Ec565
Spring 2019

ASSIGNMENT 1

The assignment has to be sent to me (chamley@bu.edu) not later than Monday 4, 8am, in pdf format. The total length of your answer is expected to be no more than 4 pages, but you are free to use the space that you need.

Part I (answer)

In the following text Tacitus (*Annals*) describes a financial crisis in the year 33 CE. The first paragraph is just a presentation of the context and is not important for your answer.

Comment on the second paragraph (6.17). Is there a relation between the events at the time, and the policy of the emperor (Tiberius), and some recent events in the US economy?

First, I would like to correct the translation that has been taken from the Loeb Classical Library in the public domain: http://penelope.uchicago.edu/Thayer/E/Roman/Texts/Tacitus/Annals/6A*.html
There are very few texts in Antiquity that deal with economics. Their understanding requires knowledge of the language, idiosyncratic expressions and modern economics. I have corrected some wordings in the text below. I also delete in the Loeb a sentence in VI.17, in brackets, that is just not in the text and that is confusing.

> VI.16. "Meanwhile, an army of accusers broke loose on the persons who habitually increased their riches by usury, in contravention of a law of the dictator Caesar[1] that regulated the conditions of lending money and holding property within the boundaries of Italy and that had been forgotten long ago, since the public good ranks second to private gain. It is well known that usury is an old curse in Rome and a very frequent source of sedition and discord. Hence, attempts were made to repress it even in an older and less corrupt society. First came a provision of the Twelve Tables[2] that no one should lend at more than one percent per month.[3] Later a tribunician rogation lowered it to one-half of that amount; and at length usufruct was unconditionally banned; while a series of plebiscites [decrees] strove to meet the frauds, which were perpetually repressed, but through wonderful tricks that appeared again. In the present instance, however, the praetor Gracchus, to whose jurisdiction the case had fallen, was forced by the numbers implicated to refer it to the senate; and the Fathers, scared because none of them was clear from such a charge, asked for some indulgence from the emperor. It was granted and a delay of eighteen months was granted to bring the private finances in order and comply with the law.

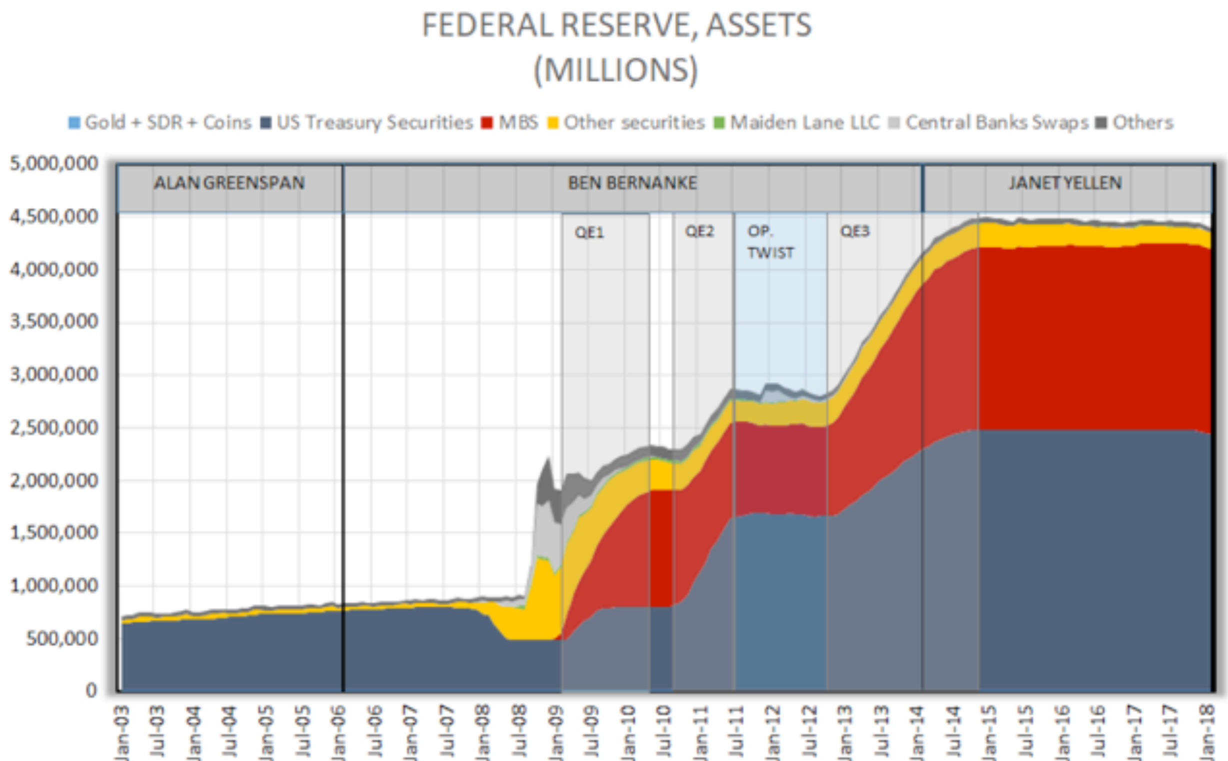
> VI. 17. The result was a dearth of money: for not only were all debts called in simultaneously; but after so many convictions and sales of forfeited estates, the cash that had been realized was locked in the treasury or the imperial exchequer. In addition, the senate had prescribed that two

[1] Nothing is known about this law. Recall that Caesar was killed in 44 B.C.
[2] The law had been edited four centuries before.
[3] "ne quis unciario faenore amplius exerceret". The meaning of "unciario" has been debated since at least the seventeenth century (https://books.google.com/books?id=mxKrhIKKquQC&pg=PA28&dq=unciario+faenore&hl=en&sa=X&ved=0ahUKEwiBu_Pujq3gAhVszlkKHYQyDLMQ6AEIQzAE#v=onepage&q=unciario%20faenore&f=false). Loeb takes one twelfth of the capital per year. Some take one percent per year, which seems extraordinarily low. Some take 1 percent per month (12 percent per year). That last number is the same as the interest rate in the letter of Pliny to Trajan in Part 2 (letter 61, or 54 in another classification), "duodenis assibus". The subsequent reduction by one half by the tribune would now seem to make much sense if it were from 1 to ½ percent. In any case, the discussion of the crisis does not depend on any particular value of the interest ceilings in previous laws.

thirds of the loans had to be interested in landed property in Italy. The lenders, however, called in the full amounts, and the borrowers could not in honor refuse to answer the call. Thus, at first there were hurryings to and fro, and appeals for mercy; then a hum of activity in the praetor's court; and the very scheme which had been devised as a remedy — the sale and purchase of estates — began to operate with the contrary effect, since the usurers had withheld their capital from circulation in order to buy land. As the glut of properties on the market was followed by a fall in prices, the men with the heaviest debts experienced the greatest difficult, and a number of fortunes collapsed. Financial ruin brought down in its train both rank and reputation, till the Caesar came to the rescue by distributing a hundred million sesterces among various counting-houses, and facilities were provided for borrowing free of interest for three years, if the borrower had given as collateral the double in landed property. Credit was thus revived, and gradually, private lenders came back to the market. The senatorial decree on the purchase of landed property was not enforced, another example of energetic start lapsing into carelessness."

Comments

- The policy enforced a sudden reduction of loans. It is not clear whether this was a quantitative restriction on the amount of loans or an enforcement of a ceiling of interest that induced lenders to recall loans, probably both, but which one does not matter very much here. There was a sudden restriction on the credit market.
- A critical feature (more about this below) is that lenders recalled more loans than was required. If they had to invest in land in Italy, that surely would take time and cash was waiting for opportunities.
- The crash of the property market when debtors sold to repay loans should be well known from the recent crisis (see below). Given the falling prices, holding cash may also have been a good strategy.
- The policy of Tiberius is sound. It is, ceteris paribus, the same as that of the Federal Reserve after the recent crisis (see below).
- The fascinating detail in the description by Tacitus is "gradually private lenders came back to the market". The crisis was a liquidity crisis. Because of the panic, people rushed for cash and the credit market froze. The collapse of the credit market is self-fulfilling. The rush for cash creates the rush for cash. There are multiple equilibria. Tiberius did not need to provide all the liquidity that was missing. He only needed to provide the liquidity that would restore confidence to lift the economy out of the bad equilibrium. Once confidence was restored, the supply of private credit would restore the credit market, in a self-fulfilling move.
- There is a relation between this 33 A.D. crisis and the 2009 financial crisis that originated in the mortgage market. Before the crisis, a large number of mortgage contracts had been signed that could be met only under the most optimistic conditions for the US economy. Then these turned out to fail such high expectations, defaults started to rise, houses were seized by banks, the glut in the market accelerated the fall of house prices and creditors rushed for cash, exactly as under Tiberius. (In the recent crisis, there was an additional impact on private consumption, income, unemployment, which all affect the ability to pay loans but that are difficult to assess for the time of Tiberius. It would be interesting to have some data on the price of slaves).
- The policy response of the Federal reserve was similar to that of Tiberius, on a different scale: the central bank provided liquidity to the financial intermediaries--equivalent of the counting-houses of Tacitus—for the mortgages and ended up by effectively buying all the mortgages. The monetary base was multiplied by a factor of five. Comparing with the evolution of the balance sheet of the Federal Reserve in the figure, the policy response was revolutionary



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Source: Board of Governors of the Federal Reserve System. Factors Affecting Reserve Balances (H.4.1)qe1