Reseñas bibliográficas

THE ECONOMICS OF ANCIENT ROME

Review of Peter Temin's *The Roman Market Economy* (Princeton University Press, 2013)

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Cliometrics is the application of economic theory and econometric methods to historical questions. Peter Temin, an economic historian specialized on 19th and 20th century US history has recently used cliometrics to study the economy of Ancient Rome. From an Austrian perspective the application of cliometrics does not pose a methodological problem. Econometrics, as well as statistics, may be just another tool of the historian helping him to interpret history. Nevertheless, the findings of cliometrics must be taken with great caution giving the inaccuracy of historical data, especially if they are very incomplete and 2000 years old.

Temin's main thesis is that Rome was not a planned economy, but a market economy. In order to prove his thesis Temin analyzes different markets such as the grain trade, the labor market, the land market and financial markets. Finally, Temin tries to estimate the effect of the Roman market economy on the standard of living in ancient Rome.

Temin argues that there prevailed genuine market prices throughout the Roman Empire. To prove his case he analyses the grain market and finds that grain prices varied in function of the distance to Rome due to market arbitrage. Interesting is Temin's analysis of long distance trade which implies a principal agent problem. For instance, it was difficult for the principal to control the agent that was buying grain in Egypt to bring it to Rome. Temin describes how entrepreneurial creativity had sought solution

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for the principal-agent problem. The oldest solution of employing family and friends as agents played a major role. But also other social networks were employed to solve the problem. Agents needed to establish trustworthiness which could result from a recommendation from a senator or knight. Guilds were another way to solve the trust problem, establishing a reputation-based enforcement mechanism.

Temin also shows that in contrast to prejudices the Roman empire was no slave economy but had a functioning labor market. The system of Roman slavery was quite different from the system of slavery of the US prior to the Civil War. The Roman system did not work through penalties but through rewards. There was substantial upward mobility for Roman slaves that competed with free workers. Roman slaves were often able to purchase their freedom. Slaves even owned other slaves.

Financial markets in Rome were quite sophisticated. Even though most money for investment purposes came from friends and family, there existed also a market for loanable funds in Rome. Loans were primarily used to finance consumption in cases of emergency or when people had to live far away from home. Naturally, a good reputation was a necessary condition to be able to borrow. However, also companies borrowed occasionally. Banks acted as financial intermediaries. In addition to true and legitimate financial intermediation, banks also operated with fractional reserves. Fractional reserve banking violated the established legal principles and caused occasional crises. It is not surprising that the cooperation between banks and the government can be found already in Rome where banks collected indirect taxes and fees for the government. In the 3rd century AD banks disappeared. Unfortunately, Temin does not provide us with a detailed analysis of the reasons for their disappearance. Financial markets, however, offered another sophisticated solution to finance investment projects. Romans used the *societates*, which were long-term partnerships similar to joint-stock companies to fund larger projects and to spread risks.

The Roman market economy allowed for important economic growth. The Pax Romana led to a better defense of private property rights which spurred economic growth. When the Mediterranean was cleared from pirates, the extension of the market throughout the whole Mediterranean allowed for a more sophisticated division of labor and specialization. The Mediterranean was of outmost importance, since transportation over sea was much cheaper than transportation over land. In addition, at the same time and in contrast to common beliefs, there were important technological innovations as Peter Temin shows. Important for growth were also informal institutions such as the Stoic tradition in Rome which made the fulfillment of contractual obligation a matter of personal honor. However, Temin does to analyze another important driver of economic growth which is capital accumulation which may be due to a lack of reliable data.

As a result of economic freedom, living standards in the Roman Empire were quite high for the time. The richest part of the Roman Empire were as developed and had a similar GDP per capita as the richest part of Europe around 1600. In other words, it took more than 1000 years to regain the living standard achieved in ancient Rome. The city of Rome is estimated to have had one million of inhabitants, which makes it probably the largest city to exist before the Industrial Revolution. The case of the rise and decline of ancient Rome and the corresponding fluctuations in living standards show that progress cannot be taken for granted but depends on the institutional framework, namely the adequate defense of private property rights.

An important shortcoming of Temin is to not having fully explained why the Roman Empire fell. Temin seems to suggest that the decline of the Roman Empire was due to Malthusian forces. He does not fully analyze the role that interventionism played in the demise of the Roman Empire as explained by Ludwig von Mises in *Human Action*. Unfortunately, Temin's analysis lacks political economy. He does not account for chances in government policies. Yet, his work can be easily be complemented with such an analysis.

A related point is Temin's discussion of feudalism, which provided a shift from taxation to personal service. Temin argues that feudalism provided a way out of chaos in a violent and insecure world. He states that after the fall of the Roman Empire there was not strong enough central government that could collect taxes. The solution was feudalism that was successful in bringing more peaceful conditions.

Feudalism, however, brought the end of the market economy as land and labor markets ceased to exist. According to some estimations rents and feudal dues amounted to 40% of productions while taxation in Rome was only about 10% of production. Temin as other mainstream economists seems to regard the lack of a strong central government as detrimental for economic growth. Yet, it was exactly the strong government and its interventions that had caused the decline and fall of the Roman Empire in the first place. It is a myth that private property rights must be defended by a strong monopolist. Indeed, the monopolist tends to violate private property right ever more as has been the case when the Roman Empire turned toward interventionism. The solution is voluntary arrangements that in a competitive environment secure private property rights.

Another shortcoming of Temin's book is that he argues that economies before the Industrial Revolution were Malthusian economies. In Malthusian economies a rise in living standards causes population to increase which together with diminishing returns in agriculture cause living standards to fall back to subsistence levels. Temin, therefore, fails to understand, that a higher population allows for a higher specialization and more creative minds which spurs economic growth. Also his argument that the industrial revolution could not occur in ancient Rome because it lacked a high ratio of wages to energy costs (such a ratio had existed in England at the beginning of the Industrial Revolution with cheap coal prices) is unsatisfactory. It seems more likely, that the industrial revolution would have occurred in Rome if it would not have been for the increasing interventionism that led to its fall. Capital accumulation, specialization and technological innovation were on their way until they were virtually stopped by interventionism.

In any case, Temin's book is an enlightening and recommendable read. Probably its most important implication is that there is no guarantee for the progress of civilization. Free markets lead to wealth and progress. Yet, free markets can be destroyed. Spiraling interventionism can cause a retrogression of living standards. The most impressive example is the case of ancient Rome and the time it took to regain the living standards that were common in the Roman Empire. Thus, Temin's book is a motivation for all those engaged in the battle of ideas.