DEBT

THE FIRST 5,000 YEARS

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Chapter One

ON THE EXPERIENCE OF MORAL CONFUSION

debt
• noun 1 a sum of money owed. 2 the state of owing money. 3 a feeling of gratitude for a favour or service.
—*Oxford English Dictionary*

If you owe the bank a hundred thousand dollars, the bank owns you. If you owe the bank a hundred million dollars, you own the bank.
—American Proverb

TWO YEARS AGO, by a series of strange coincidences, I found myself attending a garden party at Westminster Abbey. I was a bit uncomfortable. It's not that other guests weren't pleasant and amicable, and Father Graeme, who had organized the party, was nothing if not a gracious and charming host. But I felt more than a little out of place. At one point, Father Graeme intervened, saying that there was someone by a nearby fountain whom I would certainly want to meet. She turned out to be a trim, well-appointed young woman who, he explained, was an attorney—"but more of the activist kind. She works for a foundation that provides legal support for anti-poverty groups in London. You'll probably have a lot to talk about."

We chatted. She told me about her job. I told her I had been involved for many years with the global justice movement—"anti-globalization movement," as it was usually called in the media. She was curious: she'd of course read a lot about Seattle, Genoa, the tear gas and street battles, but . . . well, had we really accomplished anything by all of that?

"Actually," I said, "I think it's kind of amazing how much we did manage to accomplish in those first couple of years."

"For example?"

"Well, for example, we managed to almost completely destroy the IMF."

As it happened, she didn't actually know what the IMF was, so I offered that the International Monetary Fund basically acted as the world's debt enforcers—"You might say, the high-finance equivalent of the guys who come to break your legs." I launched into historical background, explaining how, during the '70s oil crisis, OPEC countries ended up pouring so much of their newfound riches into Western banks that the banks couldn't figure out where to invest the money; how Citibank and Chase therefore began sending agents around the world trying to convince Third World dictators and politicians to take out loans (at the time, this was called "go-go banking"); how they started out at extremely low rates of interest that almost immediately skyrocketed to 20 percent or so due to tight U.S. money policies in the early '80s; how, during the '80s and '90s, this led to the Third World debt crisis; how the IMF then stepped in to insist that, in order to obtain refinancing, poor countries would be obliged to abandon price supports on basic foodstuffs, or even policies of keeping strategic food reserves, and abandon free health care and free education; how all of this had led to the collapse of all the most basic supports for some of the poorest and most vulnerable people on earth. I spoke of poverty, of the looting of public resources, the collapse of societies, endemic violence, malnutrition, hopelessness, and broken lives.

"But what was *your* position?" the lawyer asked.

"About the IMF? We wanted to abolish it."

"No, I mean, about the Third World debt."

"Oh, we wanted to abolish that too. The immediate demand was to stop the IMF from imposing structural adjustment policies, which were doing all the direct damage, but we managed to accomplish that surprisingly quickly. The more long-term aim was debt amnesty. Something along the lines of the biblical Jubilee. As far as we were concerned," I told her, "thirty years of money flowing from the poorest countries to the richest was quite enough."

"But," she objected, as if this were self-evident, "they'd borrowed the money! Surely one has to pay one's debts."

It was at this point that I realized this was going to be a very different sort of conversation than I had originally anticipated.

Where to start? I could have begun by explaining how these loans had originally been taken out by unelected dictators who placed most of it directly in their Swiss bank accounts, and ask her to contemplate the justice of insisting that the lenders be repaid, not by the dictator,

or even by his cronies, but by literally taking food from the mouths of hungry children. Or to think about how many of these poor countries had actually already paid back what they'd borrowed three or four times now, but that through the miracle of compound interest, it still hadn't made a significant dent in the principal. I could also observe that there was a difference between refinancing loans, and demanding that in order to obtain refinancing, countries have to follow some orthodox free-market economic policy designed in Washington or Zurich that their citizens had never agreed to and never would, and that it was a bit dishonest to insist that countries adopt democratic constitutions and then also insist that, whoever gets elected, they have no control over their country's policies anyway. Or that the economic policies imposed by the IMF didn't even work. But there was a more basic problem: the very assumption that debts *have* to be repaid.

Actually, the remarkable thing about the statement "one has to pay one's debts" is that even according to standard economic theory, it isn't true. A lender is supposed to accept a certain degree of risk. If all loans, no matter how idiotic, were still retrievable—if there were no bankruptcy laws, for instance—the results would be disastrous. What reason would lenders have not to make a stupid loan?

"Well, I know that sounds like common sense," I said, "but the funny thing is, economically, that's not how loans are actually supposed to work. Financial institutions are supposed to be ways of directing resources toward profitable investments. If a bank were guaranteed to get its money back, plus interest, no matter what it did, the whole system wouldn't work. Say I were to walk into the nearest branch of the Royal Bank of Scotland and say 'You know, I just got a really great tip on the horses. Think you could lend me a couple million quid?' Obviously they'd just laugh at me. But that's just because they know if my horse didn't come in, there'd be no way for them to get the money back. But, imagine there was some law that said they were guaranteed to get their money back no matter what happens, even if that meant, I don't know, selling my daughter into slavery or harvesting my organs or something. Well, in that case, why not? Why bother waiting for someone to walk in who has a viable plan to set up a laundromat or some such? Basically, that's the situation the IMF created on a global level—which is how you could have all those banks willing to fork over billions of dollars to a bunch of obvious crooks in the first place."

I didn't get quite that far, because at about that point a drunken financier appeared, having noticed that we were talking about money, and began telling funny stories about moral hazard—which somehow,

before too long, had morphed into a long and not particularly engrossing account of one of his sexual conquests. I drifted off.

Still, for several days afterward, that phrase kept resonating in my head.

"Surely one has to pay one's debts."

The reason it's so powerful is that it's not actually an economic statement: it's a moral statement. After all, isn't paying one's debts what morality is supposed to be all about? Giving people what is due them. Accepting one's responsibilities. Fulfilling one's obligations to others, just as one would expect them to fulfill their obligations to you. What could be a more obvious example of shirking one's responsibilities than reneging on a promise, or refusing to pay a debt?

It was that very apparent self-evidence, I realized, that made the statement so insidious. This was the kind of line that could make terrible things appear utterly bland and unremarkable. This may sound strong, but it's hard not to feel strongly about such matters once you've witnessed the effects. I had. For almost two years, I had lived in the highlands of Madagascar. Shortly before I arrived, there had been an outbreak of malaria. It was a particularly virulent outbreak because malaria had been wiped out in highland Madagascar many years before, so that, after a couple of generations, most people had lost their immunity. The problem was, it took money to maintain the mosquito eradication program, since there had to be periodic tests to make sure mosquitoes weren't starting to breed again and spraying campaigns if it was discovered that they were. Not a lot of money. But owing to IMF-imposed austerity programs, the government had to cut the monitoring program. Ten thousand people died. I met young mothers grieving for lost children. One might think it would be hard to make a case that the loss of ten thousand human lives is really justified in order to ensure that Citibank wouldn't have to cut its losses on one irresponsible loan that wasn't particularly important to its balance sheet anyway. But here was a perfectly decent woman—one who worked for a charitable organization, no less—who took it as self-evident that it was. After all, they owed the money, and surely one has to pay one's debts.

For the next few weeks, that phrase kept coming back at me. Why debt? What makes the concept so strangely powerful? Consumer debt is the lifeblood of our economy. All modern nation-states are built on deficit spending. Debt has come to be the central issue of international

politics. But nobody seems to know exactly what it is, or how to think about it.

The very fact that we don't know what debt is, the very flexibility of the concept, is the basis of its power. If history shows anything, it is that there's no better way to justify relations founded on violence, to make such relations seem moral, than by reframing them in the language of debt—above all, because it immediately makes it seem that it's the victim who's doing something wrong. Mafiosi understand this. So do the commanders of conquering armies. For thousands of years, violent men have been able to tell their victims that those victims owe them something. If nothing else, they "owe them their lives" (a telling phrase) because they haven't been killed.

Nowadays, for example, military aggression is defined as a crime against humanity, and international courts, when they are brought to bear, usually demand that aggressors pay compensation. Germany had to pay massive reparations after World War I, and Iraq is still paying Kuwait for Saddam Hussein's invasion in 1990. Yet the Third World debt, the debt of countries like Madagascar, Bolivia, and the Philippines, seems to work precisely the other way around. Third World debtor nations are almost exclusively countries that have at one time been attacked and conquered by European countries—often, the very countries to whom they now owe money. In 1895, for example, France invaded Madagascar, disbanded the government of then–Queen Ranavalona III, and declared the country a French colony. One of the first things General Gallieni did after "pacification," as they liked to call it then, was to impose heavy taxes on the Malagasy population, in part so they could reimburse the costs of having been invaded, but also, since French colonies were supposed to be fiscally self-supporting, to defray the costs of building the railroads, highways, bridges, plantations, and so forth that the French regime wished to build. Malagasy taxpayers were never asked whether they wanted these railroads, highways, bridges, and plantations, or allowed much input into where and how they were built.[1] To the contrary: over the next half century, the French army and police slaughtered quite a number of Malagasy who objected too strongly to the arrangement (upwards of half a million, by some reports, during one revolt in 1947). It's not as if Madagascar has ever done any comparable damage to France. Despite this, from the beginning, the Malagasy people were told they owed France money, and to this day, the Malagasy people are still held to owe France money, and the rest of the world accepts the justice of this arrangement. When the "international community" does perceive a moral issue, it's usually

when they feel the Malagasy government is being slow to pay their debts.

But debt is not just victor's justice; it can also be a way of punishing winners who weren't supposed to win. The most spectacular example of this is the history of the Republic of Haiti—the first poor country to be placed in permanent debt peonage. Haiti was a nation founded by former plantation slaves who had the temerity not only to rise up in rebellion, amidst grand declarations of universal rights and freedoms, but to defeat Napoleon's armies sent to return them to bondage. France immediately insisted that the new republic owed it 150 million francs in damages for the expropriated plantations, as well as the expenses of outfitting the failed military expeditions, and all other nations, including the United States, agreed to impose an embargo on the country until it was paid. The sum was intentionally impossible (equivalent to about 18 billion dollars), and the resultant embargo ensured that the name "Haiti" has been a synonym for debt, poverty, and human misery ever since.[2]

Sometimes, though, debt seems to mean the very opposite. Starting in the 1980s, the United States, which insisted on strict terms for the repayment of Third World debt, itself accrued debts that easily dwarfed those of the entire Third World combined—mainly fueled by military spending. The U.S. foreign debt, though, takes the form of treasury bonds held by institutional investors in countries (Germany, Japan, South Korea, Taiwan, Thailand, the Gulf States) that are in most cases, effectively, U.S. military protectorates, most covered in U.S. bases full of arms and equipment paid for with that very deficit spending. This has changed a little now that China has gotten in on the game (China is a special case, for reasons that will be explained later), but not very much—even China finds that the fact it holds so many U.S. treasury bonds makes it to some degree beholden to U.S. interests, rather than the other way around.

So what is the status of all this money continually being funneled into the U.S. treasury? Are these loans? Or is it tribute? In the past, military powers that maintained hundreds of military bases outside their own home territory were ordinarily referred to as "empires," and empires regularly demanded tribute from subject peoples. The U.S. government, of course, insists that it is not an empire—but one could easily make a case that the only reason it insists on treating these payments as "loans" and not as "tribute" is precisely to deny the reality of what's going on.

Now, it's true that, throughout history, certain sorts of debt, and certain sorts of debtor, have always been treated differently than

others. In the 1720s, one of the things that most scandalized the British public when conditions at debtors' prisons were exposed in the popular press was the fact that these prisons were regularly divided into two sections. Aristocratic inmates, who often thought of a brief stay in Fleet or Marshalsea as something of a fashion statement, were wined and dined by liveried servants and allowed to receive regular visits from prostitutes. On the "common side," impoverished debtors were shackled together in tiny cells, "covered with filth and vermin," as one report put it, "and suffered to die, without pity, of hunger and jail fever."[3]

In a way you can see current world economic arrangements as a much larger version of the same thing: the U.S. in this case being the Cadillac debtor, Madagascar the pauper starving in the next cell—while the Cadillac debtors' servants lecture him on how his problems are due to his own irresponsibility.

And there's something more fundamental going on here, a philosophical question, even, that we might do well to contemplate. What is the difference between a gangster pulling out a gun and demanding you give him a thousand dollars of "protection money," and that same gangster pulling out a gun and demanding you provide him with a thousand-dollar "loan"? In most ways, obviously, nothing. But in certain ways there *is* a difference. As in the case of the U.S. debt to Korea or Japan, were the balance of power at any point to shift, were America to lose its military supremacy, were the gangster to lose his henchmen, that "loan" might start being treated very differently. It might become a genuine liability. But the crucial element would still seem to be the gun.

There's an old vaudeville gag that makes the same point even more elegantly—here, as improved on by Steve Wright:

> I was walking down the street with a friend the other day and a guy with a gun jumps out of an alley and says "stick 'em up."
>
> As I pull out my wallet, I figure, "shouldn't be a total loss." So I pull out some money, turn to my friend and say, "Hey, Fred, here's that fifty bucks I owe you."
>
> The robber was so offended he took out a thousand dollars of his own money, forced Fred to lend it to me at gunpoint, and then took it back again.

In the final analysis, the man with the gun doesn't have to do anything he doesn't want to do. But in order to be able to run even a regime based on violence effectively, one needs to establish some kind of set of rules. The rules can be completely arbitrary. In a way it doesn't even

matter what they are. Or, at least, it doesn't matter at first. The problem is, the moment one starts framing things in terms of debt, people will inevitably start asking who really owes what to whom.

Arguments about debt have been going on for at least five thousand years. For most of human history—at least, the history of states and empires—most human beings have been told that they are debtors.[4] Historians, and particularly historians of ideas, have been oddly reluctant to consider the human consequences; especially since this situation—more than any other—has caused continual outrage and resentment. Tell people they are inferior, they are unlikely to be pleased, but this surprisingly rarely leads to armed revolt. Tell people that they are potential equals who have failed, and that therefore, even what they do have they do not deserve, that it isn't rightly theirs, and you are much more likely to inspire rage. Certainly this is what history would seem to teach us. For thousands of years, the struggle between rich and poor has largely taken the form of conflicts between creditors and debtors—of arguments about the rights and wrongs of interest payments, debt peonage, amnesty, repossession, restitution, the sequestering of sheep, the seizing of vineyards, and the selling of debtors' children into slavery. By the same token, for the last five thousand years, with remarkable regularity, popular insurrections have begun the same way: with the ritual destruction of the debt records—tablets, papyri, ledgers, whatever form they might have taken in any particular time and place. (After that, rebels usually go after the records of landholding and tax assessments.) As the great classicist Moses Finley often liked to say, in the ancient world, all revolutionary movements had a single program: "Cancel the debts and redistribute the land."[5]

Our tendency to overlook this is all the more peculiar when you consider how much of our contemporary moral and religious language originally emerged directly from these very conflicts. Terms like "reckoning" or "redemption" are only the most obvious, since they're taken directly from the language of ancient finance. In a larger sense, the same can be said of "guilt," "freedom," "forgiveness," and even "sin." Arguments about who really owes what to whom have played a central role in shaping our basic vocabulary of right and wrong.

The fact that so much of this language did take shape in arguments about debt has left the concept strangely incoherent. After all, to argue with the king, one has to use the king's language, whether or not the initial premises make sense.

If one looks at the history of debt, then, what one discovers first of all is profound moral confusion. Its most obvious manifestation is that most everywhere, one finds that the majority of human beings

hold simultaneously that (1) paying back money one has borrowed is a simple matter of morality, and (2) anyone in the habit of lending money is evil.

It's true that opinions on this latter point do shift back and forth. One extreme possibility might be the situation the French anthropologist Jean-Claude Galey encountered in a region of the eastern Himalayas, where as recently as the 1970s, the low-ranking castes—they were referred to as "the vanquished ones," since they were thought to be descended from a population once conquered by the current landlord caste, many centuries before—lived in a situation of permanent debt dependency. Landless and penniless, they were obliged to solicit loans from the landlords simply to find a way to eat—not for the money, since the sums were paltry, but because poor debtors were expected to pay back the interest in the form of work, which meant they were at least provided with food and shelter while they cleaned out their creditors' outhouses and reroofed their sheds. For the "vanquished"—as for most people in the world, actually—the most significant life expenses were weddings and funerals. These required a good deal of money, which always had to be borrowed. In such cases it was common practice, Galey explains, for high-caste moneylenders to demand one of the borrower's daughters as security. Often, when a poor man had to borrow money for his daughter's marriage, the security would be the bride herself. She would be expected to report to the lender's household after her wedding night, spend a few months there as his concubine, and then, once he grew bored, be sent off to some nearby timber camp, where she would have to spend the next year or two as a prostitute working off her father's debt. Once it was paid off, she'd return to her husband and begin her married life.[6]

This seems shocking, outrageous even, but Galey does not report any widespread feeling of injustice. Everyone seemed to feel that this was just the way things worked. Neither was there much concern voiced among the local Brahmins, who were the ultimate arbiters in matters of morality—though this is hardly surprising, since the most prominent moneylenders were often Brahmins themselves.

Even here, of course, it's hard to know what people were saying behind closed doors. If a group of Maoist rebels were to suddenly seize control of the area (some do operate in this part of rural India) and round up the local usurers for trial, we might hear all sorts of views expressed.

Still, what Galey describes represents, as I say, one extreme of possibility: one in which the usurers themselves are the ultimate moral authorities. Compare this with, say, medieval France, where the moral

status of moneylenders was seriously in question. The Catholic Church had always forbidden the practice of lending money at interest, but the rules often fell into desuetude, causing the Church hierarchy to authorize preaching campaigns, sending mendicant friars to travel from town to town warning usurers that unless they repented and made full restitution of all interest extracted from their victims, they would surely go to Hell.

These sermons, many of which have survived, are full of horror stories of God's judgment on unrepentant lenders: stories of rich men struck down by madness or terrible diseases, haunted by deathbed nightmares of the snakes or demons who would soon rend or eat their flesh. In the twelfth century, when such campaigns reached their heights, more direct sanctions began to be employed. The papacy issued instructions to local parishes that all known usurers were to be excommunicated; they were not to be allowed to receive the sacraments, and under no conditions could their bodies be buried on hallowed ground. One French cardinal, Jacques de Vitry, writing around 1210, recorded the story of a particularly influential moneylender whose friends tried to pressure their parish priest to overlook the rules and allow him to be buried in the local churchyard:

> Since the dead usurer's friends were very insistent, the priest yielded to their pressure and said, "Let us put his body on a donkey and see God's will, and what He will do with the body. Wherever the donkey takes it, be it a church, a cemetery, or elsewhere, there will I bury it." The body was placed upon the donkey which without deviating either to right or left, took it straight out of town to the place where thieves are hanged from the gibbet, and with a hearty buck, sent the cadaver flying into the dung beneath the gallows.[7]

Looking over world literature, it is almost impossible to find a single sympathetic representation of a moneylender—or anyway, a professional moneylender, which means by definition one who charges interest. I'm not sure there is another profession (executioners?) with such a consistently bad image. It's especially remarkable when one considers that unlike executioners, usurers often rank among the richest and most powerful people in their communities. Yet the very name, "usurer," evokes images of loan sharks, blood money, pounds of flesh, the selling of souls, and behind them all, the Devil, often represented as himself a kind of usurer, an evil accountant with his books and ledgers, or alternately, as the figure looming just behind the usurer, biding his

time until he can repossess the soul of a villain who, by his very occupation, has clearly made a compact with Hell.

Historically, there have been only two effective ways for a lender to try to wriggle out of the opprobrium: either shunt off responsibility onto some third party, or insist that the borrower is even worse. In medieval Europe, for instance, lords often took the first approach, employing Jews as surrogates. Many would even speak of "our" Jews—that is, Jews under their personal protection—though in practice this usually meant that they would first deny Jews in their territories any means of making a living except by usury (guaranteeing that they would be widely detested), then periodically turn on them, claiming they were detestable creatures, and take the money for themselves. The second approach is of course more common. But it usually leads to the conclusion that both parties to a loan are equally guilty; the whole affair is a shabby business; and most likely, both are damned.

Other religious traditions have different perspectives. In medieval Hindu law codes, not only were interest-bearing loans permissible (the main stipulation was that interest should never exceed principal), but it was often emphasized that a debtor who did not pay would be reborn as a slave in the household of his creditor—or in later codes, reborn as his horse or ox. The same tolerant attitude toward lenders, and warnings of karmic revenge against borrowers, reappear in many strands of Buddhism. Even so, the moment that usurers were thought to go too far, exactly the same sort of stories as found in Europe would start appearing. A Medieval Japanese author recounts one—he insists it's a true story—about the terrifying fate of Hiromushime, the wife of a wealthy district governor around 776 AD. An exceptionally greedy woman,

> she would add water to the rice wine she sold and make a huge profit on such diluted saké. On the day she loaned something to someone she would use a small measuring cup, but on the day of collection she used a large one. When lending rice her scale registered small portions, but when she received payment it was in large amounts. The interest that she forcibly collected was tremendous—often as much as ten or even one hundred times the amount of the original loan. She was rigid about collecting debts, showing no mercy whatsoever. Because of this, many people were thrown into a state of anxiety; they abandoned their households to get away from her and took to wandering in other provinces.[8]

After she died, for seven days, monks prayed over her sealed coffin. On the seventh, her body mysteriously sprang to life:

> Those who came to look at her encountered an indescribable stench. From the waist up she had already become an ox with four-inch horns protruding from her forehead. Her two hands had become the hooves of an ox, her nails were now cracked so that they resembled an ox hoof's instep. From the waist down, however, her body was that of a human. She disliked rice and preferred to eat grass. Her manner of eating was rumination. Naked, she would lie in her own excrement.[9]

Gawkers descended. Guilty and ashamed, the family made desperate attempts to buy forgiveness, canceling all debts owed to them by anybody, donating much of their wealth to religious establishments. Finally, mercifully, the monster died.

The author, himself a monk, felt that the story represented a clear case of premature reincarnation—the woman was being punished by the law of karma for her violations of "what is both reasonable and right." His problem was that Buddhist scriptures, insofar as they explicitly weighed in on the matter, didn't provide a precedent. Normally, it was debtors who were supposed to be reborn as oxen, not creditors. As a result, when it came time to explain the moral of the story, his exposition grew decidedly confusing:

> It is as one sutra says: "When we do not repay the things that we have borrowed, our payment becomes that of being reborn as a horse or ox." "The debtor is like a slave, the creditor is like a master." Or again: "a debtor is a pheasant and his creditor a hawk." If you are in a situation of having granted a loan, do not put unreasonable pressure on your debtor for repayment. If you do, you will be reborn as a horse or an ox and be put to work for him who was in debt to you, and then you will repay many times over.[10]

So which will it be? They can't both end up as animals in each other's barns.

All the great religious traditions seem to bang up against this quandary in one form or another. On the one hand, insofar as all human relations involve debt, they are all morally compromised. Both parties are probably already guilty of something just by entering into the relationship; at the very least they run a significant danger of becoming guilty

if repayment is delayed. On the other hand, when we say someone acts like they "don't owe anything to anybody," we're hardly describing the person as a paragon of virtue. In the secular world, morality consists largely of fulfilling our obligations to others, and we have a stubborn tendency to imagine those obligations as debts. Monks, perhaps, can avoid the dilemma by detaching themselves from the secular world entirely, but the rest of us appear condemned to live in a universe that doesn't make a lot of sense.

The story of Hiromushime is a perfect illustration of the impulse to throw the accusation back at the accuser—just as in the story about the dead usurer and the donkey, the emphasis on excrement, animals, and humiliation is clearly meant as poetic justice, the creditor forced to experience the same feelings of disgrace and degradation that debtors are always made to feel. It's all a more vivid, more visceral way of asking that same question: "Who really owes what to whom?"

It's also a perfect illustration of how the moment one asks the question "Who really owes what to whom?," one has begun to adopt the creditor's language. Just as if we don't pay our debts, "our payment becomes that of being reborn as a horse or an ox"; so if you are an unreasonable creditor, you too will "repay." Even karmic justice can thus be reduced to the language of a business deal.

Here we come to the central question of this book: What, precisely, does it mean to say that our sense of morality and justice is reduced to the language of a business deal? What does it mean when we reduce moral obligations to debts? What changes when the one turns into the other? And how do we speak about them when our language has been so shaped by the market? On one level the difference between an obligation and a debt is simple and obvious. A debt is the obligation to pay a certain sum of money. As a result, a debt, unlike any other form of obligation, can be precisely quantified. This allows debts to become simple, cold, and impersonal—which, in turn, allows them to be transferable. If one owes a favor, or one's life, to another human being—it is owed to that person specifically. But if one owes forty thousand dollars at 12-percent interest, it doesn't really matter who the creditor is; neither does either of the two parties have to think much about what the other party needs, wants, is capable of doing—as they certainly would if what was owed was a favor, or respect, or gratitude. One does not need to calculate the human effects; one need only calculate principal, balances, penalties, and rates of interest. If you end

up having to abandon your home and wander in other provinces, if your daughter ends up in a mining camp working as a prostitute, well, that's unfortunate, but incidental to the creditor. Money is money, and a deal's a deal.

From this perspective, the crucial factor, and a topic that will be explored at length in these pages, is money's capacity to turn morality into a matter of impersonal arithmetic—and by doing so, to justify things that would otherwise seem outrageous or obscene. The factor of violence, which I have been emphasizing up until now, may appear secondary. The difference between a "debt" and a mere moral obligation is not the presence or absence of men with weapons who can enforce that obligation by seizing the debtor's possessions or threatening to break his legs. It is simply that a creditor has the means to specify, numerically, exactly how much the debtor owes.

However, when one looks a little closer, one discovers that these two elements—the violence and the quantification—are intimately linked. In fact it's almost impossible to find one without the other. French usurers had powerful friends and enforcers, capable of bullying even Church authorities. How else would they have collected debts that were technically illegal? Hiromushime was utterly uncompromising with her debtors—"showing no mercy whatsoever"—but then, her husband was the governor. She didn't have to show mercy. Those of us who do not have armed men behind us cannot afford to be so exacting.

The way violence, or the threat of violence, turns human relations into mathematics will crop up again and again over the course of this book. It is the ultimate source of the moral confusion that seems to float around everything surrounding the topic of debt. The resulting dilemmas appear to be as old as civilization itself. We can observe the process in the very earliest records from ancient Mesopotamia; it finds its first philosophical expression in the Vedas, reappears in endless forms throughout recorded history, and still lies underneath the essential fabric of our institutions today—state and market, our most basic conceptions of the nature of freedom, morality, sociality—all of which have been shaped by a history of war, conquest, and slavery in ways we're no longer capable of even perceiving because we can no longer imagine things any other way.

There are obvious reasons why this is a particularly important moment to reexamine the history of debt. September 2008 saw the beginning of

a financial crisis that almost brought the entire world economy screeching to a halt. In many ways the world economy did: ships stopped moving across the oceans, and thousands were placed in dry dock. Building cranes were dismantled, as no more buildings were being put up. Banks largely ceased making loans. In the wake of this, there was not only public rage and bewilderment, but the beginning of an actual public conversation about the nature of debt, of money, of the financial institutions that have come to hold the fate of nations in their grip.

But that was just a moment. The conversation never ended up taking place.

The reason that people were ready for such a conversation was that the story everyone had been told for the last decade or so had just been revealed to be a colossal lie. There's really no nicer way to say it. For years, everyone had been hearing of a whole host of new, ultra-sophisticated financial innovations: credit and commodity derivatives, collateralized mortgage obligation derivatives, hybrid securities, debt swaps, and so on. These new derivative markets were so incredibly sophisticated, that—according to one persistent story—a prominent investment house had to employ astrophysicists to run trading programs so complex that even the financiers couldn't begin to understand them. The message was transparent: leave these things to the professionals. You couldn't possibly get your minds around this. Even if you don't like financial capitalists very much (and few seemed inclined to argue that there was much to like about them), they were nothing if not capable, in fact so preternaturally capable, that democratic oversight of financial markets was simply inconceivable. (Even a lot of academics fell for it. I well remember going to conferences in 2006 and 2007 where trendy social theorists presented papers arguing that these new forms of securitization, linked to new information technologies, heralded a looming transformation in the very nature of time, possibility—reality itself. I remember thinking: "Suckers!" And so they were.)

Then, when the rubble had stopped bouncing, it turned out that many if not most of them had been nothing more than very elaborate scams. They consisted of operations like selling poor families mortgages crafted in such a way as to make eventual default inevitable; taking bets on how long it would take the holders to default; packaging mortgage and bet together and selling them to institutional investors (representing, perhaps, the mortgage-holders' retirement accounts) claiming that it would make money no matter what happened, and allow said investors to pass such packages around as if they were money; turning over responsibility for paying off the bet to a giant insurance conglomerate that, were it to sink beneath the weight of its resultant

debt (which certainly would happen), would then have to be bailed out by taxpayers (as such conglomerates were indeed bailed out).[11] In other words, it looks very much like an unusually elaborate version of what banks were doing when they lent money to dictators in Bolivia and Gabon in the late '70s: make utterly irresponsible loans with the full knowledge that, once it became known they had done so, politicians and bureaucrats would scramble to ensure that they'd still be reimbursed anyway, no matter how many human lives had to be devastated and destroyed in order to do it.

The difference, though, was that this time, the bankers were doing it on an inconceivable scale: the total amount of debt they had run up was larger than the combined Gross Domestic Products of every country in the world—and it threw the world into a tailspin and almost destroyed the system itself.

Armies and police geared up to combat the expected riots and unrest, but none materialized. But neither have any significant changes in how the system is run. At the time, everyone assumed that, with the very defining institutions of capitalism (Lehman Brothers, Citibank, General Motors) crumbling, and all claims to superior wisdom revealed to be false, we would at least restart a broader conversation about the nature of debt and credit institutions. And not just a convwersation.

It seemed that most Americans were open to radical solutions. Surveys showed that an overwhelming majority of Americans felt that the banks should not be rescued, *whatever the economic consequences*, but that ordinary citizens stuck with bad mortgages should be bailed out. In the United States this is quite extraordinary. Since colonial days, Americans have been the population least sympathetic to debtors. In a way this is odd, since America was settled largely by absconding debtors, but it's a country where the idea that morality is a matter of paying one's debts runs deeper than almost any other. In colonial days, an insolvent debtor's ear was often nailed to a post. The United States was one of the last countries in the world to adopt a law of bankruptcy: despite the fact that in 1787, the Constitution specifically charged the new government with creating one, all attempts were rejected on "moral grounds" until 1898.[12] The change was epochal. For this very reason, perhaps, those in charge of moderating debate in the media and legislatures decided that this was not the time. The United States government effectively put a three-trillion-dollar Band-Aid over the problem and changed nothing. The bankers were rescued; small-scale debtors—with a paltry few exceptions—were not.[13] To the contrary, in the middle of the greatest economic recession since the '30s, we are already beginning to see a backlash against them—driven by financial corporations

who have now turned to the same government that bailed them out to apply the full force of the law against ordinary citizens in financial trouble. "It's not a crime to owe money," reports the Minneapolis-St. Paul *StarTribune*, "But people are routinely being thrown in jail for failing to pay debts." In Minnesota, "the use of arrest warrants against debtors has jumped 60 percent over the past four years, with 845 cases in 2009 . . . In Illinois and southwest Indiana, some judges jail debtors for missing court-ordered debt payments. In extreme cases, people stay in jail until they raise a minimum payment. In January [2010], a judge sentenced a Kenney, Ill., man 'to indefinite incarceration' until he came up with $300 toward a lumber yard debt."[14]

In other words, we are moving toward a restoration of something much like debtors' prisons. Meanwhile, the conversation stopped dead, popular rage against bailouts sputtered into incoherence, and we seem to be tumbling inexorably toward the next great financial catastrophe—the only real question being just how long it will take.

We have reached the point at which the IMF itself, now trying to reposition itself as the conscience of global capitalism, has begun to issue warnings that if we continue on the present course, no bailout is likely to be forthcoming the next time. The public simply will not stand for it, and as a result, everything really will come apart. "IMF Warns Second Bailout Would 'Threaten Democracy'" reads one recent headline.[15] (Of course by "democracy" they mean "capitalism.") Surely it means something that even those who feel they are responsible for keeping the current global economic system running, who just a few years ago acted as if they could simply assume the current system would be around forever, are now seeing apocalypse everywhere.

In this case, the IMF has a point. We have every reason to believe that we do indeed stand on the brink of epochal changes.

Admittedly, the usual impulse is to imagine everything around us as absolutely new. Nowhere is this so true as with money. How many times have we been told that the advent of virtual money, the dematerialization of cash into plastic and dollars into blips of electronic information, has brought us to an unprecedented new financial world? The assumption that we were in such uncharted territory, of course, was one of the things that made it so easy for the likes of Goldman Sachs and AIG to convince people that no one could possibly understand their dazzling new financial instruments. The moment one casts matters on a broad historical scale, though, the first thing one learns

is that there's nothing new about virtual money. Actually, this was the original form of money. Credit system, tabs, even expense accounts, all existed long before cash. These things are as old as civilization itself. True, we also find that history tends to move back and forth between periods dominated by bullion—where it's assumed that gold and silver *are* money—and periods where money is assumed to be an abstraction, a virtual unit of account. But historically, credit money comes first, and what we are witnessing today is a return of assumptions that would have been considered obvious common sense in, say, the Middle Ages—or even ancient Mesopotamia.

But history does provide fascinating hints of what we might expect. For instance: in the past, ages of virtual credit money almost invariably involve the creation of institutions designed to prevent everything going haywire—to stop the lenders from teaming up with bureaucrats and politicians to squeeze everybody dry, as they seem to be doing now. They are accompanied by the creation of institutions designed to protect debtors. The new age of credit money we are in seems to have started precisely backwards. It began with the creation of global institutions like the IMF designed to protect not debtors, but creditors. At the same time, on the kind of historical scale we're talking about here, a decade or two is nothing. We have very little idea what to expect.

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This book is a history of debt, then, but it also uses that history as a way to ask fundamental questions about what human beings and human society are or could be like—what we actually do owe each other, what it even means to ask that question. As a result, the book begins by attempting to puncture a series of myths—not only the Myth of Barter, which is taken up in the first chapter, but also rival myths about primordial debts to the gods, or to the state—that in one way or another form the basis of our common-sense assumptions about the nature of economy and society. In that common-sense view, the State and the Market tower above all else as diametrically opposed principles. Historical reality reveals, however, that they were born together and have always been intertwined. The one thing that all these misconceptions have in common, we will find, is that they tend to reduce all human relations to exchange, as if our ties to society, even to the cosmos itself, can be imagined in the same terms as a business deal. This leads to another question: If not exchange, then what? In chapter five, I will begin to answer the question by drawing on the fruits of anthropology to describe a view of the moral basis of economic life; then return

to the question of the origins of money to demonstrate how the very principle of exchange emerged largely as an effect of violence—that the real origins of money are to be found in crime and recompense, war and slavery, honor, debt, and redemption. That, in turn, opens the way to starting, with chapter eight, an actual history of the last five thousand years of debt and credit, with its great alternations between ages of virtual and physical money. Many of the discoveries here are profoundly unexpected: from the origins of modern conceptions of rights and freedoms in ancient slave law, to the origins of investment capital in medieval Chinese Buddhism, to the fact that many of Adam Smith's most famous arguments appear to have been cribbed from the works of free-market theorists from medieval Persia (a story which, incidentally, has interesting implications for understanding the current appeal of political Islam). All of this sets the stage for a fresh approach to the last five hundred years, dominated by capitalist empires, and allows us to at least begin asking what might really be at stake in the present day.

For a very long time, the intellectual consensus has been that we can no longer ask Great Questions. Increasingly, it's looking like we have no other choice.

Chapter Two

THE MYTH OF BARTER

For every subtle and complicated question, there is a perfectly simple and straightforward answer, which is wrong.

—H.L. Mencken

WHAT IS THE DIFFERENCE between a mere obligation, a sense that one ought to behave in a certain way, or even that one owes something to someone, and a *debt*, properly speaking? The answer is simple: money. The difference between a debt and an obligation is that a debt can be precisely quantified. This requires money.

Not only is it money that makes debt possible: money and debt appear on the scene at exactly the same time. Some of the very first written documents that have come down to us are Mesopotamian tablets recording credits and debits, rations issued by temples, money owed for rent of temple lands, the value of each precisely specified in grain and silver. Some of the earliest works of moral philosophy, in turn, are reflections on what it means to imagine morality as debt—that is, in terms of money.

A history of debt, then, is thus necessarily a history of money—and the easiest way to understand the role that debt has played in human society is simply to follow the forms that money has taken, and the way money has been used, across the centuries—and the arguments that inevitably ensued about what all this means. Still, this is necessarily a very different history of money than we are used to. When economists speak of the origins of money, for example, debt is always something of an afterthought. First comes barter, then money; credit only develops later. Even if one consults books on the history of money in, say, France, India, or China, what one generally gets is a history of coinage, with barely any discussion of credit arrangements at all. For almost a century, anthropologists like me have been pointing out

that there is something very wrong with this picture. The standard economic-history version has little to do with anything we observe when we examine how economic life is actually conducted, in real communities and marketplaces, almost anywhere—where one is much more likely to discover everyone in debt to everyone else in a dozen different ways, and that most transactions take place without the use of currency.

Why the discrepancy?

Some of it is just the nature of the evidence: coins are preserved in the archeological record; credit arrangements usually are not. Still, the problem runs deeper. The existence of credit and debt has always been something of a scandal for economists, since it's almost impossible to pretend that those lending and borrowing money are acting on purely "economic" motivations (for instance, that a loan to a stranger is the same as a loan to one's cousin); it seems important, therefore, to begin the story of money in an imaginary world from which credit and debt have been entirely erased. Before we can apply the tools of anthropology to reconstruct the real history of money, we need to understand what's wrong with the conventional account.

Economists generally speak of three functions of money: medium of exchange, unit of account, and store of value. All economic textbooks treat the first as primary. Here's a fairly typical extract from *Economics*, by Case, Fair, Gärtner, and Heather (1996):

> Money is vital to the working of a market economy. Imagine what life would be like without it. The alternative to a monetary economy is barter, people exchanging goods and services for other goods and services directly instead of exchanging via the medium of money.
>
> How does a barter system work? Suppose you want croissants, eggs and orange juice for breakfast. Instead of going to the grocer's and buying these things with money, you would have to find someone who has these items and is willing to trade them. You would also have to have something the baker, the orange juice purveyor and the egg vendor want. Having pencils to trade will do you no good if the baker and the orange juice and egg sellers do not want pencils.
>
> A barter system requires a double coincidence of wants for trade to take place. That is, to effect a trade, I need not only have to find someone who has what I want, but that person must also want what I have. Where the range of traded goods is small, as it is in relatively unsophisticated economies, it is

> not difficult to find someone to trade with, and barter is often used.[1]

This latter point is questionable, but it's phrased in so vague a way that it would be hard to disprove.

> In a complex society with many goods, barter exchanges involve an intolerable amount of effort. Imagine trying to find people who offer for sale all the things you buy in a typical trip to the grocer's, and who are willing to accept goods that you have to offer in exchange for their goods.
>
> Some agreed-upon medium of exchange (or means of payment) neatly eliminates the double coincidence of wants problem.[2]

It's important to emphasize that this is not presented as something that actually happened, but as a purely imaginary exercise. "To see that society benefits from a medium of exchange" write Begg, Fischer and Dornbuch (*Economics*, 2005), "imagine a barter economy." "Imagine the difficulty you would have today," write Maunder, Myers, Wall, and Miller (*Economics Explained*, 1991), "if you had to exchange your labor directly for the fruits of someone else's labor." "Imagine," write Parkin and King (*Economics*, 1995), "you have roosters, but you want roses."[3] One could multiply examples endlessly. Just about every economics textbook employed today sets out the problem the same way. Historically, they note, we know that there was a time when there was no money. What must it have been like? Well, let us imagine an economy something like today's, except with no money. That would have been decidedly inconvenient! Surely, people must have invented money for the sake of efficiency.

The story of money for economists always begins with a fantasy world of barter. The problem is where to locate this fantasy in time and space: Are we talking about cave men, Pacific Islanders, the American frontier? One textbook, by economists Joseph Stiglitz and John Driffill, takes us to what appears to be an imaginary New England or Midwestern town:

> One can imagine an old-style farmer bartering with the blacksmith, the tailor, the grocer, and the doctor in his small town. For simple barter to work, however, there must be a double coincidence of wants . . . Henry has potatoes and wants shoes, Joshua has an extra pair of shoes and wants potatoes. Bartering

> can make them both happier. But if Henry has firewood and Joshua does not need any of that, then bartering for Joshua's shoes requires one or both of them to go searching for more people in the hope of making a multilateral exchange. Money provides a way to make multilateral exchange much simpler. Henry sells his firewood to someone else for money and uses the money to buy Joshua's shoes.[4]

Again this is just a make-believe land much like the present, except with money somehow plucked away. As a result it makes no sense: Who in their right mind would set up a grocery in such a place? And how would they get supplies? But let's leave that aside. There is a simple reason why everyone who writes an economics textbook feels they have to tell us the same story. For economists, it is in a very real sense the most important story ever told. It was by telling it, in the significant year of 1776, that Adam Smith, professor of moral philosophy at the University of Glasgow, effectively brought the discipline of economics into being.

He did not make up the story entirely out of whole cloth. Already in 330 BC, Aristotle was speculating along vaguely similar lines in his treatise on politics. At first, he suggested, families must have produced everything they needed for themselves. Gradually, some would presumably have specialized, some growing corn, others making wine, swapping one for the other.[5] Money, Aristotle assumed, must have emerged from such a process. But, like the medieval schoolmen who occasionally repeated the story, Aristotle was never clear as to how.[6]

In the years after Columbus, as Spanish and Portuguese adventurers were scouring the world for new sources of gold and silver, these vague stories disappear. Certainly no one reported discovering a land of barter. Most sixteenth- and seventeenth-century travelers in the West Indies or Africa assumed that all societies would necessarily have their own forms of money, since all societies had governments and all governments issued money.[7]

Adam Smith, on the other hand, was determined to overturn the conventional wisdom of his day. Above all, he objected to the notion that money was a creation of government. In this, Smith was the intellectual heir of the Liberal tradition of philosophers like John Locke, who had argued that government begins in the need to protect private property and operated best when it tried to limit itself to that function. Smith expanded on the argument, insisting that property, money and markets not only existed before political institutions but were the very foundation of human society. It followed that insofar as government

should play any role in monetary affairs, it should limit itself to guaranteeing the soundness of the currency. It was only by making such an argument that he could insist that economics is itself a field of human inquiry with its own principles and laws—that is, as distinct from, say ethics or politics.

Smith's argument is worth laying out in detail because it is, as I say, the great founding myth of the discipline of economics.

What, he begins, is the basis of economic life, properly speaking? It is "a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another." Animals don't do this. "Nobody," Smith observes, "ever saw a dog make a fair and deliberate exchange of one bone for another with another dog."[8] But humans, if left to their own devices, will inevitably begin swapping and comparing things. This is just what humans do. Even logic and conversation are really just forms of trading, and as in all things, humans will always try to seek their own best advantage, to seek the greatest profit they can from the exchange.[9]

It is this drive to exchange, in turn, which creates that division of labor responsible for all human achievement and civilization. Here the scene shifts to another one of those economists' faraway fantasylands—it seems to be an amalgam of North American Indians and Central Asian pastoral nomads:[10]

> In a tribe of hunters or shepherds a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison, than if he himself went to the field to catch them. From a regard to his own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armourer. Another excels in making the frames and covers of their little huts or moveable houses. He is accustomed to be of use in this way to his neighbours, who reward him in the same manner with cattle and with venison, till at last he finds it his interest to dedicate himself entirely to this employment, and to become a sort of house-carpenter. In the same manner a third becomes a smith or a brazier; a fourth a tanner or dresser of hides or skins, the principal part of the clothing of savages . . .

It's only once we have expert arrow-makers, wigwam-makers, and so on that people start realizing there's a problem. Notice how, as in

so many examples, we have a tendency to slip from imaginary savages to small-town shopkeepers.

> But when the division of labor first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange . . .
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> In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labor, must naturally have endeavored to manage his affairs in such a manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined that few people would be likely to refuse in exchange for the produce of their industry.[11]

So everyone will inevitably start stockpiling something they figure that everyone else is likely to want. This has a paradoxical effect, because at a certain point, rather than making that commodity less valuable (since everyone already has some) it becomes more valuable (because it becomes, effectively, currency):

> Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod at Newfoundland; tobacco in Virginia; sugar in some of our West India colonies; hides or dressed leather in some other countries; and there is at this day a village in Scotland where it is not uncommon, I am told, for a workman to carry nails instead of money to the baker's shop or the ale-house.[12]

Eventually, of course, at least for long-distance trade, it all boils down to precious metals, since these are ideally suited to serve as currency, being durable, portable, and able to be endlessly subdivided into identical portions.

> Different metals have been made use of by different nations for this purpose. Iron was the common instrument of commerce among the ancient Spartans; copper among the ancient Romans; and gold and silver among all rich and commercial nations.
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> Those metals seem originally to have been made use of for this purpose in rude bars, without any stamp or coinage . . .
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> The use of metals in this rude state was attended with two very considerable inconveniencies; first with the trouble of weighing; and, secondly, with that of assaying them. In the precious metals, where a small difference in the quantity makes a great difference in the value, even the business of weighing, with proper exactness, requires at least very accurate weights and scales. The weighing of gold in particular is an operation of some nicety . . .[13]

It's easy to see where this is going. Using irregular metal ingots is easier than barter, but wouldn't standardizing the units—say, stamping pieces of metal with uniform designations guaranteeing weight and fineness, in different denominations—make things easier still? Clearly it would, and so was coinage born. True, issuing coinage meant governments had to get involved, since they generally ran the mints; but in the standard version of the story, governments have only this one limited role—to guarantee the money supply—and tend to do it badly, since throughout history, unscrupulous kings have often cheated by debasing the coinage and causing inflation and other sorts of political havoc in what was originally a matter of simple economic common sense.

Tellingly, this story played a crucial role not only in founding the discipline of economics, but in the very idea that there was something called "the economy," which operated by its own rules, separate from moral or political life, that economists could take as their field of study.

"The economy" is where we indulge in our natural propensity to truck and barter. We are still trucking and bartering. We always will be. Money is simply the most efficient means.

Economists like Karl Menger and Stanley Jevons later improved on the details of the story, most of all by adding various mathematical equations to demonstrate that a random assortment of people with random desires could, in theory, produce not only a single commodity to use as money but a uniform price system. In the process, they also substituted all sorts of impressive technical vocabulary (i.e., "inconveniences" became "transaction costs"). The crucial thing, though, is that by now, this story has become simple common sense for most people. We teach it to children in schoolbooks and museums. Everybody knows it. "Once upon a time, there was barter. It was difficult. So people invented money. Then came the development of banking and credit." It all forms a perfectly simple, straightforward progression, a process of increasing sophistication and abstraction that has carried humanity, logically and inexorably, from the Stone Age exchange of mastodon tusks to stock markets, hedge funds, and securitized derivatives.[14]

It really has become ubiquitous. Wherever we find money, we also find the story. At one point, in the town of Arivonimamo, in Madagascar, I had the privilege of interviewing a Kalanoro, a tiny ghostly creature that a local spirit medium claimed to keep hidden away in a chest in his home. The spirit belonged to the brother of a notorious local loan shark, a horrible woman named Nordine, and to be honest I was a bit reluctant to have anything to do with the family, but some of my friends insisted—since after all, this was a creature from ancient times. The creature spoke from behind a screen in an eerie, otherworldly quaver. But all it was really interested in talking about was money. Finally, slightly exasperated by the whole charade, I asked, "So, what did you use for money back in ancient times, when you were still alive?"

The mysterious voice immediately replied, "No. We didn't use money. In ancient times we used to barter commodities directly, one for the other . . ."

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The story, then, is everywhere. It is the founding myth of our system of economic relations. It is so deeply established in common sense, even in places like Madagascar, that most people on earth couldn't imagine any other way that money possibly could have come about.

The problem is there's no evidence that it ever happened, and an enormous amount of evidence suggesting that it did not.

For centuries now, explorers have been trying to find this fabled land of barter—none with success. Adam Smith set his story in aboriginal North America (others preferred Africa or the Pacific). In Smith's time, at least it could be said that reliable information on Native American economic systems was unavailable in Scottish libraries. But by mid-century, Lewis Henry Morgan's descriptions of the Six Nations of the Iroquois, among others, were widely published—and they made clear that the main economic institution among the Iroquois nations were longhouses where most goods were stockpiled and then allocated by women's councils, and no one ever traded arrowheads for slabs of meat. Economists simply ignored this information.[15] Stanley Jevons, for example, who in 1871 wrote what has come to be considered the classic book on the origins of money, took his examples straight from Smith, with Indians swapping venison for elk and beaver hides, and made no use of actual descriptions of Indian life that made it clear that Smith had simply made this up. Around that same time, missionaries, adventurers, and colonial administrators were fanning out across the world, many bringing copies of Smith's book with them, expecting to find the land of barter. None ever did. They discovered an almost endless variety of economic systems. But to this day, no one has been able to locate a part of the world where the ordinary mode of economic transaction between neighbors takes the form of "I'll give you twenty chickens for that cow."

The definitive anthropological work on barter, by Caroline Humphrey, of Cambridge, could not be more definitive in its conclusions: "No example of a barter economy, pure and simple, has ever been described, let alone the emergence from it of money; all available ethnography suggests that there never has been such a thing."[16]

Now, all this hardly means that barter does not exist—or even that it's never practiced by the sort of people that Smith would refer to as "savages." It just means that it's almost never employed, as Smith imagined, between fellow villagers. Ordinarily, it takes place between strangers, even enemies. Let us begin with the Nambikwara of Brazil. They would seem to fit all the criteria: they are a simple society without much in the way of division of labor, organized into small bands that traditionally numbered at best a hundred people each. Occasionally if one band spots the cooking fires of another in their vicinity, they will send emissaries to negotiate a meeting for purposes of trade. If the offer is accepted, they will first hide their women and children in the forest, then invite the men of other band to visit camp. Each band has a chief; once everyone has been assembled, each chief gives a formal speech praising the other party and belittling his own; everyone puts

aside their weapons to sing and dance together—though the dance is one that mimics military confrontation. Then, individuals from each side approach each other to trade:

> If an individual wants an object he extols it by saying how fine it is. If a man values an object and wants much in exchange for it, instead of saying that it is very valuable he says that it is no good, thus showing his desire to keep it. "This axe is no good, it is very old, it is very dull," he will say, referring to his axe which the other wants.
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> This argument is carried on in an angry tone of voice until a settlement is reached. When agreement has been reached each snatches the object out of the other's hand. If a man has bartered a necklace, instead of taking it off and handing it over, the other person must take it off with a show of force. Disputes, often leading to fights, occur when one party is a little premature and snatches the object before the other has finished arguing.[17]

The whole business concludes with a great feast at which the women reappear, but this too can lead to problems, since amidst the music and good cheer, there is ample opportunity for seductions.[18] This sometimes led to jealous quarrels. Occasionally, people would get killed.

Barter, then, for all the festive elements, was carried out between people who might otherwise be enemies and hovered about an inch away from outright warfare—and, if the ethnographer is to be believed—if one side later decided they had been taken advantage of, it could very easily lead to actual wars.

To shift our spotlight halfway around the world to Western Arnhem Land in Australia, where the Gunwinggu people are famous for entertaining neighbors in rituals of ceremonial barter called the *dzamalag*. Here the threat of actual violence seems much more distant. Partly, this is because things are made easier by the existence of a moiety system that embraces the whole region: no one is allowed to marry, or even have sex with, people of their own moiety, no matter where they come from, but anyone from the other is technically a potential match. Therefore, for a man, even in distant communities, half the women are strictly forbidden, half of them fair game. The region is also united by local specialization: each people has its own trade product to be bartered with the others.

What follows is from a description of a *dzamalag* held in the 1940s, as observed by an anthropologist named Ronald Berndt.

Once again, it begins as strangers, after some initial negotiations, are invited into the hosts' main camp. The visitors in this particular example were famous for their "much-prized serrated spears"—their hosts had access to good European cloth. The trading begins when the visiting party, which consisted of both men and women, enters the camp's dancing ground of "ring place," and three of them began to entertain their hosts with music. Two men start singing, a third accompanies them on the *didjeridu*. Before long, women from the hosts' side come and attack the musicians:

> Men and women rise and begin to dance. The *dzamalag* opens when two Gunwinggu women of the opposite moiety to the singing men "give *dzamalag*" to the latter. They present each man with a piece of cloth, and hit or touch him, pulling him down on the ground, calling him a *dzamalag* husband, and joking with him in an erotic vein. Then another woman of the opposite moiety to the pipe player gives him cloth, hits and jokes with him.
>
> This sets in motion the *dzamalag* exchange. Men from the visiting group sit quietly while women of the opposite moiety come over and give them cloth, hit them, and invite them to copulate; they take any liberty they choose with the men, amid amusement and applause, while the singing and dancing continue. Women try to undo the men's loin coverings or touch their penises, and to drag them from the "ring place" for coitus. The men go with their *dzamalag* partners, with a show of reluctance, to copulate in the bushes away from the fires which light up the dancers. They may give the women tobacco or beads. When the women return, they give part of this tobacco to their own husbands, who have encouraged them to go *dzamalag*. The husbands, in turn, use the tobacco to pay their own female *dzamalag* partners . . .[19]

New singers and musicians appear, are again assaulted and dragged off to the bushes; men encourage their wives "not to be shy," so as to maintain the Gunwinggu reputation for hospitality; eventually those men also take the initiative with the visitors' wives, offering cloth, hitting them, and leading them off into the bushes. Beads and tobacco circulate. Finally, once participants have all paired off at least once, and the guests are satisfied with the cloth they have acquired, the women stop dancing and stand in two rows and the visitors line up to repay them.

> Then visiting men of one moiety dance towards the women of the opposite moiety, in order to "give them *dzamalag*." They hold shovel-nosed spears poised, pretending to spear the women, but instead hit them with the flat of the blade. "We will not spear you, for we have already speared you with our penises." They present the spears to the women. Then visiting men of the other moiety go through the same actions with the women of their opposite moiety, giving them spears with serrated points. This terminates the ceremony, which is followed by a large distribution of food.[20]

This is a particularly dramatic case, but dramatic cases are revealing. What the Gunwinggu hosts appear to have been able to do here, owing to the relatively amicable relations between neighboring peoples in Western Arnhem Land, is to take all the elements in Nambikwara barter (the music and dancing, the potential hostility, the sexual intrigue), and turn it all into a kind of festive game—one not, perhaps, without its dangers, but (as the ethnographer emphasizes) considered enormous fun by everyone concerned.

What all such cases of trade through barter have in common is that they are meetings with strangers who will, likely as not, never meet again, and with whom one certainly will not enter into any ongoing relations. This is why a direct one-on-one exchange is appropriate: each side makes their trade and walks away. It's all made possible by laying down an initial mantle of sociability, in the form of shared pleasures, music and dance—the usual base of conviviality on which trade must always be built. Then comes the actual trading, where both sides make a great display of the latent hostility that necessarily exists in any exchange of material goods between strangers—where neither party has no particular reason *not* to take advantage of the other—by playful mock aggression, though in the Nambikwara case, where the mantle of sociability is extremely thin, mock aggression is in constant danger of slipping over into the real thing. The Gunwinggu, with their more relaxed attitude toward sexuality, have quite ingeniously managed to make the shared pleasures and aggression into exactly the same thing.

Recall here the language of the economics textbooks: "Imagine a society without money." "Imagine a barter economy." One thing these examples make abundantly clear is just how limited the imaginative powers of most economists turn out to be.[21]

Why? The simplest answer would be: for there to even be a discipline called "economics," a discipline that concerns itself first and foremost with how individuals seek the most advantageous arrangement

for the exchange of shoes for potatoes, or cloth for spears, it must assume that the exchange of such goods need have nothing to do with war, passion, adventure, mystery, sex, or death. Economics assumes a division between different spheres of human behavior that, among people like the Gunwinngu and the Nambikwara, simply does not exist. These divisions in turn are made possible by very specific institutional arrangements: the existence of lawyers, prisons, and police, to ensure that even people who don't like each other very much, who have no interest in developing any kind of ongoing relationship, but are simply interested in getting their hands on as much of the others' possessions as possible, will nonetheless refrain from the most obvious expedient (theft). This in turn allows us to assume that life is neatly divided between the marketplace, where we do our shopping, and the "sphere of consumption," where we concern ourselves with music, feasts, and seduction. In other words, the vision of the world that forms the basis of the economics textbooks, which Adam Smith played so large a part in promulgating, has by now become so much a part of our common sense that we find it hard to imagine any other possible arrangement.

From these examples, it begins to be clear why there are no societies based on barter. Such a society could only be one in which everybody was an inch away from everybody else's throat; but nonetheless hovering there, poised to strike but never actually striking, forever. True, barter does sometimes occur between people who do not consider each other strangers, but they're usually people who might as well be strangers—that is, who feel no sense of mutual responsibility or trust, or the desire to develop ongoing relations. The Pukhtun of Northern Pakistan, for instance, are famous for their open-handed hospitality. Barter is what you do with those to whom you are *not* bound by ties of hospitality (or kinship, or much of anything else):

> A favorite mode of exchange among men is barter, or *adal-badal* (give and take). Men are always on the alert for the possibility of bartering one of their possessions for something better. Often the exchange is like for like: a radio for a radio, sunglasses for sunglasses, a watch for a watch. However, unlike objects can also be exchanged, such as, in one instance, a bicycle for two donkeys. *Adal-badal* is always practiced with non-relatives and affords men a great deal of pleasure as they attempt to get the advantage over their exchange partner. A good exchange, in which a man feels he has gotten the better of the deal, is cause for bragging and pride. If the exchange is bad, the recipient tries to renege on the deal or, failing that, to

> palm off the faulty object on someone unsuspecting. The best partner in *adal-badal* is someone who is distant spatially and will therefore have little opportunity to complain.[22]

Neither are such unscrupulous motives limited to Central Asia. They seem inherent to the very nature of barter—which would explain the fact that in the century or two before Smith's time, the English words "truck and barter," like their equivalents in French, Spanish, German, Dutch, and Portuguese, literally meant "to trick, bamboozle, or rip off."[23] Swapping one thing directly for another while trying to get the best deal one can out of the transaction is, ordinarily, how one deals with people one doesn't care about and doesn't expect to see again. What reason is there *not* to try to take advantage of such a person? If, on the other hand, one cares enough about someone—a neighbor, a friend—to wish to deal with her fairly and honestly, one will inevitably also care about her enough to take her individual needs, desires, and situation into account. Even if you do swap one thing for another, you are likely to frame the matter as a gift.

To illustrate what I mean by this, let's return to the economics textbooks and the problem of the "double coincidence of wants." When we left Henry, he needed a pair of shoes, but all he had lying around were some potatoes. Joshua had an extra pair of shoes, but he didn't really need potatoes. Since money has not yet been invented, they have a problem. What are they to do?

The first thing that should be clear by now is that we'd really have to know a bit more about Joshua and Henry. Who are they? Are they related? If so, how? They appear to live in a small community. Any two people who have been living their lives in the same small community will have some sort of complicated history with each other. Are they friends, rivals, allies, lovers, enemies, or several of these things at once?

The authors of the original example seem to assume two neighbors of roughly equal status, not closely related, but on friendly terms—that is, as close to neutral equality as one can get. Even so, this doesn't say much. For example, if Henry was living in a Seneca longhouse, and needed shoes, Joshua would not even enter into it; he'd simply mention it to his wife, who'd bring up the matter with the other matrons, fetch materials from the longhouse's collective storehouse, and sew him some. Alternately, to find a scenario fit for an imaginary economics

textbook, we might place Joshua and Henry together in a small, intimate community like a Nambikwara or Gunwinggu band.

SCENARIO 1

Henry walks up to Joshua and says "Nice shoes!"

Joshua says, "Oh, they're not much, but since you seem to like them, by all means take them."

Henry takes the shoes.

Henry's potatoes are not at issue since both parties are perfectly well aware that if Joshua were ever short of potatoes, Henry would give him some.

And that's about it. Of course it's not clear, in this case, how long Henry will actually get to keep the shoes. It probably depends on how nice they are. If they were just ordinary shoes, this might be the end of the matter. If they are in any way unique or beautiful, they might end up being passed around. There's a famous story that John and Lorna Marshall, who carried out a study of Kalahari Bushmen in the '60s, once gave a knife to one of their favorite informants. They left and came back a year later, only to discover that pretty much everyone in the band had been in possession of the knife at some point in between. On the other hand, several Arab friends confirm to me that in less strictly egalitarian contexts, there is an expedient. If a friend praises a bracelet or bag, you are normally expected to immediately say "take it"—but if you are really determined to hold on to it, you can always say, "yes, isn't it beautiful? It was a gift."

But clearly, the authors of the textbook have a slightly more impersonal transaction in mind. The authors seem to imagine the two men as the heads of patriarchal households, on good terms with each other, but who keep their own supplies. Perhaps they live in one of those Scottish villages with the butcher and the baker in Adam Smith's examples, or a colonial settlement in New England. Except for some reason they've never heard of money. It's a peculiar fantasy, but let's see what we can do:

SCENARIO 2

Henry walks up to Joshua and says, "Nice shoes!"

Or, perhaps—let's make this a bit more realistic—Henry's wife is chatting with Joshua's and strategically lets slip that the state of Henry's shoes is getting so bad he's complaining about corns.

> The message is conveyed, and Joshua comes by the next day to offer his extra pair to Henry as a present, insisting that this is just a neighborly gesture. He would certainly never want anything in return.
>
> It doesn't matter whether Joshua is sincere in saying this. By doing so, Joshua thereby registers a credit. Henry owes him one.
>
> How might Henry pay Joshua back? There are endless possibilities. Perhaps Joshua really does want potatoes. Henry waits a discrete interval and drops them off, insisting that this too is just a gift. Or Joshua doesn't need potatoes now but Henry waits until he does. Or maybe a year later, Joshua is planning a banquet, so he comes strolling by Henry's barnyard and says "Nice pig . . ."

In any of these scenarios, the problem of "double coincidence of wants," so endlessly invoked in the economics textbooks, simply disappears. Henry might not have something Joshua wants right now. But if the two are neighbors, it's obviously only a matter of time before he will.[24]

This in turn means that the need to stockpile commonly acceptable items in the way that Smith suggested disappears as well. With it goes the need to develop currency. As with so many actual small communities, everyone simply keeps track of who owes what to whom.

There is just one major conceptual problem here—one the attentive reader might have noticed. Henry "owes Joshua one." One what? How do you quantify a favor? On what basis do you say that this many potatoes, or this big a pig, seems more or less equivalent to a pair of shoes? Because even if these things remain rough-and-ready approximations, there must be *some* way to establish that X is roughly equivalent to Y, or slightly worse or slightly better. Doesn't this imply that something like money, at least in the sense of a unit of accounts by which one can compare the value of different objects, already has to exist?

In most gift economies, there actually is a rough-and-ready way to solve the problem. One establishes a series of ranked categories of *types* of thing. Pigs and shoes may be considered objects of roughly equivalent status, one can give one in return for the other; coral necklaces are quite another matter, one would have to give back another necklace, or at least another piece of jewelry—anthropologists are used to referring to these as creating different "spheres of exchange."[25] This does simplify things somewhat. When cross-cultural barter becomes a regular and unexceptional thing, it tends to operate according to similar principles: there are only certain things traded for certain others

(cloth for spears, for example), which makes it easy to work out traditional equivalences. However, this doesn't help us at all with the problem of the origin of money. Actually, it makes it infinitely worse. Why stockpile salt or gold or fish if they can only be exchanged for some things and not others?

In fact, there is good reason to believe that barter is not a particularly ancient phenomenon at all, but has only really become widespread in modern times. Certainly in most of the cases we know about, it takes place between people who are familiar with the use of money, but for one reason or another, don't have a lot of it around. Elaborate barter systems often crop up in the wake of the collapse of national economies: most recently in Russia in the '90s, and in Argentina around 2002, when rubles in the first case, and dollars in the second, effectively disappeared.[26] Occasionally one can even find some kind of currency beginning to develop: for instance, in POW camps and many prisons, inmates have indeed been known to use cigarettes as a kind of currency, much to the delight and excitement of professional economists.[27] But here too we are talking about people who grew up using money and now have to make do without it—exactly the situation "imagined" by the economics textbooks with which I began.

The more frequent solution is to adopt some sort of credit system. When much of Europe "reverted to barter" after the collapse of the Roman Empire, and then again after the Carolingian Empire likewise fell apart, this seems to be what happened. People continued keeping accounts in the old imperial currency, even if they were no longer using coins.[28] Similarly, the Pukhtun men who like to swap bicycles for donkeys are hardly unfamiliar with the use of money. Money has existed in that part of the world for thousands of years. They just prefer direct exchange between equals—in this case, because they consider it more manly.[29]

The most remarkable thing is that even in Adam Smith's examples of fish and nails and tobacco being used as money, the same sort of thing was happening. In the years following the appearance of *The Wealth of Nations*, scholars checked into most of those examples and discovered that in just about every case, the people involved were quite familiar with the use of money, and in fact, *were* using money—as a unit of account.[30] Take the example of dried cod, supposedly used as money in Newfoundland. As the British diplomat A. Mitchell-Innes pointed out almost a century ago, what Smith describes was really an illusion, created by a simple credit arrangement:

> In the early days of the Newfoundland fishing industry, there was no permanent European population; the fishers went there for the fishing season only, and those who were not fishers were traders who bought the dried fish and sold to the fishers their daily supplies. The latter sold their catch to the traders at the market price in pounds, shillings and pence, and obtained in return a credit on their books, with which they paid for their supplies. Balances due by the traders were paid for by drafts on England or France.[31]

It was quite the same in the Scottish village. It's not as if anyone actually walked into the local pub, plunked down a roofing nail, and asked for a pint of beer. Employers in Smith's day often lacked coin to pay their workers; wages could be delayed by a year or more; in the meantime, it was considered acceptable for employees to carry off either some of their own products or leftover work materials, lumber, fabric, cord, and so on. The nails were de facto interest on what their employers owed them. So they went to the pub, ran up a tab, and when occasion permitted, brought in a bag of nails to charge off against the debt. The law making tobacco legal tender in Virginia seems to have been an attempt by planters to oblige local merchants to accept their products as a credit around harvest time. In effect, the law forced all merchants in Virginia to become middlemen in the tobacco business, whether they liked it or not; just as all West Indian merchants were obliged to become sugar dealers, since that's what all their wealthier customers brought in to write off against their debt.

The primary examples, then, were ones in which people were improvising credit systems, because actual money—gold and silver coinage—was in short supply. But the most shocking blow to the conventional version of economic history came with the translation, first of Egyptian hieroglyphics, and then of Mesopotamian cuneiform, which pushed back scholars' knowledge of written history almost three millennia, from the time of Homer (circa 800 BC), where it had hovered in Smith's time, to roughly 3500 BC. What these texts revealed was that credit systems of exactly this sort actually *preceded* the invention of coinage by thousands of years.

The Mesopotamian system is the best-documented, more so than that of Pharaonic Egypt (which appears similar), Shang China (about which we know little), or the Indus Valley civilization (about which we know nothing at all). As it happens, we know a great deal about Mesopotamia, since the vast majority of cuneiform documents were financial in nature.

The Sumerian economy was dominated by vast temple and palace complexes. These were often staffed by thousands: priests and officials, craftspeople who worked in their industrial workshops, farmers and shepherds who worked their considerable estates. Even though ancient Sumer was usually divided into a large number of independent city-states, by the time the curtain goes up on Mesopotamian civilization around 3500, temple administrators already appear to have developed a single, uniform system of accountancy—one that is in some ways still with us, actually, because it's to the Sumerians that we owe such things as the dozen or the 24-hour day.[32] The basic monetary unit was the silver shekel. One shekel's weight in silver was established as the equivalent of one gur, or bushel of barley. A shekel was subdivided into 60 minas, corresponding to one portion of barley—on the principle that there were 30 days in a month, and Temple workers received two rations of barley every day. It's easy to see that "money" in this sense is in no way the product of commercial transactions. It was actually created by bureaucrats in order to keep track of resources and move things back and forth between departments.

Temple bureaucrats used the system to calculate debts (rents, fees, loans . . .) in silver. Silver was, effectively, money. And it did indeed circulate in the form of unworked chunks, "rude bars" as Smith had put it.[33] In this he was right. But it was almost the only part of his account that was right. One reason was that silver did not circulate very much. Most of it just sat around in Temple and Palace treasuries, some of which remained, carefully guarded, in the same place for literally thousands of years. It would have been easy enough to standardize the ingots, stamp them, create some authoritative system to guarantee their purity. The technology existed. Yet no one saw any particular need to do so. One reason was that while debts were calculated in silver, they did not have to be *paid* in silver—in fact, they could be paid in more or less anything one had around. Peasants who owed money to the Temple or Palace, or to some Temple or Palace official, seem to have settled their debts mostly in barley, which is why fixing the ratio of silver to barley was so important. But it was perfectly acceptable to show up with goats, or furniture, or lapis lazuli. Temples and Palaces were huge industrial operations—they could find a use for almost anything.[34]

In the marketplaces that cropped up in Mesopotamian cities, prices were also calculated in silver, and the prices of commodities that weren't entirely controlled by the Temples and Palaces would tend to fluctuate according to supply and demand. But even here, such evidence as we have suggests that most transactions were based on credit. Merchants (who sometimes worked for the Temples, sometimes operated

independently) were among the few people who did, often, actually use silver in transactions; but even they mostly did much of their dealings on credit, and ordinary people buying beer from "ale women," or local innkeepers, once again, did so by running up a tab, to be settled at harvest time in barley or anything they might have had at hand.[35]

At this point, just about every aspect of the conventional story of the origins of money lay in rubble. Rarely has an historical theory been so absolutely and systematically refuted. By the early decades of the twentieth century, all the pieces were in place to completely rewrite the history of money. The groundwork was laid by Mitchell-Innes—the same one I've already cited on the matter of the cod—in two essays that appeared in New York's *Banking Law Journal* in 1913 and 1914. In these, Mitchell-Innes matter-of-factly laid out the false assumptions on which existing economic history was based and suggested that what was really needed was a history of debt:

> One of the popular fallacies in connection with commerce is that in modern days a money-saving device has been introduced called *credit* and that, before this device was known, all, purchases were paid for in cash, in other words in coins. A careful investigation shows that the precise reverse is true. In olden days coins played a far smaller part in commerce than they do to-day. Indeed so small was the quantity of coins, that they did not even suffice for the needs of the [Medieval English] Royal household and estates which regularly used tokens of various kinds for the purpose of making small payments. So unimportant indeed was the coinage that sometimes Kings did not hesitate to call it all in for re-minting and re-issue and still commerce went on just the same.[36]

In fact, our standard account of monetary history is precisely backwards. We did not begin with barter, discover money, and then eventually develop credit systems. It happened precisely the other way around. What we now call virtual money came first. Coins came much later, and their use spread only unevenly, never completely replacing credit systems. Barter, in turn, appears to be largely a kind of accidental byproduct of the use of coinage or paper money: historically, it has mainly been what people who are used to cash transactions do when for one reason or another they have no access to currency.

The curious thing is that it never happened. This new history was never written. It's not that any economist has ever refuted Mitchell-Innes. They just ignored him. Textbooks did not change their story—even if

all the evidence made clear that the story was simply wrong. People still write histories of money that are actually histories of coinage, on the assumption that in the past, these were necessarily the same thing; periods when coinage largely vanished are still described as times when the economy "reverted to barter," as if the meaning of this phrase is self-evident, even though no one actually knows what it means. As a result we have next-to-no idea how, say, the inhabitant of a Dutch town in 950 AD actually went about acquiring cheese or spoons or hiring musicians to play at his daughter's wedding—let alone how any of this was likely to be arranged in Pemba or Samarkand.[37]