

David Graeber studied 5,000 years of debt

Real dirty secret is that if the deficit ever completely went away, it would cause a major catastrophe

Jay Kernis

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Answering today's OFF-SET questions is **David Graeber**, who teaches anthropology at Goldsmiths College, University of London. He is the author of "Towards an Anthropological Theory of Value," "Lost People," and "Possibilities: Essays on Hierarchy, Rebellion and Desire."

His new book is entitled "Debt: The First 5,000 Years," and in it, Graeber indeed examines the historical significance of debt, the struggle between rich and poor, and the moral implications inherent in our ideas about credit and debt.

The U.S. Treasury Department last Friday reiterated its Aug. 2 deadline for raising the debt ceiling, and urged Congress "to avoid the catastrophic economic and market consequences of a default crisis by raising the statutory debt limit in a timely manner." The White House wants a deal by July 22. If the debt ceiling isn't raised, the Treasury would not be able to pay nearly half of the 80 million payments it needs to make every month, according to an estimate by budget experts at the Bipartisan Policy Center.

How did the United States get into this situation?

Because the Republicans are engaged in one of the most extraordinary campaigns of political recklessness in recent memory.

One has to presume that Republicans are perfectly well aware that the US debt is not really a crisis, and that they're not really going to force into default just to be able to hack further away at social programs. That's what they seem to be telling Wall Street, anyway. But it's almost unimaginably irresponsible. If you play chicken, there is always the chance that you'll go off a cliff.

So if Congress doesn't raise the \$14.3 trillion debt ceiling in a few weeks, and the U.S. defaults on its debt for the first time in history, what level of confusion, calamity and crisis might this country face?

It's really hard to say. Probably in the short run, not that much – there are always expedients the federal government can use to stop the gap temporarily, and the business community will put enormous pressure on the Republicans to cut it out.

The danger would be the effects overseas – would it accelerate movements to abandon the use of US treasury bonds as international reserve currency. Since 1971, when Nixon went off the

gold standard, the dollar has essentially played the role gold used to play as the bedrock of the world banking system.

Russia has been arguing the world should move away from the system for years, China occasionally at least pretends to toy with it, and Dominique Strauss-Kahn was apparently working on an alternative system as well before... well, you know.

If that changes, the effects might well be epochal, because the structure of the current world economy, where the US military basically plays the role of police, and is effectively rewarded by being allowed to maintain a global monetary system which gives us huge economic advantages (notably, the ability to import much more than we export), will be seriously jeopardized.

At a recent news conference, the president once again compared government spending to what American households face. “Our first starter home was a \$180,000 condo,” Obama said. “That was still a good investment, and we were able to make the payments.” Are the bills that average Americans face a good analogy to explain the complexities of government spending?

To be honest it’s hard to imagine a more ridiculous analogy. It’s hard to even count the ways. Sure, households have to bring in revenues, and they have to pay some of it out, or borrow the difference. But there the resemblance ends.

First of all, the US government is like a household where the breadwinner gets to charge his employer anything he likes. Second of all, if you or I borrow money, we borrow it from somebody else – a bank, usually, which can call in the repo man, and eventually, if you don’t cooperate, the police.

The US owes most of that money to itself. Four dollars in five are owed internally, and about half of that is actually owed by the government to *other* branches of the government—especially, to the Federal reserve.

And of course insofar as cops are involved, the government *is* the cops – nobody can force it to do anything it doesn’t want to. Certainly the Fed can’t – if the government really wanted to, it could take over the Federal Reserve entirely, or abolish it, or rewrite its rules pretty much any way it wanted to.

Then finally there’s the overseas debt. Even that isn’t much different. If you look at what actually happens with all those Treasury bonds floating around in foreign banks – well, the vast majority never get called in. The banks holding them just roll them over every five or ten years, as soon as they mature.

Why? Because, as I say, T-bonds have come to replace gold as the world’s reserve currency. So there’s the final reason the analogy is so silly. When you or a member of your household writes a check, the recipient tends to cash it. When the US government writes a check, and gives a foreign bank or government an IOU, the recipient almost never does.

But that’s just a very superficial explanation. On a deeper level, the analogy is even more absurd, because, the US needs to maintain a deficit, or catastrophe would ensue. The real secret of the system is that these IOUs basically *are* money. Modern money mainly consists of government debt.

The current financial system – based on central banks – really goes back to 1694 when a group of London merchants made a loan to the King of England to fight some war in France, and he gave them the right to call themselves “the Bank of England” and loan the money he owed to them to other people in the form of bank notes. That’s what British money actually is – an IOU from the king, an uncashed check.

US dollars are exactly the same. They're government debt circulating through the Federal Reserve, which just makes up money, loans it to the government, and then circulates the debt. They try to make the system as complicated as possible so ordinary people won't understand what's going on, but it means that the real dirty secret of the system is that if the deficit ever completely went away, it would cause a complete catastrophe.

Just as the King can never repay his debt to the Bank of England, or else the British currency system would collapse, the US has to maintain a national debt – as indeed, it always has, we've always been in arrears since independence – or there'd be no money. (Or if you want to be technical, private banks would have to make up all the money by making loans, but of course, at the moment, our big problem is that they aren't doing that.)

The system might seem crazy – and in a way it is – since it seems like the government is writing checks that never get cashed – why would anyone go along with that?

But that's where taxes come in. The government effectively says “well, these dollars are circulating US debt, and we're not going to give you anything for them, exactly, but we will let you use it to cancel out the debt that we've decided you owe to us” – your income tax, etc. US taxes can only be paid in dollars. So to keep the system running, the government has to demand taxes, but they also have to make sure they spend more than they get, to keep the IOUs all circulating around.

So you see why I say it's a ridiculous analogy?

China is the largest foreign creditor to the U.S., holding more than \$1 trillion in Treasury debt as of this past March. Reuters reported last week that an adviser to the People's Bank of China said a default could undermine the U.S. dollar. “I think there is a risk that the U.S. debt default may happen.” I mean, we all grow up believing that paying your debts is the right thing to do. Is it always?

Well, a lot of what “growing up” seems to really mean is figuring out that in the real world, those moral rules they teach you as a child don't always apply. Business owners certainly don't feel that debts are sacred – I can't remember the last time I did freelance work and my employer didn't at least try pretending he just forgot to pay me!

If the study of history shows us anything, it's that it all comes down to power. The people on the top know that everything is negotiable. If there's a real problem, you can always work something out – which is what we saw in 2008, when the financial establishment effectively convinced the both political parties to step in and take care of several trillion dollars of their gambling debts.

The rich have always been capable of extraordinary acts of generosity and forgiveness when dealing with each other. The absolute morality of debt is meant for us lesser mortals – since it's the best means ever discovered to take a situation of massive inequality and make it seem like the victims are to blame.

The same thing goes for international relations. If Mozambique owes the US 10 billion dollars, Mozambique has a big problem. If the US owes Japan 10 billion dollars, then Japan has a problem, because there's no way it can force the US to do anything it doesn't want to.

Or even France: in 1971 when Charles de Gaulle tried to call in his US debt in gold, which he was legally entitled to do, Nixon just shrugged his shoulders said “fine, then I'll go off the gold standard.” What was France going to do? Nuke us?

Actually, most of those countries that own all those T-bonds know they are losing money by sitting on them (the yields are less than inflation), and they'll never get all their money back. But

most of them – Japan, South Korea, the Gulf States – are regimes under US military protection, in fact, with huge US military bases sitting right on top of them, so really we’re talking about protection money—in whatever sense of the term.

Obviously, China is a different story. Their behavior is a little harder to explain, since they are effectively shipping enormous amounts of consumer goods to us on credit and must know they’re never going to get paid back. But here I think you have to remember two things. First, China has two thousand years of experience flooding potential rival powers with riches, so as to make them spoiled and dependent. If it worked on the steppe nomads, why not the US- which they probably see as just as scary, violent barbarians?

Second, the Chinese leadership might be running a quasi-capitalist state but these guys were all trained as Marxists. They probably still see all this high finance as so much mumbo jumbo – “ideological superstructure” as the Marxists like to put it – it isn’t really real.

What’s real is highways, factories, and technology. And they are getting more and more of that, and we’re getting less. So they’re perfectly happy with arrangements as they stand.

I suspect there’s a kind of tacit deal, here, whether explicitly stated or not: the Chinese government periodically pretends to get all worked up over the US debt, even though they don’t care, and in exchange, the US only pretends to get worked up over their constant pirating of intellectual property rights and technology transfers, but in fact, lets them get away with it. The result: we get Walmart, and they get nanotechnology, superfast trains, and a space program. So what do they care if we never “pay the debt?”

You examined 5000 years of economic and cultural behavior. Would you ever suggest that capitalism as we know it needs to change?

The most remarkable thing I discovered in my historical researches is that virtual money is nothing new. Actually, it’s the original form of money.

Back in ancient Mesopotamia, people didn’t go to the bar or market with tiny bits of silver; they put things on the tab. Merchants used expense accounts. Commerce meant trust. What we now think of as cash, in contrast – gold and silver coinage, and with them, impersonal, cash markets – was basically invented much later, mostly to pay soldiers, and as a side-effect of military operations.

If you look at the last five thousand years of history, what you find is an alternation of periods where money basically means credit, periods of mostly virtual money, and periods where it’s assumed to be a physical thing. It starts as credit.

Then around the 7th century BC, you see, simultaneously in Greece, India, and China, the invention of coinage – and for maybe a thousand years after that, vast empires, with huge standing armies paid in cash, cash markets, where they’re among other things selling all the slaves conquered in the wars, most of whom end up working in the mines producing more gold and silver to pay the troops with.

In the Middle Ages it all shifts back again – the great religions, which really started as anti-war movements, take over, the armies are disbanded, cash disappears, people go back to virtual money (both checks and paper money for instance were Medieval inventions.)

Then, after 1492 it swings the other way, again – we’re back to gold and silver money, vast empires, slavery comes back (and some might argue its still here – if Plato or Aristotle were alive today I doubt they’d see much distinction between selling yourself and renting yourself, so they’d probably see most Americans as, effectively slaves). That’s the period of history that’s just ending now.

This is epochal. Changes on this scale only happen once every 500 or even 1000 years.

What will it mean? Well obviously it's impossible to say for sure. And to a large degree it's really up to us how it all turns out.

But one thing I have noticed is that in periods dominated by virtual money, it becomes impossible to deny that money is just a promise, that it's just a set of understandings we have with one another—and therefore, that you need some kind of watchdog institution in place to make sure things don't get completely out of hand.

In the ancient Near East, they used to simply declare periodic debt cancellations. The Medieval religious authorities tended to ban interest payments outright. Always there was some kind of overarching institution, usually bigger than any government, to protect debtors, to prevent the bulk of the population from simply being reduced to slaves (which, of course, is how most indebted Americans feel most of the time.)

Of course this time around, the first thing we did was create the IMF, a vast overarching institution designed basically to protect creditors. But (most people don't know this) that didn't work out too well. The IMF has been effectively kicked out of Asia and Latin America for some time now, and now, most recently, from Egypt. So that model has definitely failed.

I think it's significant that growing opposition to the "debt crises" being inflicted on people in Europe, in places like Greece and Spain, is a call for "real democracy."

What they're effectively saying is, "In 2008, the financial elites let the cat out of the bag when they refused to let their banks fail like the textbooks say they were supposed to. As a result, we learned that the story about capitalism we'd been hearing for all these years wasn't really true. Markets don't really run themselves, and debts can be finagled out of existence if you really want them to be.

"But if that's true, if debt is just a promise and promises can be renegotiated, then if democracy is going to mean anything, it has to mean that it's us, the public, that gets the ultimate say over how that happens – not some hedge fund manager."

If they win, then we're going to be talking about a very different economic system. Whether you even want to call it "capitalism" is probably just a matter of taste. But it gives you a sense of just how much is at stake.

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