The banking system of ancient greece

History

Evidence from classical studies suggests that the banking system of Ancient Greece influenced the later banking system of ancient Rome. Several similarities in the two banking systems support that many of the methods used in Roman banking were originally Greek ideas. The creation of a banking system, the set up and functions of the banking system, and the method of profit making by banks are three ways in which the business of lending in ancient Greece influenced the banking system of ancient Rome. The development of coin money was the leading cause for the need of a banking system in both Greece and Rome (Angell 96).

Before money, there was no need for banking (Davis 72). Once coin money was developed and important, a system of banking arose to provide a secure place for people to keep their money (Davis 72). In ancient Greece, temples were the location in which early reserves of coins and metal bars were kept (Angell 96). For example, money was issued out of the temples of Delphi in Arcadia and of Didymean Apollo in Mellitus during the fourth century (Angell 96). The Greeks believed that no robber would be daring enough to steal from the temples that housed their gods (Angell 96).

Later most Greek coins were still minted in temples, but the government and other institutions took control of the distribution and lending of money (Angell 96). A system similar was used in ancient Rome. The creation of Roman money was fashioned after that of the Greeks (Angell 106). The creation of money led to prosperity in Rome, and as fortunes grew, the people of ancient Rome could no longer risk keeping their money hidden at home (Davis 72). Before the Second Punic War, the concept of banking had crossed over to Italy from the Greeks (Davis73).

In some cases, Roman money was deposited at the Parthenon in Athens and the house of the Vestal Virgins in Rome (Davis 72). Romans learned, however, that keeping money hoards in the temples was not a perfect system (Davis 72). When deposits were made to the temples, no interest could be accrued when it was later claimed (Davis 72). Also, the temples were not completely secure (Davis 72). In one instance, the devious Roman rulers Antonius and Octavius persuaded the Vestal Virgins to remit to them the money deposits of Rome (Davis 72).

The trickery by Antonius and Octavius led to the growth of the latter Roman system of banking (Davis 72). The setup of the banking systems of ancient Greece and Rome supported that the Romans developed their system from that of the Greeks. The functions of a bank in both Greek and Roman culture were to fulfill all the needs a customer might have involving money. In ancient Greece and the Roman Empire, banks could provide for the safe keeping of valuables, exchange of currency, provide a witness to monetary transactions, arrange for the payment of creditors, take deposits, and issue loans (Shipton 413).

In Greece, items of value kept safe in the bank were primarily the goods of merchants from foreign cities who needed a safe place to leave their goods (Adkins 191). In both Greece and Rome, lacking one uniform coinage for the entire society made conversion of currencies also a major business of the banks (Adkins 191; Tenney 392). In some cases witnesses to money transactions were essential, because the witnesses would be needed to testify in court if the debtor failed to repay the loan made to him (Usher 5).

Later on both ancient Greek and Roman banks employed formal notaries to document the banks' transactions (Usher 5).

Parties involved in the monetary transaction would agree to and sign a contract, especially for loans, which would state the terms of the deal (Werner 101). Then the notaries also endorsed the contract and keep it on record (Werner 101). Notaries and lenders began the use of extensive written records to document transactions (Usher 5). Records of money transactions were used first by Greek and later by Roman bankers. In Greece, notaries were generally used to document what goods were put into safes at the bank, so that when a customer came to retrieve his goods, he would have record of what he left (Usher 39).

The Greeks also kept track of deposits and loans using epistolae, translated as " letters", which documented the agreement between the banker and the customer (Usher 36). In the Roman Empire, records were kept on public tables to prove that a monetary transaction occurred and when (Werner 101). The bill of exchange, initially a Greek idea, was also adopted by the Romans (Davis 73). A bill of exchange was a note from one bank, which allowed a customer to have currency exchanged at another bank (Davis 73). The note stated the exchange rate and particular amount that the other bank would have to pay the recipient (Davis 73).

On a larger scale, books kept by lenders were used to keep track of the amounts loaned, what rate of interest applied, and when the loans would reach maturity (Davis 73). The Roman lender, Aterius, kept his own books of accounts, loans, interest rates, and maturity dates, so he could take the books to court with him as evidence when a debtor failed to repay him (Werner 101). Bankers would keep two books- one to show each transaction that took place and the second to summarize the monthly flow of cash in and out of the bank (Davis 76).

Another aspect of the banking system of ancient Greece later used by the Roman Empire was the use of agents to create personal relationships with customers. In the Roman Empire, a steward evolved who acted as the middleman between an estate owner and the bank (Usher 48). This middleman could relay information and deposits between the customer and the bank, therefore, providing an extra service for the customer (Usher 48). Agents were also hired by banks in the Roman society to collect on debts (Usher 48). Slaves held a majority of the middleman positions with the banks, especially in ancient Greece (Shipton 409).

One of the major reasons why slaves were used to run banking facilities was because, since slaves were not citizens, the money they would bring in to the banks was not taxable income (Usher 48). During the early history of Roman banking, lenders would use slaves to target distressed sons of rich farmers, and then the slave would casually mention to the man that he could solve his financial woes by seeking a loan from the bank (Werner 101). Later in the system of Roman banking, slaves could be found in charge of large amounts of the banks' money (Usher 49).

In Greece, slaves were assigned to guard important documents and valuables (Usher 39). Slaves in Greece were also used to form personal contacts with customers and to make business connections (Shipton 409).

Many ex-slaves became bankers themselves. One of the best examples of this is the story of the Athenian man named Pasion (Shipton 396). Pasion was a politician's son and an ex- slave (Shipton 396). Pasion's owners had ran a private bank, and allowed Pasion to hold a position there (Shipton 396). As Pasion's owners began to trust him, his role in the bank increased (Shipton 396).

Pasion eventually took over the bank, and was wealthy enough to own his own slaves, one of which later took over Pasion's bank (Shipton 396). One of the main similarities between the banking system in ancient Greece and ancient Rome was the ability to use money lending as a profitable business (Shipton 409; Angell 105). Greeks used a system comprised of taking deposits and issuing credit, which the Romans later copied (Angell 105). Moneylenders were generally the citizens in Rome who were already wealthy or who were publicly well known (Werner 101).

In the time of Cato of the Roman Empire, banking was merely done by the wealthy because they could, but later the popularity of lending money led everyone who wanted to capitalize on the needs of others to lend money (Werner 101). Bankers generated capital to lend by collecting deposits from the townspeople, and in turn lending that money to the people who needed loans (Tenney 392). In Greece, loans were generally issued to people wishing to buy property or homes and as shipping insurance (Adkins 194).

Revenues were earned in the banking systems of Greece and Rome by charging interest on loans. The rates of interest in ancient Greece varied, especially during times of financial hardship (Hudson 139). When the economy was poor, bankers would charge a higher rate of interest because borrowers needed loans for necessities, such a grain and livestock (Hudson 139). The Greek bankers generally followed a rate of 10% on loans (Hudson 132). In Athens between 433 and 427 B. C. , the interest rate was near 6% (Adkins 191).

In the remainder of ancient Greece around 550 B. C. , rates were around 16%, but dropped around 250 B. C to the 6% rate like Athens (Schwartz 245). Some Greek bankers would also lend interest- free (Hudson 136). Bankers would lend to customers of similar class, and although money interest was not charged, the lender would benefit in other ways (Hudson 136). The borrowers, in these interest- free cases, would recommend the bankers to friends; offer grain, land, legal help, and other goods or services; or assist the lender in achieving public office (Hudson 136).

The Roman bankers adapted the Greeks method of charging interest to make profits in the banking business, but the Roman bankers became were greedy and charged excessive rates of interest (Angell 106). In the Roman Empire, interest rates constantly varied (Davis 78). Although the rates are mentioned in the Twelve Tables, an exact rate is not known and was not followed even then (Davis 78). Without set limits on interest rates, lenders could charge extremely high amounts to borrowers. Overcharging of interest rates, or usury, created large profits for some bankers (Davis 77).

At one point, during 343 B. C. , the Genucian Law said that no interest could be charged (Davis 78). The problem with this law was that, if no one was receiving interest, no one would want to be a banker, and without bankers, the Roman Empire would have been left with no place to deposit money or take out loans (Davis 78). Finally, in 193 B. C. , the Roman Republic set a legal interest rate of 12% (Davis 78). The ruler Justinian changed this again, and 6% interest was the legal rate (Davis 78). Although legal rates were set, they were not strictly enforced, so other rates were often charged (Davis 78).

Documents show a lender by the name of Verres charged as much as a 24% interest on the people of Sicily (Davis 78). The people of Cyrus were also unfairly charged higher rates when they took a loan from the lender named Brutus, who charged them 48% interest (Davis 79). Other sources say that up to 60% interest had been charged (Davis 79). Another devious money lending scheme also occurred. Some Romans would borrow money at low rates of interest and then loan out that money at extremely high rates (Werner 101). During the period of time of the rule of Augustus, even aristocrats would take part in this money making scheme (Werner 101).

The scandalous nature of bankers in the later years of Greece and Rome caused many citizens to fall into debt, while the bankers prospered (Angell 145). Many of the ancient Greeks were upset with the state of the banking system because the immoral practices of the lenders were not within the ideals of Greek society- to be friendly and courteous and good (Shipton 397). As debts began to be left unpaid in Greece and later Rome, bankers had to develop ways to be compensated (Angell 182). The lower class was risky and usually not encouraged to take out loans, since they were not expected to repay (Angell 182).

With interest rates quite high, not even the middle class could manage to stay out of debt (Angell 182). In order to repay debts, the Greek laws of bankruptcy would cast debtors temporary, and sometimes permanently, into slavery (Angell 182). There are also naval records showing, during the time of the Greek grain shortages, how some grain merchants were delivering tax- free imports (Shipman 406). These gifts were not gifts at all, but ways the merchants were trying to repay debts they owed (Shipman 406). In Rome, a lender could seize, enslave, or even kill his debtor to reconcile the debt (Frederiksen 129).

Later these Roman punishments were less severe, but lender could still hold their debtors as slaves or sell them to other as slaves (Frederiksen 129). While their debtors were struggling, bankers, however, were rich. Aristotle once said that money was the only goal of the lenders- to have money to lend to make more money (Meike 140). Of the fifteen Athenian estates we know of historically, most of the wealth associated with the estates is from private banking (Shipton 408). In addition, of the seven extensively documented Greek bankers, four of them made enough money from banking to raise them to the liturgical, or upper, class (Shipton 409).

Roman lenders also showed wealth. The bankers of Rome often invested their excess earnings into real estate (Tenney 393). Lenders, such as Cicero, Varro, Labienus, and Mamurra, invested in land and agriculture (Tenney 393). Roman bankers, because of their power and wealth, were also often elected into political office and other positions of respect and glory (Davis 77). In conclusion, the histories of the banking systems of ancient Greek and the Roman Empire show that the Romans did indeed use many Greek ideas to form their own system of banking.