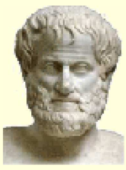
Newsletter l'AnticoPédie

News Memo nr. 30 September-October 2015

www.AnticoPedie.net

Editorial

Aristotle warned us !



Among the Greek philosophers, Aristotle (384-322 BC.) was the one who went furthest in the study of the moral implications of the use of money.

He considered (in *Economics* and *Nicomachean Ethics*) as perfectly honorable to use money for buying something you need, when money results from your work: the baker sells the bread he produces, and will buy the sandals he needs from the shoemaker. Thus, the sandal, like any object, has two values: its use value and its exchange value.

Aristotle calls *chrematistic* the activity of getting rich. He distinguishes the money as a "medium of exchange" from money as an "object of desire".

A well-understood economy makes use of money to facilitate trade and ensure the prosperity of the "home" (the word "economy" roots are oikos - home, house - and nomos - administration).

But when the fact of accumulating money becomes an end in itself, he denounces this greed as a vice, and the meaning he gives to the word wealth has nothing to do with this accumulation. True richness lies elsewhere ; the money's worth is only the value the law assigns to it.

Aristotle also tells us that handling money should fall within a virtuous frame, made of prudence and wisdom (using the money sensibly, limiting one's needs to the bare necessities, being neither miserly nor spendthrift) and also ethics (it is unethical to use money for making money, to engage in usury, speculation, corruption, etc.).

Finance should therefore serve the economy, which is in turn at the community's service, and not satisfy personal greeds.

Shouldn't this help us to think about the current Greek crisis from a another point of view ?

René Kauffmann

Economic crises in Antiquity

About the VIIth century BC, metal coins appeared in Lydia (Asia Minor) where gold abounded. For the first time, the goods were paid using standardised amounts of metal, stamped with the seal of the State.

Gold coin, kingdom of Lydia - Croesus

Greek traders quickly realized this concept's value, and Greek cities soon began to mint silver coins having a specific weight, each one having the value of its metal mass.
Did they invent in the same time the monetary crisis, like Icarus invented, on the same day, the international airport and the plane crash?

From commercial exchanges to currency

The commercial transaction was invented when two prehistoric men decided to exchange items. A miracle: each man acquired one thing he needed in exchange for another which he could do without.

A barter scene in Egypt

This barter system, infinitely profitable, was improved as soon as people could count (I give you one donkey against four goats) and measure quantities.
The weight unit is essential at this point, and from the Old Kingdom (2750-2150 BC.), an Egyptian could exchange a *shat* (a weight unit) of copper against three *shats* of fabric.
When the state collects taxes, or when a trader lends money, the currency must keep a relatively stable value over time. Paying with wheat bags is a risky bet: if the harvest is plentiful, the king's bag loses value – if not, it wins value, with a risk of social unrest in a starving population.
The metal coin results from the usefulness of having an intermediary object that is easy to exchange, to carry, to store, having a stable value and accepted by many partners. In this sense, precious metals have real advantages.
Thus, I can sell my donkey for 20 silver coins of 4 grams, go and buy two goats for 10 coins and keep the rest for another day. The advantages of the system are clear, the risks are not.

When currencies go into panic

The value of precious metals is relatively stable, although the discovery of a new mine or the loss of resources can change many things. During the Peloponnesian War in 413 BC, the Spartans occupied the area of the silver mines of Laurion, and all the Athenian economy was disrupted. To reduce the risk of fluctuations, the state assigns empirically an average value to its currency, which is suitable for everyone... at least for a while.

Within the country, the currency user can be satisfied with a legal rate. The question is different when trade becomes international because such exchanges run on trust.

Athenian tetradrachm

Of course, the more powerful the country, the more reliable the currency will look. That's why almost universal coins appeared in turn, such as the Athenian tetradrachm, the Hellenistic coin bearing the image of Alexander the Great, later the Florentine florin, the Venetian ducat and today the U.S. dollar.

Florentine florin

Nothing is eternal: one day, the country discovers new mines or seizes his neighbor's ones. Silver becomes more common, losing its relative value, and prices are rising. This is what happened in the Rome of Augustus, which we could have considered as the very picture of strength.

Did you notice ?

Our quiz Nr. 7 gathered some of the most famous characters of ancient Greece, mainly from the classical period. Can you answer our 37 questions (in French)?
Play with us!

When the quality of Roman coins decreased, counterfeiters enjoyed it wholeheartedly ! Some people collect today these "fourrée" coins (filled with cheap metal).

Rome, Claudius, a fourrée denarius.

In 1923, this German 50-billion marks banknote was barely enough for one day shopping!

See you soon on our pages!
Any comment and suggestion are welcome !

Write us...

And follow us on the networks and our blog

Le Blog de l'AnticoPédie

Immediately after his death, under his successor Tiberius, the mechanism reversed. The empire lacked precious metal, and a lowering of prices could not help. People denounced usurious rates charged by lenders and the emperor had to take control of mines. Nero, whose expenses were ruining the economy, introduced a new method with a bright future: he "adjusted" the value of his currency: the *Aureus* decreased from 8.2 to 7.3 grams of gold, and the silver *Denarius* from 3.90 to 3,41g. In addition, he cheated on the silver's quality. Many emperors followed this example, and the Roman Empire regularly underwent devaluations which led to many successive, more or less effective monetary reforms. In 215, Caracalla introduced a double-denarius (the *Antoninianus*) which contained only 50% silver... then 20% under the reign of Valerian in 258, and hardly 4% under Claudius II Gothicus (268-270). The coins looked then more like bronze than like silver!

Another problem is the difficulty of holding parity between the value of coins made from different metals, gold, silver or bronze. Thus, during the same period, gold became rare. Although its quality was also altered, the Aureus, which was still worth 25 silver coins about 210, was worth over forty by the year 244, and thousand by 270 when Emperor Aurelian undertook his monetary reform.

However, a monetary crisis does not necessarily turn into an economic crisis, and all this did not cause a major problem as long as the process was not accompanied by a social crisis (i.e. when foodstuffs became unaffordable) or a crisis in confidence when patricians were accused of corruption, indeed not without reason.
The great crisis of the third century in Rome occured when the cost of keeping the legions guarding the borders led to an unbearable burden of taxation, so that when the barbarians entered the empire, they were sometimes welcomed as liberators. History shows many such examples. After the collapse of the French assignat (1720) and the galloping devaluation in Germany (1918-1923), the states learned to control the mechanisms of inflation. Who can pretend, however, controlling economical phenomena? Other monetary reforms will occur, other inflations... Before the Euro, when the "new franc" was introduced in 1960 (it was then worth 100 old francs), many French were already one reform late and still considered that the former franc was worth 20 sous...

When the "new franc" was introduced in France in 1960, many people still said "a 100 sous coin" when talking about the former aluminum 5 francs coin.

And today's crisis ?

Until recently, most countries had sufficient domestic production so that international trade was not vital. A temporary crisis led to a devaluation of the local currency and everything finally returned more or less back to normal. This is no longer the case today, and it is noteworthy that the current crisis doesn't lead to strong devaluation.

The great crisis of 1929 started with a stock market crash. Crises have become mainly speculative and involve now very complex mechanisms, that people will not understand... but nevertheless THEY have to suffer first the economic, then the social consequences.

The Greek debt reached 151% of its GDP (gross domestic product) by the end of 2014. At that time, Japan's was 247% of GDP and nobody talked about it. During today's crises, states support primarily financial organisations and banks. But who benefits from interest, when states go into debt ? What would Aristotle have thought about that?