

# Rome economic crisis of 3rd century ad essay



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The crisis must have made a tremendous impression on the world at the time; otherwise, the three great historians of the period- Tacitus, Suetonius, and Dio- would not have highlighted it since ancient writers were not commonly interested in economics.

Economic policy had gradually become highly regimented, depriving individuals of the freedom to pursue personal profit in production or trade, crushing them under a heavy burden of oppressive taxation, and forcing workers into vast collectives where they were little better than bees in a great hive. The later Hellenistic period was also one of almost constant warfare, which, together with rampant piracy, closed the seas to trade. The result, predictably, was stagnation.

Stagnation bred weakness in the states of the Mediterranean, which partially explains the ease with which Rome was able to steadily expand its reach beginning in the 3rd century B. C. By the first century B. C. , Rome was the undisputed master of the Mediterranean. However, peace did not follow Rome's victory, for civil wars sapped its strength. AUGUSTUS'S REIGN (27 BC-14 AD) The victory of Augustus over Antony and Cleopatra resulted in a repulse of tendencies towards State socialism which might have come to fruition had Antony and Cleopatra been victorious.

The long years of war, however, had taken a heavy toll on the Roman economy. Steep taxes and requisitions of supplies by the army as well as rampant inflation and the closing of trade routes severely depressed economic growth. However, Government needs for funds and for legions to fight wars were now subsided. Businessmen and traders craved peace and

stability in order to rebuild their wealth. Although the establishment of the Roman empire represented a diminution of political freedom, it led to an expansion of economic freedom.

Augustus clearly favored private enterprise, private property, and free trade . The burden of taxation was significantly lifted by the abolition of tax farming and the regularization of taxation. Peace brought a revival of trade and commerce, further encouraged by Roman investments in good roads and harbors. Except for modest customs duties, estimated at 5%, free trade ruled throughout the Empire. It was a period of almost complete freedom for trade and of splendid opportunities for private initiative. Food Subsidies

Egypt, however, retained its socialist economic system and was not allowed to share in the general economic freedom of the Roman Empire is that it was the main source of Rome's grain supply. Maintenance of this supply was critical to Rome's survival, especially due to the policy of distributing free grain to all Rome's citizens which began in 58 B. C. By the time of Augustus, this dole was providing free food for some 200, 000 Romans. The emperor paid the cost of this dole out of his own pocket, as well as the cost of games for entertainment, principally from his personal holdings in Egypt.

The preservation of uninterrupted grain flows from Egypt to Rome was, therefore, a major task for all Roman emperors and an important base of their power. The purpose of food subsidy earlier was not so much to provide a subsidy as to smooth out the seasonal fluctuations in the price of corn by allowing people to pay the same price throughout the year. In 58 B. C. , Clodius abolished the charge and began distributing the grain for free. The

result was a sharp increase in the influx of rural poor into Rome, as well as the freeing of many slaves so that they too would qualify for the dole.

By the time of Julius Caesar, some 320, 000 people were receiving free grain, a number Caesar cut down to about 150, 000, probably by being more careful about checking proof of citizenship rather than by restricting traditional eligibility. Under Augustus, the number of people eligible for free grain increased again to 320, 000. In 5 B. C. , however, Augustus began restricting the distribution. Eventually the number of people receiving grain stabilized at about 200, 000. Apparently, this was an absolute limit and corn distribution was henceforth limited to those with a ticket entitling them to grain.

At this time perhaps one-third of the population was slave. Slaves did not receive free food; their master met their consumption needs by purchasing food and other necessities in the open market. In times of unemployment a master was required to support his slaves, through dissaving if necessary. Should he free his slaves, they were eligible for the food dole, but slaves were expensive and a master would be reluctant to free able-bodied ones except in times of extreme crisis. Taxation and Tribute in the Republic and Early Empire

In the earliest days of the Republic Rome's taxes were quite modest, consisting mainly of a wealth tax on all forms of property, including land, houses, slaves, animals, money and personal effects. The basic rate was just . 01 percent, although occasionally rising to . 03 percent. It was assessed principally to pay the army during war. In fact, afterwards the tax

was often rebated. It was levied directly on individuals, who were counted at periodic censuses. The provinces also paid monetary taxes and tribute to the city.

These payments were made to the government, although the official collecting them was expected to profit personally in the process. The state used provincial taxes to pay residents of Rome for such things as construction, arms, and government wages. The tax money citizens in Rome received returned to the provinces as private payments for imported goods and services. To the extent that cash flow "out" did not equal cash flow "in," standard balance-of-payments effects on prices and employment should have occurred.

Augustus brought about reforms by ending the practise of tax farming . There were several complaints throughout the provinces not only because of excessive assessments by the tax farmers but also because the provinces were becoming deeply indebted. Tax farming was replaced by direct taxation early in the Empire. The provinces now paid a wealth tax of about 1 percent and a flat poll or head tax on each adult. This required regular censuses in order to count the taxable population and assess taxable property. It also led to a major shift in the basis of taxation.

The shift to flat assessments based on wealth and population both regularized the yield of the tax system and greatly reduced its "progressivity." This is because any growth in taxable capacity led to higher taxes under the tax farming system, while under the Augustinian system communities were only liable for a fixed payment. Thus any increase in

income accrued entirely to the people and did not have to be shared with Rome. Individuals knew in advance the exact amount of their tax bill and that any income over and above that amount was entirely theirs.

This was obviously a great incentive to produce, since the marginal tax rate above the tax assessment was zero. In economic terms, there was virtually no excess burden. Higher incomes led to untaxed increases in wealth which were eventually checked by reassessments. But in the short run, the tax system was very pro-growth. Economic Growth Tribute and booty money accruing to the state did not enhance the well-being of Rome until it was spent. Thus for Rome to profit from its tribute the state had to spend its income.

When the money came directly to the emperor or to the state, assurance that the money would be spent was not guaranteed. Early in the Empire, Augustus made it quite clear that he understood this elementary principle: a state cannot afford to run a long-term surplus; if it has no direct needs as a government, it should take steps to transfer the surplus to its people for spending, either employing them, for example, on building programs, or by means of tax reductions or other means.

For example, by bringing the royal treasures to Rome in his Alexandrian triumph he made ready money so abundant, that the rate of interest fell, and the value of real estate rose greatly; and after that, whenever there was an excess of funds from the property of those who had been condemned, he loaned it without interest for fixed periods to any who could give security for double the amount. He often gave largess to the people, but usually of

different sums. In times of scarcity too he often distributed grain to each man at a very low figure, sometimes for nothing, and he doubled the money tickets.

Rome's pro-growth policies, including the creation of a large common market encompassing the entire Mediterranean, a stable currency, and moderate taxes, had a positive impact on trade. There was a sharp increase in the Roman money supply which accompanied the expansion of trade. This expansion of the money supply did not lead to higher prices. Interest rates also fell to the lowest levels in Roman history in the early part of Augustus's reign. This strongly suggests that the supply of goods and services grew roughly in line with the increase in the money supply.

There was probably also an increase in the demand for cash balances to pay taxes and rents, which would further explain why the increased money supply was non-inflationary. During the early Empire revenues were so abundant that the state was able to undertake a massive public works program. Augustus repaired all the roads of Italy and Rome, restored the temples and built many new ones, and built many aqueducts, baths and other public buildings. **TIBERIUS'S REIGN AND THE CRISIS** Upon his accession in A.

D. 14, Tiberius repudiated Augustus's policies. The enormous strength of the building programs during Augustus's reign was followed by their precipitous decline during Tiberius's hegemony. Tiberius cut back on the building program and hoarded large sums of cash. This led to a financial crisis in 33 A. D. in which there was a severe shortage of money. This shortage may

have been triggered by a usury law which had not been applied for some years but was again enforced by the courts at this time.

The shortage of money and the curtailment of state expenditures led to a sharp downturn in economic activity which was only relieved when the state made large loans at zero interest in order to provide liquidity. Work units represent index numbers; 60 work units represent the manpower required to construct the Maison Carrde project. Tiberius was constantly accused of stinginess and hoarded large sums of money. He solved his alleged money shortages by confiscations. The reduced money supply is also attributed to the reduced money supply to an outflow of gold and silver in payments for imports. n average, Tiberius ran a surplus of over 110, 000, 000 sesterces per year throughout his reign. Tiberius could have financed a major aqueduct in a little over three years simply by balancing his budget. Tiberius had to be aware that the food supply of Rome was inadequate. Serious wheat shortages occurred in A. D. 5, in A. D. 6, and again in A. D. 19. ' 9 Tiberius needed to spend some of his stored-up money to solve Rome's food crisis. The sharp policy change between Augustus and Tiberius resulted in a classic cash squeeze. Much of the money supply vanished into Tiberius's coffers as a budgetary surplus and was sterilized.

The actual catalyst that changed the squeeze to a crisis was a sudden government decision to reduce interest rates sharply on real estate loans by directing immediate renegotiation of existing mortgages. The resulting shift in available funds away from real estate was near disastrous. Creditors were suing for payment in full, and it was not respectable for persons when sued to break faith. Money lenders had hoarded up all their money for buying

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land. The facilities for selling were followed by a fall of prices, and the deeper a man was in debt, the more reluctantly did he part with his property, and many were utterly ruined.

Tiberius eventually cured the crisis with a well-recognized manoeuvre: the instant provision of large amounts of cash. He employed a moderate policy with regards to loans and gave the public treasury 100, 000, 000 sesterces to enable senators to make loans to applicants for three years free of interest. Reducing taxes to curb surplus, the modern way to transfer excess money to the people, was not a solution. The population in and around the City of Rome paid no taxes. Among others the newly wealthy put their money into land, so builders, who had put their money acquired from earlier prosperous times into land, would have been much affected.

As soon as Tiberius could be removed, his successor, Caligula, returned to a vigorous policy of expenditure on public construction and the remaining Julio-Claudian emperors continued to follow a policy of forceful, well-planned public construction as can be seen in the figure. A long-standing economic policy confrontation had existed in Rome between the reactionaries who favored strict state fiscal restraint and those others who backed a policy of fiscal responsiveness to needs.

The old guard were senators and traditionalists, while those favoring fiscal responsiveness were the upstarts who had made their money during the Augustan building boom. Augustus had given the nouveau riche their chance by opening the purse under his control and by taking control of most building programs away from the Senate. When the imperium passed to Tiberius, a

conservative patrician in every sense, he changed the economic direction abruptly and transferred ownership to those favouring restraint.

A severe reduction in governmental building programs following a period of very high investment created an economic condition of sharply reduced liquidity. In an economy where most construction labor is slave, loss of government contracts put severe pressure on slave owners who had been contractors for government projects. The investment hiatus was then followed by a separate government decision to reduce interest rates in Rome below their natural rate and to require immediate renegotiation of existing loans down to this legal maximum.

Lenders then moved their money to outside uses. The resulting panic was relieved by sharp, heavy infusions of government cash into the economy. This crisis was the reverse of the other pre-industrial examples in that it was a crisis of economic depression-possibly a Keynesian one-rather than one of unjustified speculation. The actual crisis consisted of a sudden shortage of money and a contraction of credit which threatened to bankrupt some of Rome's most respected citizens.

A failure of investment or of alternative ways to transfer money from the Imperial Treasury to the public over a long period so reduced the money supply that when an event triggered a sudden demand for cash the underlying malaise of the economy surfaced. The ready assets of businessmen- builders, suppliers of materials, and tradespeople- had been so eroded by a long-continued lack of profitable work that they could not deal with the sudden shock Rome did not simply need facilities but that it needed

continuity in programs, and this belief is strengthened by the smooth nature of the building load from the end of Tiberius's reign.

The slave system accounts for the long delay between the cessation of building and its effect on employment. Unemployment would not have become immediately apparent in the suffering of the labour force. Slave-owners would protect this labour from hunger and want until their own resources descended to crisis levels. They had a remedy for the drain of their resources- freeing the slaves- but until things got really bad they would instead have spent their own cash reserves. The crisis of A. D. 3 was ultimately caused by a failure of investment and by an abandonment of Augustan innovation and hence is best classified as a Keynesian trough, not unlike the worldwide Depression from 1929 to 1939. Clearly, the failure of Tiberius to keep the working stock of money resupplied through building expenditures could have caused a classic money-supply problem. From a Keynesian perspective the problem would have been accompanied by joblessness among the work force.

Not long thereafter, under Trajan (98-117 A. D. ), the Empire achieved its greatest geographic expansion. Consequently, the state would no longer receive additional revenue from provincial tribute and any increase in revenues would now have to come from within the Empire itself. Although the Julio-Claudian emperors maintained the Augustinian policy of laissez faire, the demand for revenue was already beginning to undermine the strength of the Roman economy. As early as the rule of Nero (54-68 A. D. ), the demand for revenue led to debasement of the coinage.

Revenue was needed to pay the increasing costs of defence and a growing bureaucracy. However, rather than raise taxes, Nero and subsequent emperors preferred to debase the currency by reducing the precious metal content of coins. Throughout most of the Empire, the basic units of Roman coinage were the gold aureus, the silver denarius, and the copper or bronze sesterce. The aureus was minted at 40-42 to the pound, the denarius at 84 to the pound, and a sesterce was equivalent to one-quarter of a denarius. Twenty-five denarii equalled one aureus and the denarius was considered the basic coin and unit of account.

The aureus did not circulate widely. Consequently, debasement was mainly limited to the denarius. Nero reduced the silver content of the denarius to 90% and slightly reduced the size of the aureus in order to maintain the 25 to 1 ratio. Trajan (98-117 A. D. ) reduced the silver content to 85%, but was able to maintain the ratio because of a large influx of gold. In fact, some historians suggest that he deliberately devalued the denarius precisely in order to maintain the historic ratio. Debasement continued under the reign of Marcus Aurelius (161-180 A. D. , who reduced the silver content of the denarius to 75%, further reduced by Septimius Severus to 50%. By the middle of the third century A. D. , the denarius had a silver content of just 5%. Interestingly, the continual debasements did not improve the Empire's fiscal position. This is because of Gresham's Law- " bad money drives out good". People would hoard older, high silver content coins and pay their taxes in those with the least silver. Thus the government's " real" revenues actually fell. At the beginning, the debasement proved undoubtedly profitable for the state.

Nevertheless, in the course of years, this expedient was abused and the century of inflation which had been thus brought about was greatly to the disadvantage of the State's finances. Prices were rising too rapidly and it became impossible to count on an immediate proportional increase in the fiscal revenue, because of the rigidity of the apparatus of tax collection. At first, the government could raise additional revenue from the sale of state property. Later, more unscrupulous emperors like Domitian (81-96 A. D. ) used trumped-up charges to confiscate the assets of the wealthy.

They would also invent excuses to demand tribute from the provinces and the wealthy. Such tribute, called the *aurum coronarium*, was nominally voluntary and paid in gold to commemorate special occasions, such as the accession of a new emperor or a great military victory. Caracalla (198-217 A. D. ) often reported such dubious " victories" as a way of raising revenue. Although taxes on ordinary Romans were not raised, citizenship was greatly expanded in order to bring more people into the tax net. Taxes on the wealthy, however, were sharply increased, especially those on inheritances and manumissions (freeing of slaves).

Occasionally, the tax burden would be moderated by a cancellation of back taxes or other measures. STATE SOCIALISM Most emperors continued the policies of debasement and increasingly heavy taxes, levied mainly on the wealthy. The war against wealth was not simply due to purely fiscal requirements, but was also part of a conscious policy of exterminating the Senatorial class, which had ruled Rome since ancient times, in order to eliminate any potential rivals to the emperor. Increasingly, emperors came

to believe that the army was the sole source of power and they concentrated their efforts on sustaining the army at all cost.

As the private wealth of the Empire was gradually confiscated or taxed away, driven away or hidden, economic growth slowed to a virtual standstill.

Moreover, once the wealthy were no longer able to pay the state's bills, the burden inexorably fell onto the lower classes, so that average people suffered as well from the deteriorating economic conditions. At this point, in the third century A. D. , the money economy completely broke down. Yet the military demands of the state remained high. Rome's borders were under continual pressure from Germanic tribes in the North and from the Persians in the East.

Moreover, it was now explicitly understood by everyone that the emperor's power and position depended entirely on the support of the army. Thus, the army's needs required satisfaction above all else, regardless of the consequences to the private economy. With the collapse of the money economy, the normal system of taxation also broke down. This forced the state to directly appropriate whatever resources it needed wherever they could be found. Food and cattle, for example, were requisitioned directly from farmers. Other producers were similarly liable for whatever the army might need.

The result was chaos and eventually, the state was forced to compel individuals to continue working and producing. The result was a system in which individuals were forced to work at their given place of employment and remain in the same occupation, with little freedom to move or change

jobs. Farmers were tied to the land, as were their children, and similar demands were made on all other workers, producers, and artisans as well. Even soldiers were required to remain soldiers for life, and their sons compelled to follow them.

The remaining members of the upper classes were pressed into providing municipal services, such as tax collection, without pay. And should tax collections fall short of the state's demands, they were required to make up the difference themselves. This led to further efforts to hide whatever wealth remained in the Empire, especially among those who still found ways of becoming rich. Ordinarily, they would have celebrated their new-found wealth; now they made every effort to appear as poor as everyone else, lest they become responsible for providing municipal services out of their own pocket.

The steady encroachment of the state into the intimate workings of the economy also eroded growth. The result was increasing feudalization of the economy and a total breakdown of the division of labor. People fled to the countryside and took up subsistence farming or attached themselves to the estates of the wealthy, which operated as much as possible as closed systems, providing for all their own needs and not engaging in trade at all. Meanwhile, much land was abandoned and remained fallow or fell into the hands of the state, whose mismanagement generally led to a decline in production.

**Emperor Diocletian's Reforms** By the end of the third century, Rome had clearly reached a crisis. The state could no longer obtain sufficient resources

even through compulsion and was forced to rely ever more heavily on debasement of the currency to raise revenue. By the reign of Claudius II Gothicus (268-270 A. D. ) the silver content of the denarius was down to just . 02%. As a consequence, prices skyrocketed. A measure of Egyptian wheat, for example, which sold for 7-8 drachmaes in the second century now cost 120, 000 drachmaes, suggesting an inflation of 15, 000% during the third century.

Finally, the very survival of the state was at stake. At this point, the Emperor Diocletian (284-305 A. D. ) took action. He attempted to stop the inflation with a far-reaching system of price controls on all services and commodities. These controls were justified by Diocletian's belief that the inflation was due mainly to speculation and hoarding, rather than debasement of the currency. Despite the fact that the death penalty applied to violations of the price controls, they were a total failure. Much blood was shed over small and cheap items and goods disappeared from sale.

Yet, the rise in price got much worse. Finally, after many had met their deaths, sheer necessity led to the repeal of the law. Diocletian's other reforms, however, were more successful. The cornerstone of Diocletian's economic policy was to turn the existing ad hoc policy of requisitions to obtain resources for the state into a regular system. Since money was worthless, the new system was based on collecting taxes in the form of actual goods and services, but regularized into a budget so that the state knew exactly what it needed and taxpayers knew exactly how much they had to pay.



Careful calculations were made of precisely how much grain, cloth, oil, weapons or other goods were necessary to sustain a single Roman soldier. Thus, working backwards from the state's military requirements, a calculation was made for the total amount of goods and services the state would need in a given year. It was also necessary to calculate what the taxpayers were able to provide in terms of the necessary goods and services. This required a massive census, not only of people but of resources, especially cultivated land. Land was graded according to its productivity.

The historian Lactantius puts it as, " Fields were measured out clod by clod, vines and trees were counted, every kind of animal was registered, and note taken of every member of the population. " Taxable capacity was measured in terms of the caput, which stood for a single man, his family, his land and what they could produce. The state's needs were measured in terms of the annona, which represented the cost of maintaining a single soldier for a year. With these two measures calculated in precision, it was now possible to have a real budget and tax system based entirely on actual goods and services.

Assessments were made and resources collected, transported and stored for state use. Although an army on the move might still requisition goods or services when needed, the overall result of Diocletian's reform was generally positive. Taxpayers at least knew in advance what they were required to pay, rather than suffer from ad hoc confiscations. Also, the tax burden was spread more widely, instead of simply falling on the unlucky, thus lowering the burden for many Romans. At the same time, with the improved availability of resources, the state could now better plan and conduct its

military operations. In order to maintain this system where people were tied to their land, home, jobs, and places of employment, Diocletian transformed the previous ad hoc practice. Workers were organized into guilds and businesses into corporations called collegia. Both became de facto organs of the state, controlling and directing their members to work and produce for the state. THE FALL OF ROME Constantine (308-37 A. D. ) continued Diocletian's policies of regimenting the economy, by tying workers and their descendants even more tightly to the land or their place of employment .

Despite such efforts, land continued to be abandoned and trade, for the most part, ceased. Industry moved to the provinces, basically leaving Rome as an economic empty shell in receipt of taxes, grain and other goods produced in the provinces, but producing nothing itself. Despite no production, the demand was constant leading to an intolerable tax burden on the productive classes. In the fifty years after Diocletian the Roman tax burden roughly doubled, making it impossible for small farmers to live on their production. This is what led to the final breakdown of the economy.

As Lactantius puts it: “ The number of recipients began to exceed the number of contributors by so much that, with farmers' resources exhausted by the enormous size of the requisitions, fields became deserted and cultivated land was turned into forest. ” Although Constantine made an effort to restore the currency, subsequent emperors resumed the debasement, resulting in renewed price inflation. Apparently, Emperor Julian (360-63 A. D. ) also refused to believe that the inflation was due to debasement, but rather was caused by merchants hoarding their stores.

However, Julian understood that the main reason for the state's fiscal problem was the excessive burden of taxation, which fell unequally on the population. The wealthy effectively were able to evade taxation through legal and illegal measures, such as bribery. By contrast, the ordinary citizen was helpless against the demands of the increasingly brutal tax collectors. Previous measures to ease the tax burden, however, were ineffective because they only relieved the wealthy.

Constantine, for example, had sought to ease the burden by reducing the number of tax units—caputs—for which a given district was responsible. In practice, this meant that only the wealthy had any reduction in their taxes. Julian, however, by cutting the tax rate, ensured that his tax reduction was realized by all the people. He also sought to broaden the tax base by abolishing some of the tax exemptions which many groups, especially the wealthy, had been granted by previous emperors. Nevertheless, the revenues of the state remained inadequate to maintain the national defence.

This led to further tax increases, such as the increase in the sales tax from 1 percent to 4.5 percent in 444 A. D. However, state revenues continued to shrink, as taxpayers invested increasing amounts of time, effort and money in tax evasion schemes. Thus even as tax rates rose, tax revenues fell, hastening the decline of the Roman state. In short, taxpayers evaded taxation by withdrawing from society altogether. Large, powerful landowners, able to avoid taxation through legal or illegal means, began to organize small communities around them.

Small landowners, crushed into bankruptcy by the heavy burden of taxation, threw themselves at the mercy of the large landowners, signing on as tenants or even as slaves who weren't bound to pay taxes. The latter phenomenon was so widespread and so injurious to the state's revenues that in 368 A. D. Emperor Valens declared it illegal to renounce one's liberty in order to place oneself under the protection of a great landlord. In the end, there was no money left to pay the army, build forts or ships, or protect the frontier.

The barbarian invasions, which were the final blow to the Roman state in the fifth century, were simply the culmination of three centuries of deterioration in the fiscal capacity of the state to defend itself. Indeed, many Romans welcomed the barbarians as saviours from the onerous tax burden. Although the fall of Rome appears as a cataclysmic event in history, for the bulk of Roman citizens it had little impact on their way of life. Once the invaders effectively had displaced the Roman government they settled into governing themselves.