

CHAPTER I

INFLATION PAST



It took all the centuries of humanity's painful advance up to 1914 to achieve democratic and representative self-government, universal adult suffrage and personal freedom. Within half a century of 1914, despite a phenomenal material progress which removed real poverty from among Western societies, that achievement was in retreat on a worldwide front, threatened by a monstrous regiment of State functionaries. The rule of law had collapsed, mined from within by the State's functionaries, breached from without by a citizenry overburdened with taxation and contemptuous of State agencies and authority. Democracy itself was in the discard. New and independent nations in other continents than that which had nourished democracy and liberty now turned their backs on both. In Europe, in the France of the Revolutionary tradition, representative government and democracy were cast aside. All the social institutions by which Western Europe and European North America could claim to have most advantaged mankind in its long struggle to escape poverty and the rule of the strong began to break down just as it reached prosperity and the rule of law to protect the weak. Just when man's supremacy over the blind forces of Nature seemed assured, when hard-won leisure and personal freedoms seemed to promise fuller and healthier human lives, men suddenly re-established a degree of State authority over all their activities unparalleled for a century and more.

The re-establishment of omnipotent, omnicompetent State authority in the modern world is more dangerous to personal freedom than any which has gone before. Man's supremacy over the blind forces of Nature stems from his technical achievements. All of these—powers unimaginable a lifetime or more ago—lend

themselves aptly and easily to the exercise of centralized State authority through its farthest extremities in local bureaucracy. The individual man and woman—as producer and consumer, as citizen and unit of a family—is swamped beneath the new rules and regulations of centralized authority. Therewith come a narrowing of the bounds of personal development just when man's achievements should have widened them, a stereotyping of individual behaviour when new potentialities should have led to wider variations, and a banality which is already (wrongly) called vulgarity and materialism. Mankind now runs greater risk of seeing freedom whittled away by extension of the little-seeming, everyday, economic ways and means of the modern State than by any overt attack upon it. And of all instruments which subvert personal freedoms, inflation is the worst.

A continuous and rapid rise in prices is the clearest *manifestation* of progressive inflation. It has occurred in many countries in history, and in entire civilizations: among others, in ancient Greece, in the Roman Republic and in the classic case of the Roman Empire, in Renaissance Europe, and (in the era of World Wars) in the Napoleonic and the First and Second World Wars.

It is found with the growth of towns in later medieval Europe after the Black Death of 1348 and the consequent rise in wages and fall in available agrarian and urban labour supply. It is found again in the Iberian peninsula (and, later, throughout Europe) after the influx of gold and silver from the New World in the sixteenth century. In over-spending and near-bankrupt States like Germany after 1921 or 1945, or Hungary after 1944, it always shows up, production of money madly outrunning production of goods and services. In the entire trading world it occurs when the supply of international money suddenly expands, as at certain stages in the nineteenth century, when goldfields were opened up. And whenever local circumstances impel any government to inflate, debase, clip, devalue, or otherwise debauch the standard of value used as money (*e.g.* the regular debasements by Roman emperors, Anglo-Saxon monarchs before William the Conqueror, Plantagenet and Tudor kings, French Bourbons, and modern democratic and totalitarian governments alike) inflation becomes automatic and obvious. But the longest, progressive inflation of a single-standard currency is that of the Roman Empire.

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The Roman Imperial inflation had clear-cut effects on Roman society. The effects endured longer than the society. Indeed, the Imperial inflation largely fashioned the local, feudal, agrarian communities on which later barbarian European nations were founded. The effects of the Roman inflation in breaking down cities and large-scale commerce were being endured in the Dark Ages of Merovingian, Carolingian and Capetian France; during the feudal epochs of Western Europe; and even in Norman and Angevin England, to say nothing of Lombard Italy. These effects of a much earlier inflation of a once reliable international currency were still felt during the painful period of the Early Renaissance, when Europe's modern towns and cities first re-emerged from a primarily self-sufficing agrarian feudal society, and grew up with new forms of trade and transport. Despite the evidence of some international trading adduced by such scholars as Dopsch and Pirenne, it is clear that feudal European society in the Dark Ages was locally hamstrung, tied to local lords and lands, where little money (if any) circulated. Surely the State Theory of Money was never so true as it was in the small societies, petty sovereignties, and little trading areas or markets of medieval Europe. 'The lord has the *ban*, but the King has the *arrière ban*.' The medieval King's power was as weak as his money and trade. That is the truth of feudal society.

The Dark Ages occurred because of what had happened between Augustus and Septimius Severus to a preceding *internationally-organized* society, largely dependent on international trade, in its turn based upon one main currency standard, and operated under one main system of international commercial law. One can plunge into Oertel, Brentano, Roztovtzeff, Vassiliev, Tenney Frank, Walbank, A. H. Jones, Colin Clark, and scores of other students' work on the economic breakdown of the Roman Empire; but in the end one comes away with three main conclusions about the causes and effects of the Imperial currency inflation from Augustus to Honorius.

The Centralized State

First, the Empire's State expenditure became intolerably and inefficiently burdensome, by way of increasing taxes. They had to be raised so high because most bulk trade, transport, defence, law, finance, and civil administration remorselessly became

monolithic State enterprises. The exceptions for private trade were few, and progressively became fewer and more localized. The classic *parvenu*, the freedman Trimalchio in the *Satyricon* of Petronius Arbiter, was 'doing very nicely, thank you' out of Imperial monopolies. Urban and rural workers had to be 'frozen' in their jobs, which soon became hereditary—another adumbration of feudalism. Traders and merchants in the economic sphere, like the legions in the military, could only do well for themselves as State functionaries; and often their status became hereditary. Long before Pliny's statement. '*The big estates caused Italy to perish*' could become true, some cause had already created the big estates, the *latifundia*, as well as a bewilderingly rapid multiplication of rigidities, controls and controllers. That cause was the rapidly increasing taxation, levied mainly on the hitherto independent traders and farmers, the small men, to support the rapidly increasing expenditure of the rapidly expanding State machine.

It drove small yeomen and traders out of independent existence. It drove small farmers into dependency on others by their notorious 'flight' into slavery or clientism, or by the more genteel method of amalgamation with their neighbouring, bigger, larger-scale, and therefore more privileged, farming colleagues. It drove small artisans and traders into similar dependencies either as urban slaves or, more often, as members of big 'collectives' or 'colleges' of occupations, *i.e.* prototype guilds and trade unions.

Taxation was driven so high that it became almost sumptuary: *i.e.* it almost took away people's ability to own things. Nero, a psychopath, had said: 'Let's see to it that no one owns anything!'¹ But Caligula drove taxation to inordinate lengths: 'There was no class of commodities or of men on which he did not impose some tax or other. . . . On all eatables sold in any part of the city he levied a fixed and definite charge; on lawsuits and legal processes begun anywhere, a fortieth part of the sum involved, providing a penalty in case anyone was found guilty of compromising or abandoning a suit; on the daily wages of porters, an eighth; on the earnings of prostitutes, as much as each received for one embrace; and a clause was added to this chapter of the law, providing that those who had ever been prostitutes or acted

¹ Suetonius, *Lives of the Caesars*, Nero, xxxii: 'Hoc agamus, ne quis quicquam habeat'.

as panders should be liable to this public tax and that even matrimony should not be exempt.¹

Gibbon's classic judgment of the Decline and Fall was that 'the stupendous fabric yielded to the pressure of its own weight'. But the process had begun early, when the fabric seemed still strong. As the demands of the proletariat-voters for 'bread and circuses' and those of the army for higher incomes drove taxes higher, a kind of 'Dutch auction' for votes set in. It ended by making the army the only elector of emperors, and the assassin of most of them. It also made it the destroyer of the cities and the citizens.

Depopulation of the countryside accompanied the urbanization of the early Empire. But as international trade languished with the progressive inflation, unemployment became rife inside the cities, which now shrank behind their new defensive walls. As money lost value, and as soldiers and bureaucrats multiplied and became the favoured classes of the State, the urban masses, mainly unemployed, had to be bought off with a Welfare State 'in kind' composed of free issues of bread, pork, and entertainments. The former governing class of the cities—the senatorial class—retired to larger and larger *latifundia* in the country, as the State's powers at the centre and in the cities grew.

The State—indeed, the Emperors—came increasingly to depend upon the goodwill of the legions and the votes of an idle rabble, both of them bought off by bigger depredations on the enfeebled tax-paying classes. As the unitary economic, defensive, administrative and legal territory of the Empire began to fall apart into feudal self-sufficing *civitates* surrounding the newly-walled cities, so an entire civilization fell apart. It dissolved, from the terrible third century onwards, into the dim outlines of modern European nations, and into our present ecclesiastical dioceses in Western Europe and the Middle East. The very word 'diocese' dates from this time. This process of dissolution took at least two centuries, and some say three.

It was accelerated, accompanied, and never once halted, by the progressive pushing of taxation—upon individuals—beyond what their 'value-judgments' were prepared to bear, through an ever-more-centralizing State. In the end, the State and the civilization dissolved into fragments, not because of barbarian invasions; indeed, the barbarians tried to maintain the civilization

¹ *op. cit.*, Caligula, XL.

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they admired; but because no one could be found to defend its integrity. That integrity had been inflated out of existence, out of defensibility.

The Politics of Favouritism

Secondly, behind this remorseless centralizing of all economic and administrative life, was an antecedent *political* cause. Politics is concerned ultimately with the exercise of power over human beings who are organized, by that power, in a society. Centralization of the State's power—in almost every walk of life—went on from the time of Augustus until the collapse in the fifth century. It could only be maintained, kept centralized, by a continual process of favouring, fiscally and financially, the power which had raised Emperors to, kept them on, and abruptly knocked them off the throne: that was, the army. Heavy taxes on a minority of taxpayers, *plus* debasement of the currency, gave the legions and the bureaucracy an advantage over all other classes, until they broke the Empire to pieces. Only one small privileged class—the senatorial—kept its former advantages *pari passu*, by contracting-out of its traditional task of government and going 'back to the land'. Thus it became the forerunner of the feudal barons.

Most taxpayers were urban. All of them were a tiny but economically important and productive minority. As their burdens grew, the *corps d'élite* of *decuriones* merely preferred slavery, flight, or the advent of the barbarians. This killed trade, commerce, capital and cities. Outside the cities, in the countryside, legionaries in their camps and the biggest senatorial landlords on their *latifundia* were exempt from taxes. So progressive debasement of the currency and penal taxation to secure political power and support ended in the degradation and disintegration of the State. It was a vast paradox. Power itself, ultimately, deserted the State, the centre, and took to the smaller localities. Thus came the Dark and Middle Ages of servitude and status.

Government by Expediency

But there is a third factor, seldom mentioned by economic historians. It is the inherent paradox in this inflationary process: the *contradictory behaviour* of governments that persistently inflate. One can say—of Imperial Rome and many other inflating governments—that such governments undid as rapidly with

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their left hands whatever they were trying to do with their right. They always attacked—nay, are still attacking, after centuries—the surface symptoms rather than the disease. Such was Diocletian's notorious *Edictum de Pretiis* of 301 AD which made it a capital crime to raise prices anywhere in the Empire, and left us (you can consult it in the late Tenney Frank's transcription) a sobering standardization of all consumption and capital goods, their qualities, and their prices, throughout the then-known civilized world—from chariots and horses to ladies' underwear. Yet that decree was abandoned as bankrupt and inapplicable within two years. Not all of Diocletian's bureaucrats, soldiers and constabulary, under two Augusti and two Caesars, could have cut off the numbers of heads that would have had to roll. Economic laws and human nature defeated even Diocletian.

About the year 365 of our era the emperor Valentinian I faced even worse economic, fiscal and administrative problems than those of his great predecessor Diocletian. The burden of taxes on the decurions of the cities had become so crushing that entire *civitates*—that is, not only the walled city but the extensive agricultural supply-area around it—were rapidly and increasingly left without any *curiae* or local government. The reason, of course, was that the decurions of the *curiae* were legally and personally made responsible for finding the taxes. Naturally, as the huge tax-burdens for the top-heavy centralized State mounted, the individual decurions 'fled'. That is, they committed the first real *commendationes*, or voluntary personal servitudes, of the feudal ages. They fled to the rich landlords of the big rural estates. They became either their colons or their slaves. They even fled to the barbarians; and a strong Fifth Column—as we should now say—was formed from the educated city *élite* of the decurion class; for they intrigued to bring in the barbarians, in one Western city and its district after another.

The brief epilogue on 'The Economic Decay of the Roman World', based on Tenney Frank's last two lectures early in 1939 at Oxford and London, and closing the fifth volume of his *Economic Survey of Ancient Rome*, contains matter painfully familiar in contemporary experience:

'The ruler whose economic innovations proved ultimately most disastrous to the Empire was Septimius Severus . . . the important

fact is that the rights of the citizens to independence and to property had been questioned, and habits of autocracy had been inculcated. . . . The havoc wrought was not due to a communistic revolution let loose against an ancient culture; it was due to the failure of efficient government at the centre of the State. . . . No recovery was possible except through the absolutism of Diocletian. . . . Typical of his régime is the imposition of a maximum limit both on the price of all wares for sale and on the amount of all wages, in order to keep wages as low as possible and to check the returns from industry. The declared purpose was to curb speculation when the State inflated the currency, but Diocletian attacked the inevitable result, not the cause, of inflation . . . the State which he saved lived under such conditions that it is questionable whether it was worth saving. At least, when the barbarians came on, the inhabitants of the Empire were in some doubt on this point, and many of them were glad to surrender, in the conviction that any new régime could hardly be worse than the one that they had endured.'

In despair, Valentinian I—by no means a fool, and certainly a brave emperor—decreed that the lictors should bring him three heads of decurions from each *curia* throughout one entire province, as an example. (Back to Diocletian's decree on prices, with a vengeance.) To this the prefect of the province, a certain Florentius, is said to have replied: 'Will your clemency be graciously pleased to command what we are supposed to do in the cases of those *curiae* in which there are no longer to be found even as many as *three* decurions?' The outcome was simple and, according to the chronicler, terse. The emperor's order was revoked—just like Diocletian's edict over sixty years earlier. But by this time the greatest Empire of European history was within fifty years of its collapse in utter ruin. After more than a millennium and a half the reverberations of that event have not died away.