

# The Maritime Economy of Ancient Cyprus in Terms of the New Institutional Economics

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Cover: Olympias, the Hellenic Navy's reconstructed ancient Athenian trieres in 1987, at Flisvos at Palaeo-  
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*To Irene, Alexandros, Sophia Irena and Andrea*



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## Preface

Some 52 years ago and 25 kg lighter, I served as a communications and radar operator in the Cypriot navy. During my military service I developed an affinity for matters of the sea that I carried with me for the rest of my life. Perhaps this might be the reason that most of my books have to do with historical affairs related to the sea.

In my professional life, as the Managing Director of the Near Eastern operations of a multinational organisation based in Dubai I was introduced to the New Institutional Economics (NIE) theory whose norms I applied extensively in my daily business. I have seen first-hand how institutions, the role of which is to define the rules of the game, can bring economic growth and success, as well as how they benefited the organisations reporting to me, how they evolved and transformed, as well as what uncertainty and chaotic volatility was created in their absence and malfunction.

Therefore, I decided to write this book and try to reconstruct the maritime economy of ancient Cyprus by bringing together my knowledge and first-hand experience in NIE analysis and love as well as interest for the sea and Cyprus' ancient history. No such attempt has been made before and I hope my work and ideas can pave the way for scholars and researchers to deal with this very interesting subject even further.

In writing this book I am greatly indebted to my colleagues in the firm I worked in, who introduced me to NIE and cooperated with me for its implementation during my fifteen years of service in Dubai for the twelve Near Eastern countries that were under my responsibility. I also wish to thank Professor A.B. Knapp for reading through an early draft of the First Economic Cycle of my book and for his helpful and insightful comments and criticism, as well as the lively discussions we had. I am also indebted to Professors Theodoros Mavrogiannis and Maria Iacovou of the University of Cyprus for their guidance, support and constructive comments. I also want to thank Dr Chris Monroe for his useful comments and suggestions and Dr Christina Ioannou for reading through the final draft and for her input and suggestions, as well as the useful discussions we had in relation to Part Three of the book.

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As always, my special acknowledgements and thanks go also to my long-standing associates, Stavros Lazarides and Philipos Vasiliades for his graphics and illustrations, as well as to my niece Katerina Parpas for her illustrations and artistic work. My thanks also go to Arhaeopress management and editing team for their excellent work and cooperation. I would also like to express my appreciation to the Department of Antiquities in Cyprus for their cooperation and permission for the use of photographs from their archives and archaeological sites.

Finally, I would like to say that I am a great believer in using actual Greek words and names instead of the traditional Latin versions. Therefore, for example, I write Kition instead of Citium, Herodotos instead of Herodotus, Kilikia instead of Cilicia, Ptolemaios instead of Ptolemy, *emporion* instead of emporium, *trieres* instead of trireme, and so on. In the case of internationally acknowledged names, such as Alexander the Great, I do not go for the Greek version. Of course, if it were 'latinised' into Alexandrus Magnum I would definitely go for Megas Alexandros !

Andreas P. Parpas

## Abbreviations

<b>ARU</b>	Archaeological Research Unit
<b>BASOR</b>	Bulletin of American Schools of Oriental Research
<b>CJ</b>	Canaanite jar
<b>CTH</b>	Laroche, E. 1971. Catalogue des Textes Hittites
<b>dbn</b>	<i>Deben</i>
<b>EA</b>	El Amarna
<b>EIA</b>	Early Iron Age
<b>HST</b>	Hala Sultan Tekke
<b>IA</b>	Iron Age
<b>KAD</b>	Kalavasos <i>Ayios Dhmitrios</i>
<b>KAMBE</b>	Kalavasos Maroni Building Environments
<b>KBo</b>	Keilschriftexte aus Bogazkoy
<b>KTU</b>	Die Keilalphabatischen Texte aus Ugarit
<b>KUB</b>	Keilschrift Urkunden aus Bobazkoy
<b>LBA</b>	Late Bronze Age
<b>LPG</b>	Liquid Petroleum Gas
<b>LC</b>	Late Cypriot
<b>MBA</b>	Middle Bronze Age
<b>MC</b>	Middle Cypriot
<b>MTC</b>	Maritime Transport Containers
<b>NIE</b>	New Institutional Economics
<b>PULP</b>	Palaepaphos Urban Landscape Project
<b>RDAC</b>	Report of the Department of Antiquities Cyprus
<b>RLW</b>	Red Lustrous Wheel made
<b>RS</b>	Ras Shamra
<b>TSJ</b>	Transport stirrup jar
<b>TSPA</b>	Thin Section Petrographic Analysis
<b>Ug.skl</b>	Ugaritic Shekel

## Chronology Chart

Relative chronology	Absolute chronology (Approximate date)	Economic Cycles
Late Cypriot IIA	1450–1350 BC	First Economic Cycle (1450–1200 BC)
Late Cypriot IIB	1350–1300 BC	
Late Cypriot IIC	1300–1200 BC	
Late Cypriot IIIA	1200–1100 BC	Second Economic Cycle (1200–525 BC)
Late Cypriot IIIB	1100–1050 BC	
Cypro-Geometric I	1050–950 BC	
Cypro-Geometric II	950–900 BC	
Cypro-Geometric III	900–750 BC	
Cypro-Archaic I	750–600 BC	
Cypro-Archaic II	600–480 BC	Third Economic Cycle (525–295 BC)
Cypro-Classical I	480–400 BC	
Cypro-Classical II	400–300 BC	
Hellenistic	300–50 BC	



# Chapter 1

## The New Institutional Economics (NIE)

### INTRODUCTION

The current global economic volatility and uncertainty and the need to find a rational response to the rather complex process that drives today's international economies makes studies on ancient economic history an invaluable asset. This work deals with economic change over time and its purpose is to reconstruct the maritime economy of ancient Cyprus. Therefore, I will work within boundaries defined by economic cycles instead of the traditional boundaries of political, cultural and physical geography, historians and archaeologists are used to. This way, I believe, there is a better chance to reach my objective, which is to connect ancient Cyprus to its maritime economic history, which was a truly international affair.

This present work comprises three parts that correspond to three different economic cycles spanning from 1450–295 BC.

The first part, under the title 'The First Economic Cycle: The Maritime Economy of Ancient Cyprus during the "Age of Internationalism" (1450–1200 BC)', deals with the period between 1450–1200 BC, a period of intense economic development and complexity. The First Economic Cycle is characterised by strong territorial, centrally controlled states. Around 1450 BC the highly centralised states and palatial systems that dominated the global economy of the LBA<sup>1</sup> period embarked on a journey of globalisation and stable financial integration, as well as international transactions and activities. This unique financial and social environment marked by stable and functioning institutions, international diplomacy, safety and mobility, which created a common maritime and mercantile zone and long-distance trade that maximised wealth accumulation for all people of Eastern Mediterranean, collapsed and came to an end c. 1200 BC. The year 1200 BC, which is the end of the First Economic Cycle, is also considered the end of an era and a new beginning. For the reasons cited above, these two hundred and fifty years, that comprise the First Economic Cycle, are unique in the history of Eastern Mediterranean. For the same reasons they are also unique for the history of Cyprus. The island, for the duration of this period, aligned and integrated its maritime economic activities with the stable international system. Cyprus' success during this

period is attributed to an aggressively open economy based on its functioning institutions and a diverse export portfolio – with copper as its star product. If, God forbid, the 21st-century Covid-19 pandemic developed to its worst scenario, we might be confronted with the kind of institutional failures that contributed to the collapse of the stable financial international system that distinguishes the end of our First Economic Cycle.

The second part, 'The Second Economic Cycle: The Maritime Economy of Ancient Cyprus during Political Volatility, Economic Growth and Transformation (1200–525 BC)' deals with the period between 1200–525 BC, that is from the time most of the stable political and financial international system of Eastern Mediterranean collapsed until c. 525 BC, when Cyprus came under the direct influence of the Persian Empire. The year 1200 BC again marks the end of an era and the beginning of a new one, characterised by an initial period of turmoil, economic volatility and downturn caused by the collapse of the strong territorial, centrally controlled states. After this initial period there followed an eventual recovery, economic growth, entrepreneurship, and transformation, and the strong territorial states gave way to a network of smaller states. The period of volatility and uncertainty, as from the start of the first millennium, gave way gradually to a more stable world system, when the network of smaller states came under the control of one dominant military and economic power, the Assyrian Empire. Assyria's domination brought economic stability by the creation of a tight, state-controlled, Assyrocentric economic network, characterised by efficient communications and mobility. After its demise in the late 7th century BC, and as from the late 6th century BC, the Near East came under the influence of a new master, the Persian Empire. In the first centuries of the Second Economic Cycle, Cyprus' geopolitical environment and maritime economy did not follow strictly the international trend. After the collapse of the international stable economic system its maritime activities continued and expanded across the Aegean – all the way to Iberia as well as to the Levant. In the meantime, the island underwent a process of institutional transformation and internal fragmentation, with the creation of a number of independent city-states,<sup>2</sup> each having its own economic system through which individual maritime economies

<sup>1</sup> See Chronology Chart and Abbreviations.

<sup>2</sup> There are several terms used to describe the Cypriot kingdoms, e.g. polities, city-kingdoms, *polis*-states, *polis*-kingdoms (Iacovou 2013c: 16). In this book we will be using the term city-state.

grew and expanded. Cyprus took advantage of the stable Assyrian state-controlled economy to consolidate its position and flourish, as well as maximising its wealth accumulation. As from 525 BC, the island came – for the first time in its history – under the direct influence and custody of one master, the Persian Empire. The year 525 BC, for the island, was, yet again, the end of one era and beginning of another.

The third part of this work, 'The Third Economic Cycle: The Maritime Economy of Ancient Cyprus in the Persian Empire until its annexation in the Ptolemaic kingdom (525–295 BC)' deals with the period from the time Cyprus surrendered to the Persian Empire until its city-states were abolished and the whole of Cyprus was annexed as a unified province within the Ptolemaic kingdom of Egypt. As already stated, the year 525 BC, for Cyprus, marked the start of a new phase. During the 200 years that Cyprus was subject to the influence and custody of the Persian Empire it was the first time that the island came under political and military control of a dominant imperial power that imposed its own fiscal administration and compulsory tribute system. The Cypriot city-states and their respective kings learned how to survive by aligning their policies with the interests of the Persian Empire. This way they retained the right to manage their own internal affairs without the presence of a resident satrap. At the same time, they had to manage a careful balancing act between their Persian overlords and Athenian efforts to put them under their influence. This was a period of naval warfare and conflict in which Cyprus had an active participation. Its naval economy benefited by supplying the Persian navy with fully equipped, line-of-battle warships and trained crews. It also benefited by prolonged periods of peace during which its international long-distance trade and services thrived. The Cypriots joined Alexander the Great's Empire in 331 BC and eventually became embroiled in the merciless wars of his successors. In the process they lost their independence, and the Cypriot city-states, with hundreds of years of history, were abolished and the whole of the island was annexed as a unified province within the Ptolemaic kingdom of Egypt. The year 295 BC was a complete game-changer for Cyprus' culture, economy, and political status.

### Economic History

Ancient economic history can look back on a long and significant tradition. There are many studies and schools on economic theory of the ancient world. We can start with the 'Bucher-Meyer debate', move to Rostovtzeff's work on the economic history of the Hellenistic world, and to Moses Finley's influential book *The Ancient Economy*, as well as the economic theories of the 'formalist' and 'substantivist' schools, to name a few. It is not the intention here to go over these

theories in detail. This has been dealt with in length and in detail already in other more specialised works.<sup>3</sup> I will attempt, however, a short introduction on the Universe of Economic History<sup>4</sup> in order to lay the ground for the book's economic approach.

The Bucher-Meyer debate of primitivism versus modernism dominated the scene of ancient economic history at the beginning of the 20th century. Karl Bucher, a professor at the University of Leipzig, in his 1893 book, *Die Entstehung der Volkswirtschaft*, translated into English under the title *Industrial Evolution*,<sup>5</sup> advanced the theory that ancient economy never overcame the stage of closed household economy. This view came to be called 'primitivist'. For Bucher, the basis of ancient economy was domestic production to meet the needs of the household. Mercantile exchange was only a secondary process. Capital was an unknown component in Bucher's primitive ancient economy. Eduard Meyer, a professor at the University of Halle, rejected Bucher's primitive theories. Meyer, along with Karl Julius Beloch, took quite an opposite approach, that of an ancient economy comparable to early modern capitalism.<sup>6</sup> Their view came to be called 'modernist'. Meyer, by having ancient Greece as a benchmark, advanced the theory of developed ancient economies with mercantile exchange, division of labour, standardised industrial production and long-distance trade.

The book by the Russian historian, Michail Ivanovic Rostovtzeff,<sup>7</sup> *The Social and Economic History of the Hellenistic World*, published in 1941, advocates a modernistic view on the Hellenistic economy.<sup>8</sup> The book divided the ancient economy into four sections, agriculture, forestry, mining, and fishing; although trade was given a secondary role, it has been a useful basis in analysing progress and advancing modernism in the Hellenistic world. Rostovtzeff claimed that the available archaeological data, integrated with historical sources, had proved that the Eastern Mediterranean region was a series of interlocking markets. He supported the idea that the economies of the ancient world were only quantitatively, not qualitatively, different from the economies of modern times.<sup>9</sup>

The debate of primitivism versus modernism of the ancient economy continued between the economic theories of the substantivist school and those of the formalist school respectively. The substantivists argued that economic processes in the ancient world

<sup>3</sup> E.g. Aubet 2001; Bresson 2016; Finley 1999; Hicks: 1969; Liverani 1988; Manning 2018; North 1990; Polanyi 1957; Polanyi et al. 1957; Smith: 1976.

<sup>4</sup> Bresson 2016: 2.

<sup>5</sup> Bucher 1893.

<sup>6</sup> Beloch 1899; Meyer 1895.

<sup>7</sup> Rostovtzeff 1941.

<sup>8</sup> Dross-Krupe and Marie Louise Nosch 2016.

<sup>9</sup> Rostovtzeff 1933.

were embedded within social and political structures. There was little technical innovation, no concept of investment, and no sustained real economic growth. Polanyi and Finley,<sup>10</sup> the latter more concerned with the classical Greek and Roman imperial economies, are two of the most prominent members of the substantivist school of thought. Very briefly, Moses Finley believed that the ancient economy was primitive and based largely on agricultural production. There was an absence of economic thought and capitalist mentality. He argued that the ancient economies were localised, with small-scale family manufacturing units, characterised only by small advances in technological innovation and progress. His work was influenced by the earlier work by Polanyi, who accepted three main drivers for ancient economies and societies: reciprocity, redistribution, and commercial exchange based on treaty trade, also known as administered trade. According to Polanyi's arguments, trade that depended on supply and demand, and the concept of market and market prices, was absent before the 4th century BC. Polanyi employed data from the Old Assyrian and Old Babylonian periods to argue that trade was administered and controlled by the palace and the temple. He argued for the absence of the typical elements of private enterprise, i.e. risk, profits, and fluctuation of prices in the market. In his influential 1963 article 'Ports of Trade in Early Societies' he simply promoted the idea that modern economic theory should not apply to primitive and prehistoric societies.<sup>11</sup> Finley adopted Polanyi's ideas that economy in antiquity was not a separate sphere of activity but, rather, embedded within society. He supported the idea of a command type, static economy that depend on the household, *oikos* in Greek, and the status of the ruling aristocracy.

This model of ancient economy was challenged by the formalists, who argued instead for the existence of rational and independent forces in the economy. According to the formalist school of thought decisions were made based on economic parameters and not solely on social or ideological grounds embedded in traditional ancient frameworks and controlled exclusively by the state. Formalists like Hicks<sup>12</sup> argued that ancient economies operated according to modern norms. For them the modern concepts and propositions of formal economics, created to explain market forces at work, are indeed applicable to ancient economies. They support that mercantile or market trade could coexist with treaty trade and one was not mutually exclusive of the other. They drew support for their arguments from the existence of modern economic practices in the ancient textual and material culture records, i.e. market forces at work, supply and demand,

the concept of profit and entrepreneurship. They challenged Polanyi's theories that economy was not regulated by market mechanisms (supply-demand-price) by drawing evidence of entrepreneurship from the well documented records of the Old Assyrian trade network. They also argued that, although the code of Hammurabi indicates that the Babylonian state and palace maintained strict mechanisms for controlling and administering trade, it was the powerful and independent merchant families and firms, with their private capital and appetite for risk, who dominated the overland trading networks of Mesopotamia. In the Eastern Mediterranean, archaeological evidence, from both land and underwater excavations, together with historical sources, support the existence of surplus production used for long-distance trade, proving the operation of non-static, complex and entrepreneurial market economies.

Historians specialising in ancient economy today admit that this battleground to do with ancient economies – of opposing pairs of either-or, primitivism-modernism, substantivism-formalism, non-market-market, etc. – is a fruitless, counterproductive exercise. Classifying pre-modern economies as one type versus another focuses on a compartmentalised model, and does not take into account the full evidence and leads, eventually, to debates about nothing.<sup>13</sup> Historians, archaeologists, social and economic scientists are simply talking passed each other, without realising how interdependent and interconnected they are. This does not help them to address the real problem of how to describe ancient economies and the real drive behind them, namely institutions.

### The New Institutional Economics (NIE)

Research on ancient economic history at the turn of the 20th and 21st century revealed the need for a new methodological approach. What evolved was New Institutional Economics (NIE), an expansion of the Old Institutional Economics of Veblen and Commons, and used both for economic analysis and economic theory.<sup>14</sup> By giving emphasis to the institutions behind ancient economies, NIE can build general models around rationality and market integration.<sup>15</sup> It recognises the role of institutions in building trust and confidence, the mitigation of risk, elimination of instability and volatility, and creation of opportunities. Therefore, in the view of the author, and many scholars specialising in the subject, NIE is more productive in highlighting and explaining the economic activities of ancient societies.

<sup>10</sup> Finley 1973; 1977; Polanyi 1957; 1968.

<sup>11</sup> Polanyi 1963.

<sup>12</sup> Hicks 1969.

<sup>13</sup> Manning 2018: 5.

<sup>14</sup> Commons 1934; Veblen 1899.

<sup>15</sup> Bresson 2016; Manning 2018: 18, n.6.

The present and future of any society is connected to its past by its institutions and their continuity. Institutions can be formal (the constitution, kingship, state) or informal (code of conduct, customary law). They can affect key features and the performance of an economy, e.g. costs, ownership, exports (long-distance trade), exchange, and production. Institutions endure not because they are efficient but because they are designed to benefit elites.<sup>16</sup> Institutions include rules and contractual relations, as well as unwritten codes of conduct, norms of behavior and customs and beliefs. In the process, rules must be understood along with motivations to follow them.<sup>17</sup> If we can identify these institutions and track their continuity and evolution, we can track the society's history. We will thus try to reconstruct, as far as possible, Cyprus' history and maritime economy by tracking its institutions and institutional system, and their continuity, which provided the rules and structure to its society. In our analysis we will employ, therefore, the New Institutional Economics (NIE) approach to examine relationships between changes in economic performance and behaviour on the one hand, and institutions and cultural norms and technological advancements on the other.

NIE has been put forward by three Nobel Prize-winning scientists: Ronald Coase, Oliver Williamson, and Douglas North – the latter considered to be its founding father. NIE is explained in a comprehensive book written by Douglas North in 1990 on New Institutional Economics History (NIEH) – *Institutions, Institutional Change and Economic Performance*. NIE is used in economic analysis and history, as well as political science, for a variety of applications, including, among others, the process of change and transactional activity and its impact on cost. The core concept and cornerstone of NIE is transactional cost theory, property rights, methodological individualism, rational choice, the relation of sponsor-agent, and the cost and availability of information. The aim of NIE is to establish within historical chronological context the connections between institutions and performance.<sup>18</sup> According to NIE analysis, good institutions lead to good economic outcome. Ask NIE the question why some countries do better than others and you will be given the answer – institutions.

Douglas North in his article, 'A Framework for Analyzing the State in Economic History',<sup>19</sup> gives two general types of explanations for the state and its institutions to exist. The first explanation is based on contract theory, and the second on predatory or exploitation theory.

According to the contract theory the state 'plays the role of wealth maximizer for society. In the absence of the state, economic growth of any kind would be impossible' whereas 'a contract that limits each man's activity relative to others is an essential condition for economic growth'. According to the predatory or exploitation theory, the state is 'the agency of a group or class' and its function is 'to extract income from the rest of the constituents in the interest of that group or class'. Therefore, on account of both theories 'the creation of the state is an essential precondition for economic growth' but at the same time it can be 'the source of man-made economic decline'.<sup>20</sup>

By applying the norms of NIE analysis we understand how Cyprus' institutions have been the key instruments for the success of its maritime economy. To amplify on the role of institutions we will quote verbatim from J.G. Manning: 'Institutions, in North's initial formulation, are the rules of the game in a society. They can be formal or informal, include both laws and norms, and constraints of actions as well as enablers of it. As such the institutions of a society determine its economic performance. The historical path dependency of institutions, the tendency once in place for an institution to remain in place is a notable feature of NIE analysis'.<sup>21</sup>

Institutions as the rules of the game reduce uncertainty and provide structure to everyday life. They are the guide to human interactions and creations of human beings and consequently can be altered by them. An important feature and function of institutions is to benefit the elites and their organisations. As we will see in the course of our research, institutions are transactional and operate in a market environment according to written and unwritten laws, norms and customs. They continue to exist as long as they are useful. As long as they serve their purpose, the inherent centrifugal forces of the system cannot overthrow them. In theory an institutional system is intended to reproduce itself without major changes. In practice, however, it is confronted by constraints from within, such as endogenous transformation of the socio-political equilibrium, but also from exogenous forces as a result of phenomena, events, or confrontations with other groups and societies.<sup>22</sup> In all cases the reproduction process can be halted. The old dominant groups and institutions are challenged by the new

<sup>20</sup> North 1979: 249–259, see the definition of a state on page 250 as an organisation with a comparative advantage in violence.

<sup>21</sup> Manning 2018: 28.

<sup>22</sup> Such an example, among many in world history, is the Covid-19 pandemic. The pandemic that resulted from the spread of the virus is an exogenous phenomenon that will test regional and international institutions and their endurance. Two such institutions that may well be severely tested are EU unity and US global leadership. It will also test many national health system institutions. The US leadership will most probably have to reconsider its overall public health policy.

<sup>16</sup> Manning 2018: 29; Ogilvie 2011.

<sup>17</sup> Menard and Shirley 2014: 1.

<sup>18</sup> Alston 2008; Manning 2018: 28, n. 79.

<sup>19</sup> Lo Cascio 2006: 220; North 1979.

groups that eventually succeed either to break them up and absorb them or to replace them and impose new institutional systems and configurations.<sup>23</sup>

It is important to distinguish between institutions and organisations. Institutions are the rules and organisations the players or actors.<sup>24</sup> Such an example can be the game of football: The constitution and set of rules that define how the game should be played is the institution; the Football Associations<sup>25</sup> that organise the game and the teams and football players who play the actual game are the organisations.

In general, the institutions can be classified into four broad sections:<sup>26</sup>

- Political (the state and its rules or other forms of authority, e.g. kingship, presidency and their extensions – army, legislation, diplomacy)
- Symbolic (religion or other worldviews)
- Reproduction of persons (kinship and demography)
- Production and trade of material goods (economics, standards, documentation, long-distance trade)

Organisations are a response to, and a consequence of institutional systems. They can also be classified within four broad sections:<sup>27</sup>

- Political parties and bodies (elder and elite councils and assemblies, regulatory bodies and agencies)
- Economic bodies (trading and entrepreneurial firms or family firms, partnerships, unions, guilds, manufacturing workshops, farms)
- Religious and social bodies (churches, sanctuaries, temples, associations)
- Educational bodies (schools, universities, scribe schools)

Institutions determine and provide opportunities in a society. Organisations exist to take advantage of these opportunities. The existence of institutions and organisations and the enforcement of rules and constraints entail costs that can affect the performance

of the economy. This is why NIE is sometimes defined as the economy of transactional cost. As organisations evolve, they alter the institutions. At the same time, how they evolve is influenced by the institutions themselves. Organisations in the course of achieving their objectives can become a major agent of institutional change.

Morris Silver<sup>28</sup> was among the first to pick up on Douglas North's work. In his 1995 book, *Economic Structures in Antiquity*, he used NIE concepts, especially transactional cost theory, to analyse the ancient economies of the classical world and the ancient Near East. Jean-Jacques Aubert<sup>29</sup> in his book *Business Managers in Ancient Rome* used another NIE core concept, the principal or sponsor-agent relationship, to explain business relations in ancient Rome. Elio Lo Cascio<sup>30</sup> approached the Roman economy by utilising concepts from NIE analysis. Likewise, Dennis Kehoe fell back on NIE theories to explain the reciprocal relation between Roman legislation and agriculture. Recently, NIE has been employed by Professor Brian Muchs<sup>31</sup> to explain the ancient Egyptian economy from 3000–30 BC, and by Professor Alain Bresson<sup>32</sup> to investigate the making of the ancient Greek economy. J.G. Manning<sup>33</sup> also used NIE extensively in his book, *The Open Sea*. NIE analysis was used in *The Cambridge Economic History of the Greco-Roman World* as the organising principle and means of integrating text and material culture into the same story, with the aim of understanding economic performance.<sup>34</sup> We will try and do the same in the case of ancient Cyprus.

NIE analysis can also help us understand decision-making processes. For example, in the same way the Athenians shared risk and financed their naval and maritime supremacy with the concept of *trierarchy*,<sup>35</sup> it has been suggested that the Near Eastern royal and entrepreneurial societies shared risk and capital investment by forming joint ventures, *hubur*, and partnerships. We will analyse this process in the course of this book.

Of course, NIE analysis is not without criticism. Among such critics are G. Clark<sup>36</sup> and Deidre McCloskey.<sup>37</sup> McCloskey is especially critical of NIE since, in her opinion, it is too rational, too narrow and analytic. Another general criticism is that if Karl Polanyi was wrong to miss market activity in antiquity, then NIE

<sup>23</sup> Bresson 2016: 27.

<sup>24</sup> Bresson 2016: 20.

<sup>25</sup> Two examples, among many in our times, are the Cyprus Football Association (KOP) and the English Premier League.

<sup>26</sup> Bresson 2016: 26.

<sup>27</sup> North 1990: 5.

<sup>28</sup> Silver 1995.

<sup>29</sup> Aubert 1994.

<sup>30</sup> Lo Cascio 2005.

<sup>31</sup> Muchs 2016.

<sup>32</sup> Bresson 2016.

<sup>33</sup> Manning 2018.

<sup>34</sup> Dros-Krupe and Nosch 2016: 296–297; Manning 2018: 29; Morris 2007.

<sup>35</sup> On the concept of *trierarchy*, see Gabrielsen 1994.

<sup>36</sup> Clark 2007.

<sup>37</sup> McCloskey 2015.

is faulted to be too transactional, seeking always to operate in the marketplace. The answer to this view is that institutions and economic performance do not come out of thin air; they derive from a particular culture at a particular place and time and established within a particular equilibrium. This is exactly the reason why this work follows NIE directives and its analysis. For the case of Cyprus, the institutions were not only products of the particular internal political environment, but also of the commercial and trading activities in its region, the Near East and the Aegean. They existed together with the elite establishment and organisations of the island, and as long as they kept the equilibrium between their support to the island's economy and the forces for change they could keep themselves intact.

We will proceed to analyse in more detail how we can apply NIE and understand the way institutions can provide a framework for growth and opportunities to intensify the economy. We will do that by looking at two success stories. The first is the growth in the US economy in the 19th century, and the second is the success of the federal state of the United Arab Emirates (UAE). We will compare their successes with a disaster story – the failure of Iraq in the 20th century, one of the top five countries in the world in oil reserves.

The important state institutions that evolved in the 19th century in the US were the constitution and its presidency, the concept of ownership, equal opportunity for all, and norms of behaviour rewarding hard work. This institutional system encouraged and sponsored the evolution of economic and political organisations – Congress, political parties, farms, trade houses, private enterprises, shipping, banks. These organisations evolved and took advantage of opportunities and incentives to increase productivity, innovation, and intensification of economic growth. The country's institutions evolved with the organisations and amended political and judicial frameworks, and changed and improved attitudes and norms of behaviour that fueled further growth and prosperity.

We can employ NIE to explain another success story, that of the United Arab Emirates (UAE). The federation of UAE consists of seven emirates, each with a strong tribal character and its own territory and ruling family. They all belong to the federal state of UAE, which is the only internationally recognised body. The capital of the federal state is in the emirate of Abu Dhabi and its ruler is the president of the UAE federal government. The vice president is the ruler of Dubai. Together with the other rulers they form a governing council that presides over the federal government, which has responsibility for foreign affairs, defense, and fiscal and monetary policies. Each and every emirate runs independently its

own internal affairs, including, among others, policing, transport, airports, harbours, education, hospitals, the legal system, trade and commerce. There is one federal budget, and although each emirate runs its own internal budget, they all contribute in proportion to their income to the federal budget. The richest emirate with the majority of oil reserves is Abu Dhabi, in spite of the fact that Dubai is the centre of commerce. The UAE's financial strength is its oil reserves, much in the same way that copper was for Cyprus in the LBA. Their success lies in the fact that they have institutionalised their operations at the federal level (fiscal and monetary policies, federal law, production and trade, as well as international relations) and achieved a workable cooperation and alignment with the organisations running operations at the emirate level. In the process, they became more advanced and more productive and efficient. Dubai, for example, has created an international brand unprecedented in the history of the Near East, and, we dare say, the world. The secret of their success is functioning institutions.

In Iraq we have the opposite picture. The modern state of Iraq was created by the British, between 1914 and 1932. The League of Nations gave the British the mandate to establish constitutional and democratic institutions for the benefit of the country. The British, instead of doing this, tried to establish a mirror image of their own monarchy, headed by a puppet king, for the sole purpose of serving their interests and looting the country's wealth. They failed to set up the necessary institutions that would have encouraged the evolution of organisations to fuel and grow the economy. This led to revolutions, overthrow of the monarchy, and the establishment of one-party rule that brought Saddam Hussein to power. The country's wealth was monopolised by the state, private enterprise was suppressed, and institutions and organisations failed to legitimise themselves before the people and to align themselves in a way that would fuel economic and social growth. The Americans, who took over in late 20th century, failed even more miserably. They imposed a non-unifying constitution that encouraged sectarianism and division, militarised the population and failed in its mission as one of the most important institutions in the country. They discouraged the evolution of productive and innovative organisations. Law and order disappeared from the country and its natural wealth was looted left, right and centre. This led to the establishment of ISIS, who destroyed and terrorised the region and created a refugee movement of people similar to the situation at the end of the LBA, which is considered one of the possible reasons for the volatile environment that brought about the destruction of cities of the likes of Ugarit.