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The Economics of Government and the Fall of Rome

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Most world history books feature the successes of the Roman Empire during the first and second centuries. During the third and fourth centuries, they turn to the events leading up to the empire's collapse. Explanations of the Roman Empire's decline and fall often cite external military threats, governmental failure and instability, people fleeing the empire due to diseases and plagues, rapid inflation, and overall moral decay. Insufficient attention is given to the underlying economic problems that were the long-term causes of the empire's collapse.

From an economic point of view, the Roman Empire flourished when the benefits of government policy exceeded the costs, and long-lasting investments in land and capital made cumulative growth possible, which occurred in particular in the first and second centuries. Throughout the third and fourth centuries, however, the Roman government failed as the costs of government continually exceeded the benefits. As investments disappeared or fled the empire, economic decay followed, and the empire collapsed.

The history of the Roman Empire demonstrates that a government creates an environment conducive to growth when it protects individuals' rights to property, maintains a rule of law through even-handed enforcement, and funds public goods and services of value (e.g., an infrastructure that facilitates trade) that would not otherwise be provided.[1] If prices are stable and theft, fraud, and violence are not concerns, there is a favorable environment for sustainable growth. Governments, however, must choose how to allocate scarce resources, and this requires tradeoffs. Resources used to support military efforts are resources that are not available for public works. The spending, tax, and money policies of government influence the availability of specific resources for private use, and they affect the incentives that citizens who pay taxes have to use resources in specific ways. Income used to pay taxes takes resources away from private production, investment, or consumption. Price caps discourage production in the capped areas, resulting in shortages.

Government and Economic Prosperity

In the most successful period of the Roman Empire from 27 B.C. to 180 A.D. or the High Empire, examples of the government protecting property, maintaining a rule of law, and providing public goods are evident. Beginning with the rule of Augustus (27 B.C.–14 A.D.) and ending with the death of Marcus Aurelius (161 A.D.–180 A.D.), government was relatively stable. During the Pax Romana, the period of Roman peace, the head of the state government was the emperor. Property rights were defined by legal codes and customs stemming from the ancient Twelve Tables. A jury system administered justice. Overall, theft, fraud, violence, and bribery were not large concerns, thus releasing resources for production and consumption. Backed by the military and assisted by a small group of senators, each emperor focused largely on running military affairs, attending to public finances, and managing foreign relations.[2] Decisions on spending for public works, finding finances for libraries and parks, collecting taxes, taking the census, and government administration were left to local units.[3] This system allowed for localized government to effectively identify the changing public needs of the people while adjusting to different circumstances.[4] With secure property rights for all but enslaved individuals and with healthy investments in public goods, opportunities for productive activity existed. They were grabbed, and growth resulted.

At the height of the ancient world's wealth, around 117 A.D., the Roman economy was driven largely by notable growth in agriculture. Farmers, olive oil producers, shepherds, and other agriculturalists accumulated wealth by providing specialized goods and services in the marketplace—both domestically and internationally. Consequently, the empire built up surpluses and traded some of them with other nations possessing non-agricultural goods, skills, and resources. For example, Rome exported agricultural goods such as wine and oil. At the same time, it imported silk, marble, and immigrants.

In the Roman Empire there was a uniform currency that included the gold aureus, silver denarius, and copper or bronze sesterce. This currency greased the wheels of exchange and made it relatively easy to trade, and invest through a money-based economy rather than a cruder barter system.[5] Relatively low and uniform taxes also encouraged private and public partnerships in investments between affluent citizens and local units of government.[6] Bustling urban centers surfaced as sanitation advanced, relieving public health concerns, and education spread. Public parks provided places for people to wander and enjoy themselves, and an impressive system of roads enhanced trade within and across the empire's borders. During this period, some large-scale businesses in manufacturing emerged.

The tax coffers of government grew in tandem with the brisk trade. The High Empire was largely characterized by a tax rate between 0.01 and 0.03, which was paid by the wealthy. A head tax was paid by the citizens, and the provincials paid a fixed tax.[7] Evidenced by overall commercial growth, this tax structure permitted people to keep most of their earned money. Part of what was held privately then boosted trade, investment, and consumption. Moreover, the tax structure of this period provided incentives for the wealthy to invest in public works like libraries, parks, and gardens. Overall, the tax system of this period supported relatively brisk trade across many money-based markets.

The benefits of government during Pax Romana outweighed the costs. Minimal government intervention in private production, investment, and consumption existed, and overall investments in physical and human capital occurred. In addition, accelerated trade and overall economic advancements occurred. As government became more corrupt and property rights became increasingly less secure during the third and fourth centuries, though, the trends were reversed. Oppressive emperors and centralized, military governments replaced the localized self-governments,[8] and the costs of government soon surpassed the benefits. Government spending expanded in inefficient and corrupt ways. Taxes became excessive, and the devaluation of money occurred. All of these forces caused scarce resources to be uneconomically allocated. At the same time, government failure reduced incentives to be productive, trade, and invest across the empire. When these problems were combined, they grew too big and profuse across the empire, thus leading to its eventual collapse. The high point of the Roman Empire had forever passed.

Big Government—Roman Style

Toward the end of the second century, the conditions for overall collapse that were linked to Roman government failures became more pronounced and increasingly visible to ordinary citizens. Given the vastness of the empire and the competing desires of its neighbors to reduce its reach, the Roman military's perceived relative importance increased, making it more powerful and influential in resource allocation. Power was concentrated heavily around the emperor, and had a strong military foundation. Local government all but disappeared, thus making it difficult to respond to changing public needs. With more government control in the hands of the emperors and less private control over resources, inefficiencies in production, investment, and consumption occurred.

The emperors and their supporters during this period claimed many resources to try and maintain their military might while staving off social unrest. A tremendous amount of uncertainty was injected into the Roman economy as a result of the government spending money lavishly on such things as favors, parties, and games to help secure loyalty; making military and administrative appointments based on special interests; and seizing estates, food items, and merchandise and giving what was confiscated to individuals with political influences or military connections. Property rights were neither secure nor stable. Consequently, scarce resources drifted away from productive uses. Revenues fell, and more and more people fled to the countryside. In addition, deaths from a plague increased the scarcity of labor. With less production and fewer people to work, the tax base shrank, and the government's tax coffers dried up.

In the middle of the third century, the need to increase government funds intensified. The empire was not expanding. Social unrest was evident and mob riots occurred with increasing frequency. Attacks from outside the borders stepped up. The tax rate on the wealthy had already increased and the list of taxable items had already expanded. Moreover, an increasing number of goods and services produced by peasants, artisans, merchants and others had moved onto the list of taxable items.[9] A number of new measures emerged, and an in-kind tax policy was institutionalized. The government started spending down its reserves. Land and other valuables were confiscated from the wealthy and others.[10]

The citizens of the empire reacted by decreasing investment, production, work and consumption of non-necessities. They also rebelled socially against the high taxes and against the increasingly corrupt system of government. As a result, resources spent on rebellion were taken away from production and consumption. People fled the cities and gave up the advantages of specialization and division of labor. Many sought refuge in the countryside, where self-sufficiency was possible and where the effects of the political corruption were less evident. The consequential increase in the costs of producing and transacting pushed prices upward. In the meantime, the demands of the emperors and their governments marched on, pushing prices even higher.

The empire's revenue stream slowed as its geographical expansion decelerated and, consequently, the external tax base made up by new conquests dwindled. This did not stop or slow bloated government spending. It continued. The empire's commitments to spend funds for defense, bureaucratic administration, power retention, special programs, grain entitlements and the maintenance of social stability remained. The emperors turned to internal sources for funding large expenditures by government and the military. Two sources are considered here: debasement of the currency and changes in the internal tax structure. Both contributed to the collapse of the empire.

During this period, the Roman government watered down the value of its currency. Although this policy had been practiced as early as Nero's reign (54–69 A.D.), when an intermittent series of currency devaluations started, it became a pronounced feature of the later years of the Roman Empire, especially after 200 A.D. The overarching goal was to hold as much coinage with relatively high silver, copper, and gold content in the ruler's tax coffers and to use the devalued coins as payment for military services, to fund public events, to pay for grains for public distribution and so forth. Less and less bronze, copper, and silver went into coins. Of course, Roman citizens responded. As devaluation occurred, they hoarded the "good" silver coinage and used the devalued coins instead. This increased the cost of transacting and slowed commercial activity. Taxpayers used their debased coins to pay the government, thus returning the emperor and his government to their initial problem—less revenue to finance the bloated military and excessive bureaucracy.[11] This did not help the empire alleviate its fiscal stress; the coins received for tax payments were less valuable than those being hoarded. The newly minted "cheap" coins were used for marketplace transactions. Over time, Gresham's Law took hold. The money economy of the Roman Empire faltered as devalued coins replaced those of value. The result was that goods, services, and resources were not moved to the most valuable economic applications. The government resorted to in-kind payments of wheat to government officials and the army.[12] This slowed growth and discouraged production, money transactions and work for money wages. It also further fueled inflation and introduced more and more inefficiencies into markets.

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Piece of Edict on Maximum Prices: A molded copy in the Antikensammlung Berlin/Pergamonmuseum, Property of the Münzkabinett Berlin

Inflation rose from 0.7 percent in the first and second centuries to 3.65 percent in the late third century, and from there, it rose to a whopping 22.9 percent in the fourth century.[13] Rising prices eroded the purchasing power of the citizens, especially those holding coins or money.

In an attempt to curb inflation, Roman Emperor Diocletian and his government set forth an Edict on Maximum Prices in 301 A.D. This law capped prices on more than 1,200 goods and services.[14] Little or no attention was paid to the costs of producing the listed items. Roman suppliers responded by slowing or stopping the production of items that were priced artificially low. Consequently, shortages emerged, inefficiencies resulted, and producers fled elsewhere. The masses had to purchase goods not subjected to the controls.[15]

Higher taxes combined with unstable money discouraged commercial transactions. When people cannot keep what they earn or are hesitant to accept money payments, there is a reduction in trade and employment and the work force is reduced. Prices rose even higher. Trade stalled.

As government-imposed tax burdens became heavier and citizens moved into the rural areas to distance themselves from tax collectors, the government responded by restricting labor movements.

The money-based tax system was broken.[16] A large amount of private wealth, goods, services and resources had been seized for tax payments. More and more military men plundered and pillaged for "due payments" of services rendered to the empire.

The government proceeded with its bureaucratic and military spending, drawing down resources for use in the private sector. More inefficiency was injected into the veins of the once vibrant and expanding Roman economy. Private-public partnerships dried up, and gone were the investments in parks, education, and other things that once served as trademarks of Roman prosperity. Buildings crumbled, roads were not repaired, and new investments in private capital, innovations, and new discoveries decreased. These deficiencies, in combination with external threats, created the perfect storm that led to the collapse of the Roman Empire.

Conclusion

The sources of economic growth and failures are better understood when the Roman Empire's collapse is studied with systematic attention to the economics of government. The benefits of government include the protection of property rights, upholding a rule of law, providing public goods, and supporting a stable system of currency. In addition, the true costs of the government go beyond taxes to fund government spending: They include government decisions and policies that alter incentives for individuals to seize or pass up opportunities to be productive.

Trade inside and outside of the Roman

Empire flourished when individuals were motivated to produce, invest, and consume efficiently. It stalled when governments became corrupt and imposed heavy tax burdens, thus increasing the costs of doing business in and with Rome. More inefficiencies and the higher costs of transacting fueled inflation. Roman traders and their foreign partners found it difficult to plan ahead across the empire, and uncertainty swirled around governments, thus making long-term investments in Rome increasingly risky. Many Romans finally took their capital and fled, while those who could not flee simply stayed and rebelled or hoarded resources.

The time of the Roman Empire is an important period in world history that illustrates ways in which governments can and do support economic growth, but also ways in which they fail. Students need to understand how government failure, and market failure, can happen in order to better prepare for their futures and to understand current events. Numerous examples of inefficient policies, government interventions, and corrupt political institutions exist in studies of the Roman Empire. Teachers of social studies, economics and government can help students to understand that people in government (just like business and households) can and do make inefficient decisions. However, unlike people running businesses and living in households, government officials and politicians are in positions to affect very large numbers of people simultaneously.

Notes

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3. Peter Garnsey and Richard Saller, *The Roman Empire: Economy, Society, and Culture* (Berkeley and Los Angeles: University of California Press, 1987), 32-33.
4. Jiu-Hwa Lo Upshur et al., *World History* (Belmont, Calif.: Wadsworth Cengage Learning, 5th edition 2012), 170.
5. Bruce Bartlett, "How Excessive Government Killed Ancient Rome," *The Cato Journal* 14 (1994): 294.
6. Ibid., 296.
7. Ibid., 290-291.
8. Ibid., 295-296.
9. Rostovtzeff, *The Social & Economic History of the Roman Empire*, 379.
10. Keith Hopkins, "Taxes and Trade in the Roman Empire (200 B.C.-A.D. 400)," *The Journal of Roman Studies*, 70 (1980): 122.
11. Bartlett, "How Excessive Government Killed Ancient Rome," 294.
12. Hopkins, "Taxes and Trade in the Roman Empire (200 B.C.-A.D. 400)," 101-125.
13. Alfred Wassink, "Inflation and Financial Policy under the Roman Empire to the Price Edict of 101 A.D.," *Historia: Zeitschrift für Alte Geschichte* 40 (1991): 465.
14. Ibid., 468.
15. Ibid., 465.
16. Bartlett, "How Excessive Government Killed Ancient Rome," 296.

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