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Market Comment

CLARMOND

## Omnes viae Romam ducunt.

In the first of a two part Market Comment on the currency and bond market, we start by considering the lessons we can learn from the Roman Empire and how it dealt with its budget deficit. Specifically how their currency policy might show us the future direction for the US\$.

THE THREE ATTRIBUTES OF MONEY have not changed from the time of the Roman Empire to our current information-age Empire; money represents:

- A store of value;
- A unit of accounting; and
- A medium of exchange.

People trust that the government's monopoly of issuing the legal tender shall maintain these elements of their hard earned money.

However, history repeatedly shows that when a government gets into trouble with their expenditures, be they military or welfare, they fall back to a tried and tested formula - monetary debasement. The Roman Empire clearly demonstrated to successive empire builders this easy path of devaluation.

### A Latin Lesson

In the Roman Empire, at the time of Augustus, a legionary was paid 225 silver denarii a year. A modius (1/4 bushel) of wheat, Rome's staple food, cost 0.5 of a denarius; a family of four needed 120 modii of wheat per year, so about 60 denarii or 26% of income. If we go forward two hundred years to the reign of Caracalla, a legionary was paid 675 silver denarii, certainly a good increase. However, for a proper view, we have to look at what had actually happened to the silver denarius and its purchasing power (see table).

The table charts the silver content of the denarius from the

time of Augustus to the time of Caracalla. What becomes evident is that a legionary's lot had not improved at all; his salary may have increased but his coin of payment had devalued by 50%. The cost of wheat now rose to 2.5 denarii per modius, a 500% increase, taking up 44% of a legionary's income.

In addition, Caracalla, realising the financial hole Rome was in, took two steps. First he introduced a new coin, the Antoninianus (equal to 2 old Denarii with half the silver content) and secondly, he extended Roman citizenship to every free inhabitant of the empire; the quid pro quo was that inheritance tax was raised to 10% and became payable by these newly minted Roman citizens. In effect, "the empire had declared itself bankrupt and thrown the burden on its citizens."

### A Familiar Tale

Maybe the above story has resonance — an empire in fiscal trouble, deeply in debt, and deficit spending to stay afloat? But it is what happened to Rome next that sets the stage for the present day. Over the next decades the silver content of the denarii eventually fell to 2.5% and the price of wheat rose tenfold; legionary's income did not keep up. The Pandora's box of easy debasements set off by Nero left the citizens only with hope of a better emperor. The modern day American Empire is in a similar state. In an election year politicians need to win

Date	Emperor	% of Silver
27 BC - 14	Augustus	100%
14 - 37	Tiberias	100%
37 - 41	Caligula	100%
41 - 54	Claudius	100%
54 - 68	Nero	91.8%
69 - 79	Vespasian	84.9%
79 - 81	Titus	80.3%
81 - 96	Domitian	90.8%
96 - 98	Nerva	90.7%
98 - 117	Trajan	85.4%
117 - 138	Hadrian	84.1%
138 - 161	Antonius Pius	80.0%
161 - 169	Lucius Verus	76.2%
161 - 180	Marcus Aurelius	76.2%
177 - 192	Commodus	67.0%
193 - 211	Septimus Severus	52.0%
211 - 217	Caracalla	51.5%

Source: Joseph Tainter - The Collapse of Complex Societies

power rather than discuss debts, revenues, and spending.

How indeed do you balance a trillion dollar deficit? The answer is you cannot; the route lies in debasing the currency; for all roads lead to Rome. ■