

## ECONOMIC THEORY AND THE ROMAN MONETARY ECONOMY

Modern economics tantalizes historians, promising them a set of simple verbal and mathematical formulas to explain and even retrospectively predict historical actions and choices. Colin P. Elliott challenges economic historians to rethink the way they use economic theory. Building upon the approaches of Max Weber, R. G. Collingwood, Ludwig von Mises and others, Elliott reconceptualizes economic theories such as the quantity theory of money and Gresham's law as heuristic and counterfactual constructs – constructs which help historians identify and understand the unique modes of thought and embedding contexts which characterized economic action in the Roman Empire. The book offers novel analyses of key events in Roman monetary history, from Augustus' triumph over Mark Antony and Cleopatra, to third-century AD coinage debasements. Roman history has long been a battleground for polarizing methodological debates, but this book's accessible style and conciliatory tone invites historians, economists, sociologists and other scholars to use economic theory for understanding.

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Colin P. Elliott  
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COLIN P. ELLIOTT

*Indiana University, Bloomington*



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For Aunt Donna

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## *Preface*

Near the end of his life, Moses Finley opined that “very few ancient historians are introspective: one must infer their most fundamental pre-suppositions from their substantive accounts, since they refuse to discuss methodological questions.”<sup>1</sup> In the more than thirty years since Finley wrote this statement, economic theory has come to enjoy an established presence in the sub-field of Roman economic history. Many factors are behind this significant methodological shift. It is true that simple inertia may be partly responsible – as economics has crept into the vacuum left by the waning influence of Finley’s own ideas. At the same time, some Roman economic historians have introspectively and reflectively chosen to incorporate formal economic analysis into their investigations and arguments because many of the theories of modern economics appear to offer straightforward and testable explanations for historical economic phenomena. Economic models seem to help fill in the gaps where evidence is inadequate or even absent. At the same time, critics of the recent turn toward economic formalism in Roman economic history suggest that serious ideological and teleological problems have accompanied this development. Is it responsible, or even possible for that matter, to reduce the complexity present in any given historical society into simple verbal or mathematical formulae? Is economization a universal component of or even a synonym for human rationality? Does the analytical power of economic theory come with costly side-effects: the privileging of capitalism and capitalism-centered value-judgments?

My own struggle with such challenging questions has, at the time of writing this book, left me in the uncomfortable position of accepting many of the critiques against formalist economic history while, at the same time, still remaining convinced that economic theory is useful for understanding Roman economic and monetary history. The universalizing claim of one

<sup>1</sup> Finley (1985a), 105.

prominent Roman economic historian – that “ancient economies clearly differed from modern ones, but the principles of economics still hold true” – strikes me as both persuasive and at the same time troubling.<sup>2</sup> Some economic theories indeed seem to contain a universal and undeniable logic – a logic which provides a sense of objectivity against many of the seemingly indefinite or ‘soft’ models in the other social sciences. At the same time, economic theory’s appearance of objectivity is often rhetorical and superficial; historical narratives constructed upon economic theory are often ideal-typical at best and, more often, they are woefully mistaken, anachronistic and in some cases may, to paraphrase Chris Wickham, do violence to historical understanding.<sup>3</sup> Economic historians must continue to wrestle with a fundamental question: if economic theories rest upon supposedly *a priori* epistemological foundations, why do applications of economic theory to history – especially to pre-modern history – so often generate anachronisms and misappropriations? The answer I offer in this book – an answer which has certainly occurred to others before, to be sure – is that economic history tends to go wrong when it forsakes what should be the main aim of history-writing: understanding. The problem is that the discipline of economics left questions of understanding behind about a century ago. As a consequence, economic history, especially under the aegis of neoclassical economics and cliometrics, tends to avoid questions of understanding; instead, history serves as the laboratory in which the deductive hypotheses of modern economics are ‘tested’. While many polemical books have been written which critique cliometric methods and similar ‘positivist’ applications of economics to history, I wanted to write a book which not only scrutinizes formalist economic history methodologies but also takes the risk of putting forward new if not experimental solutions. It is especially important to me, moreover, to present these solutions in a tone which avoids hostility and instead invites economic historians of all ideological and methodological persuasions to patiently consider my arguments. These arguments are not revolutionary; in the end, the book outlines, illustrates and defends an approach to economic history which embraces economic theory as a useful if not necessary tool for understanding historical societies.

Investigating broad methodological issues required an immersion into the intellectual history of economics, especially the pivotal scholarship which followed the *Methodenstreit* – the late nineteenth-century ‘war of methods’ among German-speaking economists. It is difficult to

<sup>2</sup> Temin (2012a), 45.      <sup>3</sup> Wickham (2005), 823.

over-emphasize the powerful and lasting changes the *Methodenstreit* brought to the social sciences. The *Methodenstreit* either birthed or re-birthed the modern disciplines of economics, history, sociology and economic history.<sup>4</sup> As in most wars, the composition, aims and unity of the various ‘sides’ involved in the *Methodenstreit* were often in flux, but intellectual historians tend to identify one prominent group as the German historicists, epitomized for better or worse by Gustav von Schmoller. The historicists made much of the importance of embeddedness: of the individual actor within the *Volkswirtschaft* (‘national economy’), of the *Volkswirtschaft* within broader social and cultural frameworks and even of economic theory as embedded in modernity.<sup>5</sup> In the historicists’ inductivist framework, economic ‘laws’ were constructed from descriptions of comparable empirical phenomena – descriptions which were themselves derived from observations of evidence.<sup>6</sup> On the other side was Carl Menger and the so-called ‘Austrians’ – a term coined by Schmoller himself which plays upon prejudicial stereotypes of Habsburg Austria as intellectually backward compared to Schmoller’s native Prussia. Menger, and many who sympathized with his views, advanced an economics founded upon a belief in *a priori* economic laws – an epistemological position which necessitated that economic theory be deduced, formulated and applied *before* empirical observation. Menger had harsh words for his historicist adversaries:

Testing the exact theory of economy by the full empirical method is simply a methodological absurdity, a failure to recognize the bases and presuppositions of exact research. At the same time it is a failure to recognize the particular aims which the exact sciences serve. To want to test the pure theory of economy by experience in its full reality is a process analogous to that of the mathematician who wants to correct the principles of geometry by measuring real objects.<sup>7</sup>

To many historians of the *Methodenstreit*, the subsequent emergence and eventual dominance of neoclassical economics suggests that Menger and his ‘Austrian’ allies won the war of methods.<sup>8</sup> Their victory was secured through the discovery of the principle of marginalism – the idea that the value of goods and services is determined by the subjective importance of the wants they satisfy. In Menger’s words:

<sup>4</sup> Boldizzoni (2011), 151.    <sup>5</sup> See, for example, Schmoller (1896), 3–4.

<sup>6</sup> Camic, Gorski and Trubek (2005), 11.    <sup>7</sup> Menger (1985), 69–70.    <sup>8</sup> Häuser (1988).

Value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the consciousness of men.<sup>9</sup>

The neoclassical revolution which followed the *Methodenstreit* adopted marginalism in concept, but Alfred Marshall and later several other (mostly British) economists turned economics toward mathematical and so-called ‘scientific’ approaches, not only to marginal utility, but to economic analysis as a whole. Menger’s version of marginalism was soon abandoned for the mathematical versions elucidated by British economist William Stanley Jevons and French economist Léon Walras. The emergent neo-classicals also adopted a modeled man: *homo economicus*, whose crude unwavering economizing rationality, ironically, made him just as passive and reactive as the embedded individual theorized by the historicists. The ‘Austrian’ victory was, therefore, short-lived – and within decades Menger’s methodology lost influence in post-*Methodenstreit* economics.

The Austrian economist Ludwig von Mises, initially an aspiring historian, became enamored of Menger’s approach to economics while studying at the University of Vienna.<sup>10</sup> Mises, however, found few friends among the ascendant neoclassicals, as he maintained that humans’ autonomy and purposefulness made their actions immune to mathematical prediction. Mises also rejected modeled men like *homo economicus*. The principles of economics, Mises claimed, must instead be deduced from unmodeled choice. Furthermore, Mises – influenced by his friend German sociologist Max Weber – acknowledged that the historicists were right about the indispensability of understanding for studying human choice in past societies:

The specific task of history for which it uses a specific method is the study of these value judgments and of the effects of the actions as far as they cannot be analyzed by the teachings of all other branches of knowledge. The historian’s genuine problem is always to interpret things as they happened. But he cannot solve this problem on the ground of the theorems provided by all other sciences alone. There always remains at the bottom of each of his problems something which resists analysis at the hand of these teachings of other sciences. It is these individual and unique characteristics of each event which are studied by the *understanding*.<sup>11</sup>

<sup>9</sup> Menger (2007), 121.

<sup>10</sup> Mises (2009), 25.

<sup>11</sup> Mises (1949), 49.

Sociologists and historians embrace and even revere Weber's work; many economists, however, both past and present, treat Mises' insights with skepticism and even hostility.<sup>12</sup> Mises and his Austrian-School followers reject far too much of the neoclassical orthodoxy. As a consequence, few historians are aware of Mises' work, and especially of the methodological dialogue between Mises and Weber. Although Mises and Weber sharply disagreed on many points, there are understudied overlaps in their methodologies which are of great value to economic historians.

Mises and Weber concomitantly held to what has since been called 'methodological dualism' – the idea that the social sciences should be studied with different methodologies than the natural sciences. Both scholars also based their work on a particular form of 'methodological individualism' – the idea that the study of human societies must begin with the study of individual human beings. These concepts have since enthralled a few historians, such as British historian and philosopher Robin George Collingwood – but many Roman economic historians have made little conscientious use of either concept. One of the aims of this book is to expand upon the value of these concepts as a basis for understanding the economic history of the Roman Empire. Both concepts help redirect formal economic analysis away from sterile, positivistic or otherwise 'de-contextualized' treatments of the *products* of the Roman economy (prices, wages, growth) and toward understanding the meanings, mentalities, choices and motivated actions of Roman money-users. After Collingwood, I argue that Roman economic historians ultimately study not merely the historical products of Roman minds but Roman minds themselves.<sup>13</sup> Studying the choices made by actors in the Roman economy and the consequences of these choices is a fruitful way for Roman historians to understand the Roman monetary system itself.

The arguments in this book appeal to scholars whatever their views on economic theory, as well as to the uninitiated who wish to engage economic theory with introspection and reflection. It is my desire that formalist readers will be convinced of the importance of understanding over prediction and explanation – and that they will consider how the models and approaches they currently use might be redeployed toward this end. For substantivist readers and those who tend to be critical of economic formalism – most of whom already view understanding as a core tenet of historical study – I hope to persuade them that economic theories can be a helpful component in the construction of meta-theoretical

<sup>12</sup> Gane (2014), 1104; Gane (2013), 6.      <sup>13</sup> Collingwood (1999), 45–6.

frameworks. I want skeptics to see that economic theories can be used in ways which avoid anachronisms and in fact highlight social and cultural difference in historical societies. On these matters, however, this book is a beginning not an end; although it provides a general framework as well as some practical illustrations, it is an experimental effort to introduce and engage questions which move the discussion in new directions. *Histoire totale* cannot be achieved by scholars working alone. Including time spent on my PhD dissertation – a portion of which was used to create this book – a full ten years' worth of work has been invested in this project in one form or another. Despite the inadequacies and limitations which remain, I now wish to invite others to help move the discussion forward.

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