Early cities and civilizations.

**Jericho and Çatal Hüyük**
(c. 7,000 BCE)

**Sumeria and Babylonia**
(c. 3100-1600 BCE)

**Egypt**
(c. 2705-332 BCE)

**Mycenae**
(c. 2000-1350 BCE)
Economy and state.

Two ways to get an income.

- Positive sum.
  - Manufacture.
  - Trade.
- Zero (negative) sum.
  - Transfer resources away from others.
    - Rent-seeking behavior.
Economy and state.

Two kinds of government.

- Government as association.
  - Provision of public goods.
  - Example: medieval cities.
- Predatory government.
  - Ruler “owns” the society.
  - Sedentary bandits.
  - Rents dissipated in military activity more than luxury.
Economy and state.

Two kinds of civilizations.

- Trading cities.
  - Jericho, Çatal Hüyük, Mycenae, Athens, Phoenicia

- Predatory states.
  - “Hydraulic” civilization.
  - Egypt, Sumeria, Babylonia.
    - Did a major drought precipitate the move from Anatolia to irrigate the desert plains?

Bull-headed lyre from the Royal Tombs of Ur.
University of Pennsylvania
Museum of Archaeology and Anthropology.
Olson-North theory of the state.

- The state (monarch) is a revenue-maximizing natural monopolist in the use of force.
  - The minimum efficient scale of defense.
  - Revenue-maximization and the Laffer curve.
Revenue maximization.

The Laffer curve
Early cities and civilizations.

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Hydraulic civilization.

Irrigated settled agriculture.
(Implying a factor constraint.)

Economic surplus.

- Specialization.
  - Artisans.
  - Soldiers.
  - Kleptocracy.
  - Bureaucrats.
“Oriental despotism.”

- High MES of agricultural production.
  - Labor-intensive irrigation projects.
  - Slave or near-slave labor force.
    - Workers “deskilled” and can’t appropriate benefits of innovation.

- Appropriation of surplus by aristocracy.
  - Lavish monumental construction rather than reinvestment.
  - Specialists focus on luxury goods for aristocracy.

- Low rate of technological change.
- Slow economic growth.
The Phoenicians and Greeks.
The Roman Empire.
The Rise of Rome.

- Origins of Rome in trade and commerce.
- Agriculture.
  - Irrigation and servile production.
  - But, unlike Egypt, agriculture private: the Villa system.
- Organization and law.
- Military technology.
  - Discipline and large numbers.
Early Roman economic policy.

- Importance of trade and commerce.
- Octavian defeats Antony (31 B.C.E.)
- The *pax romana* and the Mediterranean “common market.”

Head of the Emperor Augustus (ruled 27 B.C.E. – 14 C.E.), from the Kelsey Museum, University of Michigan.
The Roman Empire about 117 C. E.
International trade in the Roman era.
The fall of Rome.

- External causes.
  - Change in military technology?
  - Learning by “barbarians.”

- Internal causes.
  - End of expansion eliminates source of revenue.
  - Need to “bribe” political challengers.
    - Bread and circuses.
    - Tax exemptions for nobility.

→ Spiraling fiscal crisis.
Roman fiscal crisis.

- Emperors raise tax rates to meet revenue demands.
- Tax base erodes as goods and services flee the money economy.
- Reduced tax base leads to further increases in the tax rate, and so on in a vicious cycle.

Roman coin bearing the likeness of the Emperor Diocletian (284-305 C.E.)

Tax revenue = tax rate * tax base
Monetary Policy.

Debasement of the currency (another kind of tax) leads to hyperinflation in the third century.
Government controls.

- Diocletian reforms.
  - Strict wage and price controls.
  - In-kind system of taxation and requisition.

- Constantine (308-337) ties workers to the land.

“Demonetizing” the economy.
Barbarian invasions.

- Germanic expansion.
  - Population increase and Huns.
- Augustulus deposed by barbarians in 476.
- How dark the “Dark Ages”?  
  - Evidence of population decline.
- From roving bandits to sedentary bandits.