An Economic Evaluation of the *Edict on Maximum Prices*

Diocletian's *Edict on Maximum Prices*, promulgated in 301 CE, attempted to put a stop to the runaway inflation resulting from the Crisis of the Third Century. Many scholars, such as Alfred Wassink (1991), have ridiculed Diocletian's edict as poor economic policy, which they argue was widely recognized at that time as poor economic policy and was quickly abandoned. However, Diocletian's *Edict on Maximum Prices* must be reevaluated with an open mind, relying on the modern economic theories of John Maynard Keynes and Milton Friedman. John Maynard Keynes published the *General Theory of Employment, Interest, and Money* in 1936, revolutionizing the entire field of economics with his theories concerning consumption, production, equilibrium, and fiscal policy. In the 1960s, Milton Friedman founded the monetarist school of economics, which focuses on the importance of the money supply in affecting consumption, inflation, and the economy as a whole. Both literary references to Diocletian's economic policies and numismatic evidence will be evaluated. Diocletian's edict should be considered a success because it broke a dangerous economic cycle, which was driving towards the total collapse of imperial monetary and fiscal policy.

The *Edict on Maximum Prices* established a price ceiling, preventing people from charging a price higher than the one prescribed. This price ceiling certainly caused economic distortions, including higher unemployment and a contraction in production. This was the result of both producers deciding to no longer produce, because at the edict's prices they could no longer turn a profit, and an increase in bartering, which, compared to monetary transactions, is inherently inefficient and economically problematic. Nevertheless, this shocking damper on the price level worked to cut inflation in the long term. It did so by eliminating the popular assumption that inflation would continue, since, according to the economic idea of adaptive expectations, people's expectations of further inflation play an important role in driving inflation higher. Therefore, breaking this negative economic cycle was, in the end, a beneficial economic decision. To draw a comparison from recent history, Paul Volcker, in combating the stagflation of the 1970s and early 1980s, increased interest rates to reduce inflation, an act which significantly increased unemployment and reduced GDP, which is the sum of all goods and services produced within a particular country. Nevertheless, by breaking the cycle of stagflation, he laid the foundation for the solid economic growth of the late 1980s and the 1990s.

Although it is generally agreed by economists that setting a price ceiling is never a good thing, the establishment of a price ceiling, in this particular situation, stabilized the economic situation of the empire. Scholars have too often viewed the people of the ancient world, including Diocletian, as having a poor understanding of economics. Of course, the field of economics only got started in the late 1700s with Adam Smith and greatly picked up speed in the 20th century. Regardless, this evaluation of the *Edict of Maximum Prices* shows that Diocletian, relying on the history of imperial economic policy and the knowledge of the imperial bureaucracy, was capable of crafting sensible and relatively successful pieces of economic policy. Therefore, by coming to a better understanding of Diocletian's economic policies and their effects, it will be possible to develop a better understanding of the ways in which the reign of Diocletian serves as an important transitional period between the intense instability of the third century and greater stability of the fourth century.

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