



Democracy and Money: Lessons for Today from Athens in Classical Times

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Book Review by Professor Napoleon Maravegias

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The present book presents the Athenian monetary and financial system in connection to current problems of the international financial system. The authors argue, that useful lessons for the present may be drawn from the Athenian historical paradigm. Like the US today, Athens during the Classical times reached the apex of its military, economic, political, cultural, and scientific influence in the history of the world. The authors argue that in order to prevent another financial crisis like that of 2007/8, the US must reform its central banking

More specifically, the book presents the Athenian monetary system by analyzing how the main political institutions (the popular Assembly of the citizens and the Council of the Five Hundred) were functioning as far as monetary issues are concerned. It argues that the Athenian monetary system can be seen as a benchmark towards an effective way out of the current dreadful predicament that government managed money holds for the US and the world at large. The Athenian monetary system may be seen as a benchmark, because: i) money would be produced in private markets as every other good and service, e.g., money supply was driven by the private and the state sectors needs in combination ii) the general price level remained stall for almost two centuries iii) following the Athenian example, the US government should return to its main task of minding the common good through prudent fiscal policies, instead of hiding the unsustainable national debt behind the Fed's monopoly over the issuing of fiat money and reducing nominal interest rates close to zero.

A major difference of then and today is the institutional (political and economic) setting. The Athenian political system was based on direct democracy procedures in decision making, through voting during the popular Assembly meetings. Citizens as decision makers regarding state issues had strong incentives to keep the currency sound and stable. This created economic and geopolitical advantages for the city. The state defined the unit of account, the Athenian drachma, linked to a specific amount of silver content.

The state enacted and enforced rules and regulations that aimed at safeguarding the integrity of the currency, leaving money and banking markets to operate freely. During the 4th century the Athenian drachma circulated in parallel with all sound foreign currencies, thus reducing

transaction costs. Since a great part of the citizens were employed and remunerated by the state such as rowers in the fleet, jurors, civil servants, they had a very strong incentive to be paid in sound money, and this is the reason why the drachma was not debased, leading to an inverse of Gresham's law, where good money drove out the bad. The authors argue that the Athenian monetary system had an institutional setting where the state did not mingle up directly in the money and banking industry but served the "common good" by guarding strenuously against adulteration of its currency through general regulatory decrees and laws.

Further, since banks and private persons could produce their own (small value) coins, Athens provides the first historical example of free banking. The supply of currency, silver bullion and credit, thus, money, was determined by competitive forces in the markets. Thus, the state acted as a major but not the sole supplier of currency. All equilibrium level and rate variables (e.g., price and quantity of silver as currency and bullion, the amount of bank credit, the reserve ratio and interest rates were determined by uninhibited supply and demand conditions.

The authors propose that by following the Athenian example, the US and the other representative democracies should transform, into digital direct democracies, where citizens will become real stakeholders and active as decision makers. Following an interdisciplinary approach, combining economics, history and political science, the authors address a variety of issues, such as: money related institutions in Classical Athens, public finance, the various coinage decrees, currency issues in ancient Greek federal states, structure and evolution of the economy (in which they show that Athens may be considered the first "modern economy" in the sense that handicraft and services contributed more to GDP and employment than agriculture), alternatives to established central banking, examining here modern issues of monetary policies and some of its failures and comparing them to Athens.

The last chapter presents arguments on some failures of modern representative democracies. These failures include the self-interest of politicians, bureaucracy, uncoordinated administrative polycentrism, rent-seeking, regulatory and state capture, asymmetry of information, impossibility of representation in groups, public deficits and public debt etc.). They conclude by putting forward arguments towards direct democracy.

For these reasons, the authors provide arguments argue in favor of what they call as digital direct democracy, i.e. go back to the form of the Athenian democracy that the American founding fathers would have wished to introduce, but has become feasible, only in our times by the ongoing revolutionary advances particularly in the fronts of digital technology and cryptography.

It is an interesting, challenging and well-argued book, that should interest economists, political scientists, historians but also the general public.

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