price controls, with the exception of grain, and the city with its various officers monitored closely the quality and the weight of the goods sold.<sup>10</sup> As a result, the circumstances for sellers to practice opportunism were extremely limited and this enhanced further the efficiency of the market.

### 19.3.3 *Money and Banking*

Laureion mines produced silver in plentiful quantities.<sup>11</sup> So given that silver money had been already established in the Hellenic classical world by Aegina, Corinth and others states, Athens gained a significant comparative advantage. By having her own currency, the Attic Drachma, Athens enjoyed all the benefits of coinage, particularly when she became the leading city-state of the *Delian League*. Engen (2005) has argued that monetary policy in ancient Athens was motivated partly by economic and partly by political (hegemonic) reasons and that its thrust in the economy aimed at reducing transaction costs, facilitating commerce, stimulating the productive motivations of individuals and promoting exports. According to this author, in order to maintain the demand of their currency at home and abroad, Athenians refrained deliberately from altering the face of their coins and reducing its content in precious metals.

With respect to banking, the plentiful evidence shows that it functioned much like today. It was pursued on a profit-making basis (Demosthenes, *Against Stephanus*, 23). Like modern banking, it was involved in the changing of currencies of various city-states. It accepted deposits (Isocrates, *Trapeziticus*, 2, 37). It offered loans with interest (Lycurgus, *Against Leocrates*, 23), both unsecured and after

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<sup>9</sup> For examples on how demand and supply determined the prices of goods, see e.g. Aristophanes (*Acharnians*, 755–760, 60–65; *Knights*, 645–652); Engen (2001, 183); Harris (2002, 76).

<sup>10</sup> See Lysias (*Against the Corn Dealers*); Aristotle (*The Athenian Constitution*, LI).

<sup>11</sup> Aristotle (*Nicomachean Ethics*, 1133a–b) discusses the qualities of silver in the function of money in much detail.

obtaining collaterals (Lysias, *On The Property of Eraton*, 3). It advanced Bottomry loans to grain importers in which the ship and/or the cargo were given as security (Demosthenes, *Against Phormio*, 6–7).<sup>12</sup>

Moreover, in some cases, when rich Athenians and metics stopped their entrepreneurial activities, they became rentiers by offering loans to other entrepreneurs (Karayiannis 1992a, 74–76; Schaps 2004, 182–184). Ancient Athenians were not opposed to intermediation in the demand and supply of interest paying loans for investment. Specifically, the orators Isocrates (*Areopagiticus*, 31–35) and Demosthenes (*Against Aphobus I*, 61) emphasized that such kinds of loans to potential entrepreneurs were of prime importance for the economic development of the city. Thus, the supply of loanable funds was considered to be a very fruitful economic activity (Aristotle, *Politics*, 1320b, 1–15) as was also the assumption of various risks, mainly in wholesale trade (Demosthenes, *Against Pantainetus*, 54; *Against Zenothemis*, 2; *To Phormio*, 6–7; *Against Lacritus*, 22, 25).

Finally, Athenian bankers had adopted forms of checking accounts and extended even sale credits (Cohen 1992, 12–14). That this form of lending did exist is corroborated by the fact that Plato (*Laws*, 915E) in his scheduled ideal city prohibits credit sales by considering them as illegal.

### 19.3.4 The Export–Import Sector

Athens experienced permanent deficits in grains that were covered by imports. To secure these imports on a sustained basis, Athens required: (a) money to pay for them; (b) port and warehousing facilities to store and preserve the imported grain; (c) banking facilities to extend loans to grain importers and dealers; (d) some insurance mechanism to spread the risks of cargos, which were transported mainly over the sea<sup>13</sup>; (e) some sort of mechanism to resolve conflicts that are customary in trading, particularly over long distances, and (f) the naval power to keep safe the sea routes to the grain producing states. From the available evidence we know that during the fifth century Athens adopted policies by means of which it secured all these prerequisites.

As in the case of manufacturing, export–import activity was a vibrant business undertaking in Athens. Not only citizens but also metics established and directed wholesale enterprises in importing grain and exporting Athenian products. They were considered as offering a valuable service to the city of Athens (Lysias, *Against Andocides*, 49).<sup>14</sup> In particular, ancient Athenians recognized that the importers of

<sup>12</sup> For a detailed analysis of these banking activities see Isager and Hansen (1975), 90–98) and Cohen (1992, Chap. 5).

<sup>13</sup> Isager and Hansen (1975, 76–81) and Cohen (1990) analyze the maritime risks and the insurance policies that were adopted at the time.

<sup>14</sup> Engen (2001, 186–202) finds epigraphic evidence showing that import–export activities were conducted much like in our times and that the Athenians paid special tributes to traders for their services to the city.

grain by assuming various risks deserved special recognition and that their riches were justified (Isocrates, *To Demonicus*, 19).

In conclusion, most enterprises in the city-state of Athens during the fifth and fourth centuries were small-scale, sole proprietor operations run by their owners as free citizens, freedmen or metics with the help of slaves.<sup>15</sup> Moreover, there were partnerships in which profits and losses were shared in accordance with the share of capital contributed by the partners.<sup>16</sup>

## 19.4 The System of Entrepreneurial Incentives

In ancient Athens the superior characteristic of human behavior was virtue (see e.g. Isocrates, *To Demonicus*, 6–7). However, at the same time, Athenians accepted that: (a) the accumulation of wealth together with pleasure and social reputation are among the main motives of any human undertaking (e.g. Isocrates, *Antidosis*, 217); (b) productive and commercial activities, which were motivated by the urge for profit and the accumulation of wealth, contributed positively to the general welfare of their city-state; and (c) a moderately unequal distribution of wealth would promote the work effort of individuals. For these reasons, whereas on the one hand, they set up all the necessary institutions to motivate entrepreneurship and wealth creating activities, on the other they controlled the distribution of wealth from becoming too unequal, because they were afraid that extensive inequality might undermine social cohesion by giving rise to extreme individualism. To prevent this from happening Athenians:

- Had set a number of social and ethical standards regarding the proper use of wealth. In particular, they stressed that: (a) consumption was acceptable if it consisted of the necessary goods for a noble and non-luxurious life; (b) wealth was spent well if it financed various public expenses (“leitourgies”); and (c) wealth was spent well if it were used to offer loans without interest to friends and to the fellow citizens (see e.g. Isocrates, *To Demonicus*, 27–28; Lysias, *On the Property of Aristophanes*, 10–11).
- Denigrated the idle rich who spent their wealth on conspicuous consumption<sup>17</sup> and brought social pressure to bear on those rich citizens and metics who did not undertake with willingness public expenses commensurate with the amount of their wealth (Demosthenes, *Against Aphobus II*, 22; *Against Stephanus I*, 66).
- Considered profits legitimate only if they resulted from fair practices. That is why they condemned illegal and unfair business activities which resulted in abnormal (higher than moderate) profits and used a special word “aischrokerdia”

<sup>15</sup> See the descriptions of Andocides (*On the Mysteries*, 38); Aeschines (*Against Timarchus*, 124).

<sup>16</sup> Demosthenes (*Against Stephanus I*, 31–34; *Against Stephanus II*, 17) gives an example from the sector of banking.

<sup>17</sup> See e.g. Aeschines (*Against Timarchus*, 153); Hyperides (*In Defense of Euxenippus*, 36); Demosthenes (*For Phormio*, 8–9; *Against Nausimachus*, 25–26).



(profiteering) to describe them. A well-known example in this respect being the hostile attitude that the Athenians showed against grain dealers who exercised monopoly power and increased the price of grain by restricting artificially its supply (see Lysias, *Against the Grain-Dealers*, 5–8, 12, 15–16).

- Esteemed rich people who had not inherited but earned their wealth (Karayiannis 1992a, 71–72), as well as those who employed their resources for productive and trade activities and then “shared” their wealth with the rest of citizens through the voluntary undertaking of public expenses (see Demosthenes, *Against Aristogeiton I*, 51–52; *To Phaenippus*, 22, 32). Isocrates emphasised particularly that the glory of the city of Athens owed much to the high rate of work effort of its citizens and their willingness to undertake productive and risky (mainly trade) activities.<sup>18</sup>
- Conferred high honours and other recognitions to cultivate and encourage giving over and above one’s taxes to maintain and enhance the military power and the glory of their city-state (see Lysias, *Defence against a Charge of subverting the Democracy*, 13).

In short, such was the institutional and market environment that not only encouraged legal and ethically based entrepreneurial activities, but also rewarded successful entrepreneurs with social and state distinctions.<sup>19</sup> More specifically, in line with public opinion, and contrary to the philosophical teachings of the Socratic philosophers,<sup>20</sup> a successful entrepreneur received a social and many times political distinction and reputation, which in the cases of some slaves reached the level of gaining their freedom. For example, Demosthenes’ father (having the same name), a free citizen, through his successful entrepreneurial activities in establishing and directing two different manufactures (for knives and beds) gained a high social reputation (Demosthenes, *Against Aphobus I*, 8–9, 31). Similarly, the successful entrepreneur and rich freedman Meidias, by undertaking large public expenses, gained high social distinction and reputation (Demosthenes, *Against Meidias*, 153–154, 213).

Athenians established the same incentives for encouraging entrepreneurship among metics and even slaves. Metics were admitted in Athens by the time of Solon (see Plutarch, *Solon*, 22, 24), because of their special knowledge in certain important industrial activities such as armoury, shipbuilding, etc. They paid a special tax called “metoikion” and at times of war they had to pay a special income tax, which it is mentioned (see Isocrates, *Trapeziticus*, 41) that they regarded as an honourable obligation to share in the cost of city’s wars.<sup>21</sup>

<sup>18</sup> See Isocrates (*Areopagiticus*, 44–45; *To Demonicus*, 45; *To Nicokles*, 18; *Antidosis*, 159–160).

<sup>19</sup> See e.g. Antiphon (*Tetralogy I*, b 12–13); Demosthenes (*To Nausimachus*, 25–27); Lycurgus (*Against Leocrates*, 139–140).

<sup>20</sup> Plato and Aristotle were rather hostile toward the profit seeking activities of individuals which they considered to be a source of economic injustice and social destruction (see Karayiannis 1990, 21, 28–29).

<sup>21</sup> It seems that the majority of metics who acted as entrepreneurs preferred activities with moveable assets such as bankers, shopkeepers and traders, because they did not have the right to be proprietors of agricultural land (see Humphreys 1978, 148).

But all those who obtained their wealth from fair entrepreneurial practices and spent a part of it in undertaking “leitourgies”, gained a “ticket” to their social advancement and reputation (see Isocrates, *Aegineticus*, 36–37). A famous case in point being that of the orator Lysias and his brother (Lysias, *Against Eratosthenes*, 20–21). In ancient Athens, it was a well-accepted policy (see Isocrates, *On Peace*, 163; Xenophon, *Oeconomicus*, II, 2.2), that metics who increased the wealth of the city through their entrepreneurial activities deserved and gained individual autonomy and social advancement. Moreover, in recognition of their services they were included in the middle class (Humphreys 1978, 153). As a matter of fact, so favourable was the climate that Xenophon (*Ways and Means*, II, 1–6), proposed that metics who offered capital and special services to the city be rewarded with property rights to a small portion of land and a house.

Turning to slaves, a famous case is that of the banker Passion who gained his freedom by offering special entrepreneurial services to his masters Antisthenes and Archestratus. Passion directed his own bank. He became rich and by assuming very expensive “leitourgies”, gained a high social reputation and fame. His honesty, hard-working inclinations, and special abilities in directing his enterprise, were his main qualities that opened up for him the road to social advancement and individual liberty (Demosthenes, *To Phormio*, 48, 53–55). Passion, afterwards, employed a slave named Phormio in his various businesses. As Phormio proved very successful in directing his masters’ enterprises (a bank and a shield production enterprise), gained not only his freedom but also continued to direct these enterprises by paying a special rent to Passion’s two sons (Demosthenes, *To Phormio*, 4–5). Phormio by becoming a successful entrepreneur, as Demosthenes argued (*To Phormio*, 57–59), accumulated a fund through which he was able to undertake expensive “leitourgies” and offered loans without interest to poor Athenian citizens. To be sure most of those who dealt in business were “survival entrepreneurs”, meaning that they operated just to survive economically. But a considerable number invested in order to increase gradually the scale of their enterprises. To this effect they reinvested part of their profits, and in addition they borrowed funds from other individuals and banks.<sup>22</sup>

From the above we surmise that ancient Athenians had embedded into their values and institutional framework a sophisticated system of incentives for undertaking entrepreneurial activities and using the wealth created thereof in a socially responsible way. For citizens and metics, entrepreneurial success meant social and economic advancement, whereas for slaves the same success led frequently to their freedom. Incentives and disincentives were generally accepted and, while they stimulated the emergence and development of entrepreneurship, they created a suitable social environment for the authorities of ancient Athens to control the distribution of wealth from eroding social cohesion.

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<sup>22</sup> Christesen (2003) presents evidence for the existence of income-maximizing economic rationalism in fourth century Athens with emphasis on silver mining and other risky undertakings with borrowed funds.

## 19.5 Entrepreneurial and Managerial Functions

While some philosophers viewed business activities to be of much lesser importance in life than the activities that aimed at the cultivation of moral and other sciences, in Athens mainly in the fifth BC century prevailed a different ideal. The majority of orators and writers constructed a model for the economic advancement of their city-state. They stressed the strategic functions of entrepreneurs and the importance of productive and commercial activities in the small private enterprises that comprised the majority of those that operated at the time. Although they did not employ modern economic terminology, they described adequately the fundamental roles of the entrepreneur and distinguished it from those roles played by other economic agents, such as the labourer and the pure capitalist (i.e. the rentier). Below we shall focus on Xenophon, who presented very effectively the rudiments of that model by concentrating on the qualities and tasks of a citizen when acting as head of a household and, (if available), the family's enterprise.

Xenophon (*Memorabilia*, III.vii.6) concentrated his analysis on small-scale enterprises operating in various industrial and trade activities, in which the owner is working with the assistance of some employees, i.e. a type of family enterprise still common in our days all over the world. He was not interested only to analyze the various activities of "Oikonomos" that aimed at securing self-sufficiency for the household. His focus was also upon the activities of "Oikonomos" that aimed at making profits<sup>23</sup> by producing goods for to the market. For him there was a well-organized market for goods and services, which was different from the place of the various political activities (*Cyrus's Anabasis*, II. iii.27; VI.ii.8; VI.vi.3), and which operated as follows:

- Exchanges took place in the market by means of metallic money, which functioned as a measure of value and a medium of exchange (*Cyrus's Anabasis*, VII. iii.5; *Cyropaedia*, VI, ii.39). Through these indirect exchanges (money-for-goods instead of goods-for-goods) the market brought buyers and sellers closer together and decreased significantly the cost of transactions.
- Market prices were determined by demand and supply and changed so as to bring about equilibrium. In other words, in cases of excess demand or inadequate supply, prices decreased or increased, respectively, thus restoring equilibrium (*Ways and Means*, iv. 36).
- The number of firms in the market reached equilibrium endogenously. When the rate of supply increased while demand remained at the same level, the rate of prices and profits decreased and thus the factors of production moved to another more profitable employment (*Ways and Means*, iv.6).

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<sup>23</sup> As Xenophon comments: "In other states [except Sparta], I suppose, all men make as much money as they can. One is a farmer, another ship-owner, another a merchant and others live by different handicrafts" (*Constitution of the Lacedaemonians*, vii.1; brackets added).

According to Xenophon, producing for the market enabled the head of the enterprise to cover his household expenditure and even more so for undertaking public duties. For example, by “manufacturing one of these commodities, namely groats, Nausicydes, keeps not only himself and his family, but large herds of swine and cattle as well, and has so much to spare that he often undertakes costly public duties; that Cyrebus feeds his whole family well and lives in luxury by baking bread, Demeas of Collytus by making capes, Menon by making cloaks; and most of the Megarians make a good living out of smocks” (*Memorabilia*, II.vii.6).

The particular enterprise that Xenophon modeled dealt in the sectors of production (agriculture and mining) and services (wholesale trade).<sup>24</sup> In that context, he identified and analyzed the following crucial activities and responsibilities:

- The entrepreneur as owner (capitalist) supplies the necessary capital and raw materials for the operation of the enterprise (*Oeconomicus*, iv, 5–11; *Cyropaedia*, I.vi.7).<sup>25</sup>
- The entrepreneur as manager organizes, controls and supervises all activities that are taking place in his enterprise so as to:
  - Increase its productivity (*Oeconomicus*, vii.3–4, xi.16).<sup>26</sup>
  - Gain a surplus (*Oeconomicus*, i.8–9).
- The entrepreneur as manager functions also as income-distributor by determining the remuneration of his various employees, mainly laborers and slaves (*Oeconomicus*, vii. 3–4). This function implies that he:
  - Selects the most efficient laborers and/or slaves for his enterprise (*Oeconomicus*, ix.11,xii.3).
  - Employs laborers and slaves according to their skills, training, experience and knowledge, “for it is not easy to get workmen who are skilled in all the arts, nor is it possible to become an expert in them” (*Oeconomicus*, iv.1).
  - Teaches and trains through learning-by-doing the employees (mainly slaves) in his enterprise and, more particularly, those placed in managerial positions (*Oeconomicus*, vii.41).<sup>27</sup> The main result of training, which includes also ethical teachings and advice (*Oeconomicus*, ix.12–13, xii.3–4, xv.1–2), is the increase in productivity.
  - Behaves properly towards his laborers and/or slaves and convinces them to increase their work effort and performance: “the man in authority . . . . .

<sup>24</sup> For an extensive analysis see Karayiannis (2003).

<sup>25</sup> Xenophon, also noticed (*Memorabilia*, II.vii. 11–12) the useful services of those offering loanable funds (with or without interest) for the establishment of enterprise.

<sup>26</sup> Xenophon draws the main similarities between the coordinating role of the entrepreneur-manager and that of the governor (e.g. Cyrus the Great) and the general in army (*Cyropaedia*, VI.ii, VIII.i.9–15; *Oeconomicus*, iv.5–7).

<sup>27</sup> The role of entrepreneur as manager was not exercised exclusively by the owner. From available records it turns out that frequently owners of enterprises trained their slaves for this purpose; see e.g. Isocrates (*Trapeziticus*, 12); Demosthenes (*Against Stephanus*, 1–2). A well-known example, as we indicated previously, is the slave Phormio who managed the bank of Passio (Demosthenes, *Against Stephanus I*, 33, 36, 71).

who can make the workers keen, industrious and persevering, he is the man who gives a lift to business and swells the surplus” (*Oeconomicus*, xxi.9). In order to succeed in such a function, the entrepreneur has to offer various material incentives to his employees (*Oeconomicus*, xiii.10–12; xxi. 10–11) – a managerial practice very well-known and extensively used in our days.

- Exploits price variations, namely “good householders, . . . say that the right time to buy is when a valuable article can be bought at a low price” (*Memorabilia*, II.x.4).

Since the entrepreneur as the sole and ultimate responsible person assumes the various risks and uncertainty in his enterprise, Xenophon (*Memorabilia*, I.iii.2) recognizes that he must be beset by risk aversion towards investment. For this reason, he suggested the establishment of companies with a view to sharing risks, profits and losses. Namely, “private individuals are able to combine and pool their fortunes in order to diminish the risk” (*Ways and Means*, iv.32, see also *Ibid.* iv. 27–30).<sup>28</sup>

From the above it follows that Xenophon understood quite well and analyzed accurately the role of the entrepreneur as manager of enterprise and coordinator of resources, roles which have received detailed analysis by many economists from the time of Smith and Marshall to the present (see Karayiannis 2008, 2009). He also recognized the entrepreneurial function of assuming the risk and uncertainty of investment, a theory which was developed during the eighteenth, nineteenth and twentieth centuries by Cantillon, Hamilton and Knight respectively (see Karayiannis 1992b). Moreover, Xenophon described in detail the role of entrepreneur as the agent who, having special market information and knowledge, tries to discover and exploit new profit opportunities<sup>29</sup> – an entrepreneurial function recently developed by Israel Kirzner (1973, 39, 66, 73). As Xenophon noticed:

“So deep is their [i.e. of merchants] love of corn that on receiving reports that it is abundant anywhere, merchants will voyage in quest of it: they will cross the Aegean, the Euxine, the Sicilian sea; and when they have got as much as possible, they carry it over the sea, and they actually stow it in the very ship in which they sail themselves. And when they want money, they don’t throw the corn away anywhere at haphazard, but they carry it to the place where they hear that corn is most valued and the people prize it most highly, and deliver it to them there” (*Oeconomicus*, xx.27–28; brackets added).

<sup>28</sup> Another means of undertaking risky activities, namely to increase the searching investments for the discovery of new silver ore, suggested by Xenophon (*Ways and Means*, iv.30–31), was through the establishment of a public enterprise. However, he questioned the efficiency of such a scheme by commenting: “what may well excite surprise is that the state, being aware that many private individuals are making money out of her [i.e. land] does not imitate them” (*Ways and Means*, iv.14; brackets added).

<sup>29</sup> Such an entrepreneurial function was also described by Demosthenes (*Against Dionysodorus*, 9–10).

Another example he gave of the entrepreneurial role in searching and exploiting the various profit opportunities is the case of Ischomachus' father (*Oeconomicus*, xx. 22–26) who looked for “not well farmed land” to buy, and who, by organizing and managing it more efficiently, increased its rate of return, thus enabling him to sell it at a much higher price. Xenophon described such activities in detail because he was well aware of the different productive possibilities existing in the sectors of agriculture and mining.

## 19.6 Conclusions

As is deduced from the above, the values that Athenians treasured and the institutions they had put in place encouraged entrepreneurial activities and at times rewarded successful entrepreneurs with social and state distinctions. More specifically, in line with public opinion, successful entrepreneurs received social and political distinctions, which in the cases of some slaves reached the level of gaining their freedom. However, to deter instances of extreme individualism, success in business was judged not by the level of wealth that had been accumulated but by the means that had been used. Thus, they adopted an approach based on the following pillars: First, it recognised the positive impact of entrepreneurial activities for the autonomy and liberty of the citizens and the strength of the city. Second, entrepreneurial activities were encouraged only in so far as they were conducted within certain ethical, social and economic boundaries. Third, success in business was rewarded by the city if the accumulated wealth was spent in a socially responsible manner by granting loans free of interest and undertaking “leitourgies” on behalf of the public. Fourth, the policy applied to citizens, metics and slaves.

As for the entrepreneurial and managerial functions, Xenophon emphasized the management and coordination of resources, the exploitation of profit opportunities and the bearing of risk and uncertainty. Also, he developed many managerial practices such as the division of labour according to the capabilities of employees, a reward system encouraging work effort, etc., which are still taught in modern management courses.

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