What is Debt?

An Interview with Economic Anthropologist David Graeber

Philip Pilkington

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David Graeber currently holds the position of Reader in Social Anthropology at Goldsmiths University London. Prior to this he was an associate professor of anthropology at Yale University. He is the author of 'Debt: The First 5,000 Years'.

Interview conducted by Philip Pilkington, a journalist and writer based in Dublin, Ireland.

Philip Pilkington: Let's begin. Most economists claim that money was invented to replace the barter system. But you've found something quite different, am I correct?

David Graeber: Yes there's a standard story we're all taught, a 'once upon a time' — it's a fairy tale.

It really deserves no other introduction: according to this theory all transactions were by barter. "Tell you what, I'll give you twenty chickens for that cow." Or three arrow-heads for that beaver pelt or what-have-you. This created inconveniences, because maybe your neighbor doesn't need chickens right now, so you have to invent money.

The story goes back at least to Adam Smith and in its own way it's the founding myth of economics. Now, I'm an anthropologist and we anthropologists have long known this is a myth simply because if there were places where everyday transactions took the form of: "I'll give you twenty chickens for that cow," we'd have found one or two by now. After all people have been looking since 1776, when the Wealth of Nations first came out. But if you think about it for just a second, it's hardly surprising that we haven't found anything.

Think about what they're saying here – basically: that a bunch of Neolithic farmers in a village somewhere, or Native Americans or whatever, will be engaging in transactions only through the spot trade. So, if your neighbor doesn't have what you want right now, no big deal. Obviously what would really happen, and this is what anthropologists observe when neighbors do engage in something like exchange with each other, if you want your neighbor's cow, you'd say, "wow, nice cow" and he'd say "you like it? Take it!" – and now you owe him one. Quite often people don't even engage in exchange at all – if they were real Iroquois or other Native Americans, for example, all such things would probably be allocated by women's councils.

So the real question is not how does barter generate some sort of medium of exchange, that then becomes money, but rather, how does that broad sense of 'I owe you one' turn into a precise system of measurement – that is: money as a unit of account?

By the time the curtain goes up on the historical record in ancient Mesopotamia, around 3200 BC, it's already happened. There's an elaborate system of money of account and complex credit systems. (Money as medium of exchange or as a standardized circulating units of gold, silver, bronze or whatever, only comes much later.)

So really, rather than the standard story – first there's barter, then money, then finally credit comes out of that – if anything its precisely the other way around. Credit and debt comes first, then coinage emerges thousands of years later and then, when you do find "I'll give you twenty chickens for that cow" type of barter systems, it's usually when there used to be cash markets, but for some reason – as in Russia, for example, in 1998 – the currency collapses or disappears.

PP: You say that by the time historical records start to be written in the Mesopotamia around 3200 BC a complex financial architecture is already in place. At the same time is society divided into classes of debtors and creditors? If not then when does this occur? And do you see this as the most fundamental class division in human history?

DG: Well historically, there seem to have been two possibilities.

One is what you found in Egypt: a strong centralized state and administration extracting taxes from everyone else. For most of Egyptian history they never developed the habit of lending money at interest. Presumably, they didn't have to.

Mesopotamia was different because the state emerged unevenly and incompletely. At first there were giant bureaucratic temples, then also palace complexes, but they weren't exactly governments and they didn't extract direct taxes – these were considered appropriate only for conquered populations. Rather they were huge industrial complexes with their own land, flocks and factories. This is where money begins as a unit of account; it's used for allocating resources within these complexes.

Interest-bearing loans, in turn, probably originated in deals between the administrators and merchants who carried, say, the woollen goods produced in temple factories (which in the very earliest period were at least partly charitable enterprises, homes for orphans, refugees or disabled people for instance) and traded them to faraway lands for metal, timber, or lapis lazuli. The first markets form on the fringes of these complexes and appear to operate largely on credit, using the temples' units of account. But this gave the merchants and temple administrators and other well-off types the opportunity to make consumer loans to farmers, and then, if say the harvest was bad, everybody would start falling into debt-traps.

This was the great social evil of antiquity – families would have to start pawning off their flocks, fields and before long, their wives and children would be taken off into debt peonage. Often people would start abandoning the cities entirely, joining semi-nomadic bands, threatening to come back in force and overturn the existing order entirely. Rulers would regularly conclude the only way to prevent complete social breakdown was to declare a clean slate or 'washing of the tablets,' they'd cancel all consumer debt and just start over. In fact, the first recorded word for 'freedom' in any human language is the Sumerian amargi, a word for debt-freedom, and by extension freedom more generally, which literally means 'return to mother,' since when they declared a clean slate, all the debt peons would get to go home.

PP: You have noted in the book that debt is a moral concept long before it becomes an economic concept. You've also noted that it is a very ambivalent moral concept insofar as it can be both positive and negative. Could you please talk about this a little? Which aspect is more prominent?

DG: Well it tends to pivot radically back and forth.

One could tell the history like this: eventually the Egyptian approach (taxes) and Mesopotamian approach (usury) fuse together, people have to borrow to pay their taxes and debt becomes institutionalized.

Taxes are also key to creating the first markets that operate on cash, since coinage seems to be invented or at least widely popularized to pay soldiers – more or less simultaneously in China, India, and the Mediterranean, where governments find the easiest way to provision the troops is to issue them standard-issue bits of gold or silver and then demand everyone else in the kingdom give them one of those coins back again. Thus we find that the language of debt and the language of morality start to merge.

In Sanskrit, Hebrew, Aramaic, 'debt,' 'guilt,' and 'sin' are actually the same word. Much of the language of the great religious movements – reckoning, redemption, karmic accounting and the like – are drawn from the language of ancient finance. But that language is always found wanting and inadequate and twisted around into something completely different. It's as if the great prophets and religious teachers had no choice but to start with that kind of language because it's the language that existed at the time, but they only adopted it so as to turn it into its opposite: as a way of saying debts are not sacred, but forgiveness of debt, or the ability to wipe out debt, or to realize that debts aren't real – these are the acts that are truly sacred.

How did this happen? Well, remember I said that the big question in the origins of money is how a sense of obligation – an 'I owe you one' – turns into something that can be precisely quantified? Well, the answer seems to be: when there is a potential for violence. If you give someone a pig and they give you a few chickens back you might think they're a cheapskate, and mock them, but you're unlikely to come up with a mathematical formula for exactly how cheap you think they are. If someone pokes out your eye in a fight, or kills your brother, that's when you start saying, "traditional compensation is exactly twenty-seven heifers of the finest quality and if they're not of the finest quality, this means war!"

Money, in the sense of exact equivalents, seems to emerge from situations like that, but also, war and plunder, the disposal of loot, slavery. In early Medieval Ireland, for example, slave-girls were the highest denomination of currency. And you could specify the exact value of everything in a typical house even though very few of those items were available for sale anywhere because they were used to pay fines or damages if someone broke them.

But once you understand that taxes and money largely begin with war it becomes easier to see what really happened. After all, every Mafiosi understands this. If you want to take a relation of violent extortion, sheer power, and turn it into something moral, and most of all, make it seem like the victims are to blame, you turn it into a relation of debt. "You owe me, but I'll cut you a break for now…" Most human beings in history have probably been told this by their debtors. And the crucial thing is: what possible reply can you make but, "wait a minute, who owes what to who here?" And of course for thousands of years, that's what the victims have said, but the moment you do, you are using the rulers' language, you're admitting that debt and morality really are the same thing. That's the situation the religious thinkers were stuck with, so they started with the language of debt, and then they tried to turn it around and make it into something else.

PP: You'd be forgiven for thinking this was all very Nietzschean. In his 'On the Genealogy of Morals' the German philosopher Friedrich Nietzsche famously argued that all morality was founded upon the extraction of debt under the threat of violence. The sense of obligation instilled in the debtor was, for Nietzsche, the origin of civilisation itself. You've been studying how morality and debt intertwine in great detail. How does Nietzsche's argument look after over 100 years? And which do you see as primal: morality or debt?

DG: Well, to be honest, I've never been sure if Nietzsche was really serious in that passage or whether the whole argument is a way of annoying his bourgeois audience; a way of pointing out that if you start from existing bourgeois premises about human nature you logically end up in just the place that would make most of that audience most uncomfortable.

In fact, Nietzsche begins his argument from exactly the same place as Adam Smith: human beings are rational. But rational here means calculation, exchange and hence, trucking and bartering; buying and selling is then the first expression of human thought and is prior to any sort of social relations.

But then he reveals exactly why Adam Smith had to pretend that Neolithic villagers would be making transactions through the spot trade. Because if we have no prior moral relations with each other, and morality just emerges from exchange, then ongoing social relations between two people will only exist if the exchange is incomplete – if someone hasn't paid up.

But in that case, one of the parties is a criminal, a deadbeat and justice would have to begin with the vindictive punishment of such deadbeats. Thus he says all those law codes where it says 'twenty heifers for a gouged-out eye' – really, originally, it was the other way around. If you owe someone twenty heifers and don't pay they gouge out your eye. Morality begins with Shylock's pound of flesh.

Needless to say there's zero evidence for any of this – Nietzsche just completely made it up. The question is whether even he believed it. Maybe I'm an optimist, but I prefer to think he didn't.

Anyway it only makes sense if you assume those premises; that all human interaction is exchange, and therefore, all ongoing relations are debts. This flies in the face of everything we actually know or experience of human life. But once you start thinking that the market is the model for all human behavior, that's where you end up with.

If however you ditch the whole myth of barter, and start with a community where people do have prior moral relations, and then ask, how do those moral relations come to be framed as 'debts' – that is, as something precisely quantified, impersonal, and therefore, transferrable – well, that's an entirely different question. In that case, yes, you do have to start with the role of violence.

PP: Interesting. Perhaps this is a good place to ask you about how you conceive your work on debt in relation to the great French anthropologist Marcel Mauss' classic work on gift exchange.

DG: Oh, in my own way I think of myself as working very much in the Maussian tradition. Mauss was one of the first anthropologists to ask: well, all right, if not barter, then what? What do people who don't use money actually do when things change hands? Anthropologists had documented an endless variety of such economic systems, but hadn't really worked out common principles. What Mauss noticed was that in almost all of them, everyone pretended as if they were just giving one another gifts and then they fervently denied they expected anything back. But in actual fact everyone understood there were implicit rules and recipients would feel compelled to make some sort of return.

What fascinated Mauss was that this seemed to be universally true, even today. If I take a free-market economist out to dinner he'll feel like he should return the favor and take me out to dinner later. He might even think that he is something of chump if he doesn't and this even if his theory tells him he just got something for nothing and should be happy about it. Why is that? What is this force that compels me to want to return a gift?

This is an important argument, and it shows there is always a certain morality underlying what we call economic life. But it strikes me that if you focus too much on just that one aspect of Mauss' argument you end up reducing everything to exchange again, with the proviso that some people are pretending they aren't doing that.

Mauss didn't really think of everything in terms of exchange; this becomes clear if you read his other writings besides 'The Gift'. Mauss insisted there were lots of different principles at play besides reciprocity in any society – including our own.

For example, take hierarchy. Gifts given to inferiors or superiors don't have to be repaid at all. If another professor takes our economist out to dinner, sure, he'll feel that he should reciprocate; but if an eager grad student does, he'll probably figure just accepting the invitation is favor enough; and if George Soros buys him dinner, then great, he did get something for nothing after all. In explicitly unequal relations, if you give somebody something, far from doing you a favor back, they're more likely to expect you to do it again.

Or take communistic relations – and I define this, following Mauss actually, as any ones where people interact on the basis of 'from each according to their abilities to each according to their needs'. In these relations people do not rely on reciprocity, for example, when trying to solve a problem, even inside a capitalist firm. (As I always say, if somebody working for Exxon says, "hand me the screwdriver," the other guy doesn't say, "yeah and what do I get for it?") Communism is in a way the basis of all social relations – in that if the need is great enough (I'm drowning) or the cost small enough (can I have a light?) everyone will be expected to act that way.

Anyway that's one thing I got from Mauss. There are always going to be lots of different sorts of principles at play simultaneously in any social or economic system – which is why we can never really boil these things down to a science. Economics tries to, but it does it by ignoring everything except exchange.

PP: Let's move onto economic theory then. Economics has some pretty specific theories about what money is. There's the mainstream approach that we discussed briefly above; this is the commodity theory of money in which specific commodities come to serve as a medium of exchange to replace crude barter economies. But there's also alternative theories that are becoming increasingly popular at the moment. One is the Circuitist theory of money in which all money is seen as a debt incurred by some economic agent. The other – which actually integrates the Circuitist approach – is the Chartalist theory of money in which all money is seen as a medium of exchange issued by the Sovereign and backed by the enforcement of tax claims. Maybe you could say something about these theories?

DG: One of my inspirations for 'Debt: The First 5,000 Years' was Keith Hart's essay 'Two Sides of the Coin'. In that essay Hart points out that not only do different schools of economics have different theories on the nature of money, but there is also reason to believe that both are right. Money has, for most of its history, been a strange hybrid entity that takes on aspects of both commodity (object) and credit (social relation.) What I think I've managed to add to that is the historical realization that while money has always been both, it swings back and forth – there are periods where credit is primary, and everyone adopts more or less Chartalist theories of money and others where cash tends to predominate and commodity theories of money instead come to the fore. We tend to forget that in, say, the Middle Ages, from France to China, Chartalism was just common sense: money was just a social convention; in practice, it was whatever the king was willing to accept in taxes.

PP: You say that history swings between periods of commodity money and periods of virtual money. Do you not think that we've reached a point in history where due to technological and cultural evolution we may have seen the end of commodity money forever?

DG: Well, the cycles are getting a bit tighter as time goes by. But I think we'll still have to wait at least 400 years to really find out. It is possible that this era is coming to an end but what I'm more concerned with now is the period of transition.

The last time we saw a broad shift from commodity money to credit money it wasn't a very pretty sight. To name a few we had the fall of the Roman Empire, the Kali Age in India and the breakdown of the Han dynasty… There was a lot of death, catastrophe and mayhem. The final outcome was in many ways profoundly libratory for the bulk of those who lived through it – chattel slavery, for example, was largely eliminated from the great civilizations. This was a remarkable historical achievement. The decline of cities actually meant most people worked far less. But still, one does rather hope the dislocation won't be quite so epic in its scale this time around. Especially since the actual means of destruction are so much greater this time around.

PP: Which do you see as playing a more important role in human history: money or debt?

DG: Well, it depends on your definitions. If you define money in the broadest sense, as any unit of account whereby you can say 10 of these are worth 7 of those, then you can't have debt without money. Debt is just a promise that can be quantified by means of money (and therefore, becomes impersonal, and therefore, transferable.) But if you are asking which has been the more important form of money, credit or coin, then probably I would have to say credit.

PP: Let's move on to some of the real world problems facing the world today. We know that in many Western countries over the past few years households have been running up enormous debts, from credit card debts to mortgages (the latter of which were one of the root causes of the recent financial crisis). Some economists are saying that economic growth since the Clinton era was essentially run on an unsustainable inflating of household debt. From an historical perspective what do you make of this phenomenon?

DG: From an historical perspective, it's pretty ominous. One could go further than the Clinton era, actually – a case could be made that we are seeing now is the same crisis we were facing in the 70s; it's just that we managed to fend it off for 30 or 35 years through all these elaborate credit arrangements (and of course, the super-exploitation of the global South, through the 'Third World Debt Crisis'.)

As I said Eurasian history, taken in its broadest contours, shifts back and forth between periods dominated by virtual credit money and those dominated by actual coin and bullion. The credit systems of the ancient Near East give way to the great slave-holding empires of the Classical world in Europe, India, and China, which used coinage to pay their troops. In the Middle Ages the empires go and so does the coinage – the gold and silver is mostly locked up in temples and monasteries – and the world reverts to credit. Then after 1492 or so you have the return world empires again; and gold and silver currency together with slavery, for that matter.

What's been happening since Nixon went off the gold standard in 1971 has just been another turn of the wheel – though of course it never happens the same way twice. However, in one sense, I think we've been going about things backwards. In the past, periods dominated by virtual credit money have also been periods where there have been social protections for debtors. Once you recognize that money is just a social construct, a credit, an IOU, then first of all what is to stop people from generating it endlessly? And how do you prevent the poor from falling into debt traps and becoming effectively enslaved to the rich? That's why you had Mesopotamian clean slates, Biblical Jubilees, Medieval laws against usury in both Christianity and Islam and so on and so forth.

Since antiquity the worst-case scenario that everyone felt would lead to total social breakdown was a major debt crisis; ordinary people would become so indebted to the top one or two percent of the population that they would start selling family members into slavery, or eventually, even themselves.

Well, what happened this time around? Instead of creating some sort of overarching institution to protect debtors, they create these grandiose, world-scale institutions like the IMF or S&P to protect creditors. They essentially declare (in defiance of all traditional economic logic) that no debtor should ever be allowed to default. Needless to say the result is catastrophic. We are experiencing something that to me, at least, looks exactly like what the ancients were most afraid of: a population of debtors skating at the edge of disaster.

And, I might add, if Aristotle were around today, I very much doubt he would think that the distinction between renting yourself or members of your family out to work and selling yourself or members of your family to work was more than a legal nicety. He'd probably conclude that most Americans were, for all intents and purposes, slaves.

PP: You mention that the IMF and S&P are institutions that are mainly geared toward extracting debts for creditors. This seems to have become the case in the European monetary union too. What do you make of the situation in Europe at the moment?

DG: Well, I think this is a prime example of why existing arrangements are clearly untenable. Obviously the 'whole debt' cannot be paid. But even when some French banks offered voluntary write-downs for Greece, the others insisted they would treat it as if it were a default anyway. The UK takes the even weirder position that this is true even of debts the government owes to banks that have been nationalized – that is, technically, that they owe to themselves! If that means that disabled pensioners are no longer able to use public transit or youth centers have to be closed down, well that's simply the 'reality of the situation,' as they put it.

These 'realities' are being increasingly revealed to simply be ones of power. Clearly any pretence that markets maintain themselves, that debts always have to be honored, went by the boards in 2008. That's one of the reasons I think you see the beginnings of a reaction in a remarkably similar form to what we saw during the heyday of the 'Third World debt crisis' – what got called, rather weirdly, the 'anti-globalization movement'. This movement called for genuine democracy and actually tried to practice forms of direct, horizontal democracy. In the face of this there was the insidious alliance between financial elites and global bureaucrats (whether the IMF, World Bank, WTO, now EU, or what-have-you).

When thousands of people begin assembling in squares in Greece and Spain calling for real democracy what they are effectively saying is: "Look, in 2008 you let the cat out of the bag. If money really is just a social construct now, a promise, a set of IOUs and even trillions of debts can be made to vanish if sufficiently powerful players demand it then, if democracy is to mean anything, it means that everyone gets to weigh in on the process of how these promises are made and renegotiated." I find this extraordinarily hopeful.

PP: Broadly speaking how do you see the present debt/financial crisis unravelling? Without asking you to peer into the proverbial crystal-ball – because that's a silly thing to ask of anyone – how do you see the future unfolding; in the sense of how do you take your bearings right now?

DG: For the long-term future, I'm pretty optimistic. We might have been doing things backwards for the last 40 years, but in terms of 500-year cycles, well, 40 years is nothing. Eventually there will have to be recognition that in a phase of virtual money, safeguards have to be put in place – and not just ones to protect creditors. How many disasters it will take to get there? I can't say.

But in the meantime there is another question to be asked: once we do these reforms, will the results be something that could even be called 'capitalism'?

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