

SEARCHING FOR RELEVANT PARALLELS AND LESSONS FROM THE ECONOMY OF THE ROMAN EMPIRE

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Abstract

This paper focuses on the economic aspects of the rapid development of the Roman Empire. The growing economy enabled the function of several mechanisms relevant for the extension of Rome. It influenced the law making procedure as well as the system of public finances, and formed the policy of the government. A special attention is required by the conditions. They were necessary to reach a high level of business activities, which became the basis of economic prosperity. This paper deals not only with the reasons of economic growth but also with its decrease and the reasons of financial crisis of the Roman Empire, which led to the series of economic reforms.

Key words

Crisis, economy, finances, policy, Roman Empire, Roman law.

Introduction

At the time of the establishment of Rome in the 8th century B. C. it was representing a little city-state. Its society was focused on agriculture. However they had very advantageous prerequisites for the improvement of their agricultural activities and the support of possibility to start business activities based on a so-called barter trade. Developing relations of Rome with its neighbours and other nations created a net of prospering connections which conditioned the necessity to take other relevant measure by the government, thus excluding the possibility of stagnation or decline.

Initially the matter of economy belonged solely to the civil sphere, but later it influenced also the public affairs. Consequently the role of public authorities was growing and impacting the further development. Partly the interest of the Roman state on the economic prosperity of its inhabitants was increasing until it reached acceptable limits. The potential

power of the wealth was for the government threatening, but on the other hand they were appropriate target for the purpose of taxation.

During the analysis of the economic aspects of the Roman Empire we can realize a couple of parallelism with the current state. Many of the economic rules functioned also in ancient times, thus enabling the historical comparison. However the Roman model can be effectively used for the purpose of deduction and creation of economically relevant summaries as well as for taking lessons from their results.

1. Overview of the economically relevant aspects of the social and political situation of the Roman Empire

The contemporary meaning of economy gives rise to many considerations referred to the phenomenon created in the period of Roman Empire that defines the understanding of economy in the way, they did it in developed ancient states. The most intensive development was noticeable in the Roman society, which was due to its rural way of life orientated to agriculture. The needs of the society stimulated the necessity of a barter trade, characterized by exchanging one commodity for another. However the expansion policy of Rome presented a turning point for the economic stability and balance.

As it was mentioned, the initial phase of the rising economy was based on agricultural activities of Roman citizens, which became the most dominant sector of Roman economy.¹ Its roots were established already in the latest period of Roman Empire in the era of primitive society, when farming constituted an essential method of subsistence. However, the differentiation of the society determined the possibility to possess fertile lands appropriate for cultivation. The dominant position was reserved for patricians, who didn't work their lands themselves, but rented them out to the members of plebeians, used slaves as *instrumentum vocale* or hired free workers.² Later there was also a tendency to use colons, mainly after the decrease of the amount of slaves. Whereas farming activities often produced a surplus, farmers had a number of options how to dispose of them. Due to the fact, that there were also significant duties of the tenant, he was obliged to pay taxes and rent, and the rest

¹KEHOE, P. D.: *Law and the Rural Economy in the Roman Empire*. Michigan: University of Michigan Press, 2007, s. 5.

²GEDACHT, C. D.: *Economy and Industry in Ancient Rome*. New York: The Rosen Publishing Group, Inc., 2004, s. 6.

was capable for trading. In this moment we can find an amount of complex situations, which provoked the necessity of particular legislation.

Consider the state, which was established by expansive wars of Romans, it is possibly to claim significant changes in contrast to the former situation. Violent interventions of Rome resulted in extension of the territory of the Roman Empire by newly attached provinces. One of the main results of such interventions was the creation of conditions for international commerce, which was based on the large number of relations between various nations.³ However these activities created the need for a special protection provided to the interest of traders, which strengthened the position of the state and enabled the modification of their relations.⁴

Due to the above mentioned statements let us see the results of such a development in the Roman Empire and its influence on the economy and legal system. At first we have to realize, that there were two types of cities within the territory of the Empire. One of them represented the consumer society, which was dependent on the transfer of incomes from the countryside, because wealth was not primarily derived from their own production. And the second type was able to produce surplus, which allowed the trading between different countries. But for effectiveness of such commerce we have to consider determining factors leading to economic development – population and technology.⁵

Demography of Roman Empire influenced the development of economy, thus it is relevant to take into account also this aspect of society. An Austrian historian Walter Scheidel argues that the population size was one of the indicators of economic performance.⁶ This statement is supported by the demonstration of a Danish economist Ester Boserup, who analysed the connection between the population rate and economy. She noted that we should expect the slowdown or stagnation of the rate of technological changes, until the rate of the population growth is low.⁷ The size of population was influenced by the mortality and natality

³CHARLESWORTH, M. P.: *Trade – routes and commerce of the Roman Empire*. Cambridge: The Cambridge University Press, 1924, s. 2.

⁴CHARLESWORTH, ref. 3, s. 12.

⁵KEHOE, ref. 1, s. 6.

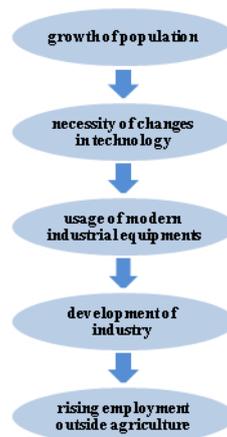
⁶SCHEIDEL, W.: *Population and Demography*. Princeton/Stanford Working Papers in Classics, 2006, s. 2. [quot. 27-10.2013] Available on: <http://www.princeton.edu/~pswpc/pdfs/scheidel/040604.pdf>

⁷BOSERUP, E.: *The Conditions of Agricultural Growth: The Economics of Agrarian Change under Population Pressure*. Reprint. New Jersey: Transaction Publishers, 2005, s. 56.

rate in Roman Empire. Further by the inflow of slaves and immigrants.⁸ The growth of the population was supported also by the inhabitants of newly attached provinces.

The growing amount of inhabitants of the Roman Empire created conditions for the increase of technology. Thus new developments became part of everyday use. Technological equipments like the water mill, olive press or irrigation enabled new and more extensive possibilities of production.

Table 1: Increasing procedure of the economy growth according to the growth of population.



Source: author

The above mentioned economic mechanism resulted in the necessity of a flexible system of law, which provided adequate conditions for further business activities. One of the most important steps was to ensure legal rights of merchants and consumers and to create an effective procedure for their protection.⁹

The law of obligations as one of the building pillar of the Roman law was compared to Greek sculptures by Th. Mommsen because of their uniqueness. It showed a high level of sophistication and reflected the needs of the current society - debtors and creditors. Such flexible system was however the outcome of the continuous efforts of praetors. It is important to consider, that the ancient Roman obligatory law was characterised by a principle of *numerus clausus*, which was moderated by the system of *contractus innominati* and *pactas*. Their purpose was to admit a claim in the wider range of cases and to extend the protection

⁸However slaves had a special legal status of things (*res*), they performed a very important role in the economy of Roman Empire.

⁹The earliest legal procedures were *per legis actionem*. They were later replaced by the procedure *per formulas*, which was more flexible than the first one.

provided to the rights of contracting parties. Professor Malmendier mentions three main areas creating opportunity for contracting:

- provisions of goods and services for the public,
- utilization of public property,
- collection of public revenues.¹⁰

2. Financial system of the Roman Empire

The financial system of the Roman Empire was dependent on political circumstances and the legal environment. However we can also consider an effective connection between public finances and the growing economy. Let us see the more detailed analysis of such aspects.

The Roman state was dependent on the revenues, which were necessary for its public life. The taxation was modest in the early Republic. It was focused on the owned wealth and property, e.g. lands, slaves, animals. An important role played also incomes from provinces. They were based on the principle “more provinces, more revenues”. The growing amount of provinces influenced not just the state of public finances but also the economy and the Roman policy. As it was already mentioned Rome had an expansion policy leading to the extension of its territory and building its dominant position in Europe. The situation was fairly different in the centre of Rome. Roman citizens perceived any taxation as dishonouring and degrading. Although taxes and tributes represented significant rate for the financial growth of Rome, but there were also other elements of higher importance. Numerous triumphs of Rome presented extraordinary opportunity to receive new wealth and revenues in the form of the spoils of war.

The financial situation during the early Roman Empire enabled massive public works. But there is still a question: Does the financial development lead to the economic growth? Several authors suggest that financial development lead to the growth by channelling finances to growing industries. They also emphasize that the sectors in great need of external finance develop faster in countries with more developed financial markets. The Roman law cases

¹⁰MALMENDIER, U.: *Law and Finances „at the Origin“*. In: Journal of Economic Literature. Dec2009, Vol. 47 Issue 4, p. 1085.

provide relevant evidences for the channel of external finances. This situation was also advantageous for the investors and their intention to circulate money.¹¹

Professor of economics Malmendier indicates two conditions, which are necessary for the financial development. On one hand he accentuates a very favourable legal environment and on the other hand the current political situation.¹²

The importance of the advantageous legal rules referred to various business activities was already debated earlier, but we need to consider also the effect of these rules and their social sense. Entrepreneurship shows a very high level of risk, if there are no appropriate provisions protecting the rights of single participants. The other way is to determine principles, which create the basis not only for legislation but also for the conduct of entrepreneurs. They were often inspired by the manners and customs. However the rigidity of the Roman law constituted a solid barrier. A rapid breakthrough was created step by step by the efforts of praetors. This aspect is also an evidence of the fact, that the law in practice had the highest importance, and the strictly given legal rules were overcome due to a fast development in the Roman society.

The minting policy and monetary role of coins were of high importance for fulfilling the intentions of Roman government. Hopkins notes that the spread of silver coins, minted in Rome, across different regions of the expanding Roman state illustrates its integration into a single monetary economy.¹³ We need to consider that it seems that RG was initially performing fiscal operations without any debt. But the purpose-built policy preferred political privileges over the capability of inhabitants to pay.¹⁴ The tendencies ruling the fiscal policy were changing according to the current period of Roman Empire. Firstly there was a noticeable rising tendency, which was replaced by a decrease causing the crisis in the Roman Empire.

¹¹MALMENDIER, ref. 10, s. 1095-1096.

¹²MALMENDIER, ref. 10, s. 1096-1097.

¹³HOPKINS, K.: *Taxes and Trade in the Roman Empire (200 B.C.–A.D. 400)*. In: *Journal of Roman Studies*, Nov1980. Vol. 70, p. 101–125.

¹⁴DUCAN-JONES, R.: *Monetary and Government in the Roman Empire*. Cambridge: Cambridge University Press, 1994, s. 3-4.

3. Financial crisis and its impact on the fall of the Roman Empire

During the early Empire revenues were abundant. But this situation was slowly changing due to the decision of government to adopt the policy of *laissez-faire*, which undermined the strength of economy.¹⁵ First of all the policy of the emperor Nero and the financial policy of following emperors was undoubtedly controversial, which resulted into an unfavourable situation. Consequently the necessity of the series of reforms arose. There were a number of options how to resolve the decrease of revenues. One of them was a familiar and popular way of raising taxes. However the decision fell onto the debasement of currency and the weigh-reducing tendency by increasing of the precious metal content of coins. As has been shown it was not an effective long term plan, because the final results were fatal for the Roman Empire.

At first sight the debasement fulfilled its purpose, but in a long term it did not improved the financial challenges and difficulties of the Empire. The reform affected the gold aurous, silver denarius and bronze sesterces. Due to these changes the reaction of the society was defensive. They misused the given situation and hoarded old silver coins with the high content of precious metal and put into circulation that with the less quality. However the result of the current policy was that the prices were rising and the revenues were falling. Bernardi explained that it was impossible to expect a rapid increase because the apparatus of tax collection was too rigid to achieve this purpose.¹⁶

The conduct of other emperors was also critical. They supported the existing crisis and led the society to the end of their opportunities. The ruling financial situation had impact on everyone. There was no exception according to the legal status. Wealthy people were hiding their assets to show the appearance of dispossessed, and the others had a very little possibility for freedom. The main characteristic feature of this situation was that the people were tied to their work activities without the opportunity of any change. In the 5th century all that aspects of the Roman Empire which initially showed a very high rate of prosperity were negatively

¹⁵BARLETT, B.: *How Excessive Government killed Ancient Rome*. In: CATO Journal. Fall 94, Vol. 14 Issue 2, p. 293.

¹⁶BERNARDI, A.: *The Economic Problems of the Roman Empire at the Times of its Decline*. In: *The Economic Decline of Empires*. London: Methuen, 1970, p. 39.

impacted by the lasting situation. In the mentioned period not only the economy and public finances, but also the Roman law and the public power suffered.

Conclusions

The Roman Empire provided numerous topics for several research activities. Because of the rapid development in ancient Rome there are many aspects which take the attention of specialist from different fields. One of the most common is the study of the Roman law. However the analysis of economic aspects is not of a less importance, because it is describing the development through the historical periods of the Roman Empire. It was characterised by fast increases and deep falls. The economic changes were significant not only for the legislation, but also for the growth of finances. It influenced mainly the development of obligatory law and procedural law, but also differences between wealthy people and the poverty. The amount of the individual property was decisive for tax revenues. As we can see on the model of the Roman Empire, there was a mutual connection between economy and public finances. Consequently the public incomes were invested to the development of the infrastructure, thus support the industry and enable additional growth of economy. However the limitation element was the policy. Its inadequate character mainly focused on rivalry of government with wealthy people. If they were not able to pay taxes the burden fell onto lower classes. And what are more the needs of the expansive policy were excessively high and the capacity of the state was limited. The financial crisis was however avoidable by other available options. Subsequent reforms of several emperors referring to the currency led to its debasement and the prices were increasing. Also the fixation of prices resulted in the hindering of trade. The mentioned crisis which became deeper is often considered as one of the main reasons of a so-called fall of the Roman Empire represented mainly by social and governmental changes.

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