

Chapter Twelve

(1971-The Beginning of Something Yet to Be Determined)

Look at all these bums: If only there were a way of finding out how much they owe.

—Repo Man (1984)

Free your mind of the idea of deserving, of the idea of earning, and you will begin to be able to think.

—Ursula K. Le Guin, *The Dispossessed*

ON AUGUST 15, 1971, United States President Richard Nixon announced that foreign-held U.S. dollars would no longer be convertible into gold—thus stripping away the last vestige of the international gold standard.¹ This was the end of a policy that had been effective since 1931, and confirmed by the Bretton Woods accords at the end of World War II: that while United States citizens might no longer be allowed to cash in their dollars for gold, all U.S. currency held outside the country was to be redeemable at the rate of \$35 an ounce. By doing so, Nixon initiated the regime of free-floating currencies that continues to this day.

The consensus among historians is that Nixon had little choice. His hand was forced by the rising costs of the Vietnam War—one that, like all capitalist wars, had been financed by deficit spending. The United States was in possession of a large proportion of the world's gold reserves in its vaults in Fort Knox (though increasingly less in the late 1960s, as other governments, most famously Charles de Gaulle's France, began demanding gold for their dollars); most poorer countries, in contrast, kept their reserves in dollars. The immediate effect of Nixon's unpegging the dollar was to cause the price of gold to skyrocket; it hit a peak of \$600 an ounce in 1980. This of course had the effect of causing U.S. gold reserves to increase dramatically in value.

The value of the dollar, as denominated in gold, plummeted. The result was a massive net transfer of wealth from poor countries, which lacked gold reserves, to rich ones, like the United States and Great Britain, that maintained them. In the United States, it also set off persistent inflation.

Whatever Nixon's reasons, though, once the global system of credit money was entirely unpegged from gold, the world entered a new phase of financial history—one that nobody completely understands. While I was growing up in New York, I would hear occasional rumors of secret gold vaults underneath the Twin Towers in Manhattan. Supposedly, these vaults contained not just the U.S. gold reserves, but those of all the major economic powers. The gold was said to be kept in the form of bars, piled up in separate vaults, one for each country, and every year, when the balance of accounts was calculated, workmen with dollies would adjust the stocks accordingly, carting, say, a few million in gold out of the vault marked "Brazil" and transferring them to the one marked "Germany," and so on.

Apparently a lot of people had heard these stories. At least, right after the Towers were destroyed on September 11, 2001, one of the first questions many New Yorkers asked was: What happened to the money? Was it safe? Were the vaults destroyed? Presumably, the gold had melted. Was this the real aim of the attackers? Conspiracy theories abounded. Some spoke of legions of emergency workers secretly summoned to make their way through miles of overheated tunnels, desperately carting off tons of bullion even as rescue workers labored overhead. One particularly colorful conspiracy theory suggested that the entire attack was really staged by speculators who, like Nixon, expected to see the value of the dollar crash and that of gold to skyrocket—either because the reserves had been destroyed, or because they themselves had laid prior plans to steal them.²

The truly remarkable thing about this story is that, after having believed it for years, and then, in the wake of 9/11, having been convinced by some more knowing friends that it was all a great myth ("No," one of them said resignedly, as if to a child, "the United States keeps its gold reserves in Fort Knox"), I did a little research and discovered that, no, actually, it's true. The United States treasury's gold reserves are indeed kept at Fort Knox, but the Federal Reserve's gold reserves, and those of more than one hundred other central banks, governments, and organizations, are stored in vaults under the Federal Reserve building at 33 Liberty Street in Manhattan, two blocks away from the Towers. At roughly five thousand metric tons (266 million troy ounces), these combined reserves represent, according to the Fed's own website,

somewhere between one-fifth and one-quarter of all the gold that has ever been taken from the earth.

The gold stored at the Federal Reserve Bank of New York is secured in a most unusual vault. It rests on the bedrock of Manhattan Island—one of the few foundations considered adequate to support the weight of the vault, its door, and the gold inside—eighty feet below street level and fifty feet below sea level . . . To reach the vault, bullion-laden pallets must be loaded into one of the Bank's elevators and sent down five floors below street level to the vault floor . . . If everything is in order, the gold is either moved to one or more of the vault's 122 compartments assigned to depositing countries and official international organizations or placed on shelves. "Gold stackers," using hydraulic lifts, do indeed shift them back and forth between compartments to balance credits and debts, though the vaults have only numbers, so even the workers don't know who is paying whom.³

There is no reason to believe, however, that these vaults were in any way affected by the events of September 11, 2001.

Reality, then, has become so odd that it's hard to guess which elements of grand mythic fantasies are really fantasy, and which are true. The image of collapsed vaults, the melted bullion, of secret workers scurrying deep below Manhattan with underground forklifts evacuating the world economy—all this turns out not to be. But is it entirely surprising that people were willing to consider it?⁴

In America, the banking system since the days of Thomas Jefferson has shown a remarkable capacity to inspire paranoid fantasies: whether centering on Freemasons, or Elders of Zion, or the Secret Order of the Illuminati, or the Queen of England's drug-money-laundering operations, or any of a thousand other secret conspiracies and cabals. It's the main reason why it took so long for an American central bank to be established to begin with. In a way there's nothing surprising here. The United States has always been dominated by a certain market populism, and the ability of banks to "create money out of nothing"—and even more, to prevent anyone else from doing so—has always been the bugaboo of market populists, since it directly contradicts the idea that markets are a simple expression of democratic equality. Still, since Nixon's floating of the dollar, it has become evident that it's *only* the wizard behind the screen who seems to be maintaining the viability of the whole arrangement. Under the free-market orthodoxy that followed, we have all being asked, effectively, to accept that "the market" is a self-regulating system, with the rising and falling of prices akin to a force of nature, and simultaneously to ignore the fact that, in the business pages, it is simply assumed that markets rise and fall mainly

in anticipation of, or reaction to, decisions regarding interest rates by Alan Greenspan, or Ben Bernanke, or whoever is currently the chairman of the Federal Reserve.⁵



One element, however, tends to go flagrantly missing in even the most vivid conspiracy theories about the banking system, let alone in official accounts: that is, the role of war and military power. There's a reason why the wizard has such a strange capacity to create money out of nothing. Behind him, there's a man with a gun.

True, in one sense, he's been there from the start. I have already pointed out that modern money is based on government debt, and that governments borrow money in order to finance wars. This is just as true today as it was in the age of King Phillip II. The creation of central banks represented a permanent institutionalization of that marriage between the interests of warriors and financiers that had already begun to emerge in Renaissance Italy, and that eventually became the foundation of financial capitalism.⁶

Nixon floated the dollar in order to pay for the cost of a war in which, during the period of 1970–1972 alone, he ordered more than four million tons of explosives and incendiaries dropped on cities and villages across Indochina—causing one senator to dub him “the greatest bomber of all time.”⁷ The debt crisis was a direct result of the need to pay for the bombs, or to be more precise, the vast military infrastructure required to deliver them. This was what was causing such an enormous strain on the U.S. gold reserves. Many hold that by floating the dollar, Nixon converted the U.S. currency into pure “fiat money”—mere pieces of paper, intrinsically worthless, that were treated as money only because the United States government insisted that it should be. In that case, one could well argue that U.S. military power was now the only thing backing up the currency. In a certain sense this is true, but the notion of “fiat money” assumes that money really “was” gold in the first place. Really we are dealing with another variation of credit money.

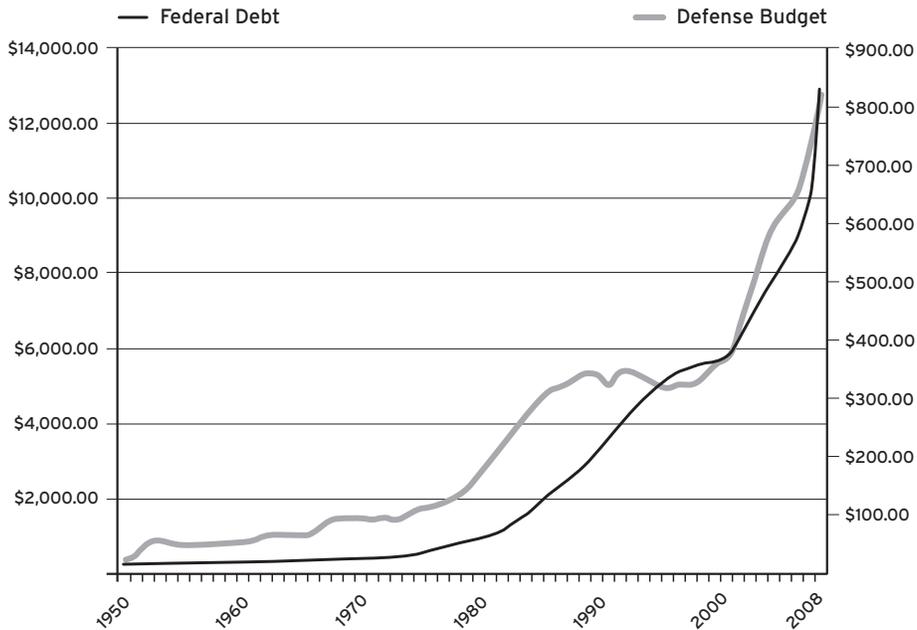
Contrary to popular belief, the U.S. government can't “just print money,” because American money is not issued by the government at all, but by private banks, under the aegis of the Federal Reserve System. The Federal Reserve—despite the name—is technically not part of the government at all, but a peculiar sort of public-private hybrid, a consortium of privately owned banks whose chairman is appointed by the United States president, with Congressional approval, but

which otherwise operates without public oversight. All dollar bills in circulation in America are “Federal Reserve Notes”—the Fed issues them as promissory notes, and commissions the U.S. mint to do the actual printing, paying it four cents for each bill.⁸ The arrangement is just a variation of the scheme originally pioneered by the Bank of England, whereby the Fed “loans” money to the United States government by purchasing treasury bonds, and then monetizes the U.S. debt by lending the money thus owed by the government to other banks.⁹ The difference is that while the Bank of England originally loaned the king gold, the Fed simply whisks the money into existence by saying that it’s there. Thus, it’s the Fed that has the power to print money.¹⁰ The banks that receive loans from the Fed are no longer permitted to print money themselves, but they are allowed to create virtual money by making loans at a fractional reserve rate established by the Fed—though in the wake of the current credit crisis, at time of this writing, there has been a move to remove even these restrictions.

All this is a bit of a simplification: monetary policy is endlessly arcane, and it does sometimes seem, intentionally so. (Henry Ford once remarked that if ordinary Americans ever found out how the banking system really worked, there would be a revolution tomorrow.) What is remarkable for present purposes is not so much that American dollars are created by banks, but that one apparently paradoxical result of Nixon’s floating the currency was that these bank-created dollars themselves replaced gold as the world’s reserve currency: that is, as the ultimate store of value in the world, yielding the United States enormous economic advantages.

Meanwhile, the U.S. debt remains, as it has been since 1790, a war debt: the United States continues to spend more on its military than do all other nations on earth put together, and military expenditures are not only the basis of the government’s industrial policy; they also take up such a huge proportion of the budget that by many estimations, were it not for them, the United States would not run a deficit at all.

The U.S. military, unlike any other, maintains a doctrine of global power projection: that it should have the ability, through roughly 800 overseas military bases, to intervene with deadly force absolutely anywhere on the planet. In a way, though, land forces are secondary; at least since World War II, the key to U.S. military doctrine has always been a reliance on air power. The United States has fought no war in which it did not control the skies, and it has relied on aerial bombardment far more systematically than any other military—in its recent occupation of Iraq, for instance, even going so far as to bomb residential neighborhoods of cities ostensibly under its own control. The essence



of U.S. military predominance in the world is, ultimately, the fact that it can, at will, drop bombs, with only a few hours' notice, at absolutely any point on the surface of the planet.¹¹ No other government has ever had anything remotely like this sort of capability. In fact, a case could well be made that it is this very power that holds the entire world monetary system, organized around the dollar, together.

Because of United States trade deficits, huge numbers of dollars circulate outside the country; and one effect of Nixon's floating of the dollar was that foreign central banks have little they can do with these dollars except to use them to buy U.S. treasury bonds.¹² This is what is meant by the dollar becoming the world's "reserve currency." These bonds are, like all bonds, supposed to be loans that will eventually mature and be repaid, but as economist Michael Hudson, who first began observing the phenomenon in the early '70s, noted, they never really do:

To the extent that these Treasury IOUs are being built into the world's monetary base they will not have to be repaid, but are to be rolled over indefinitely. This feature is the essence of America's free financial ride, a tax imposed at the entire globe's expense.¹³

What's more, over time, the combined effect of low interest payments and the inflation is that these bonds actually depreciate in

value—adding to the tax effect, or as I preferred to put it in the first chapter, “tribute.” Economists prefer to call it “seigniorage.” The effect, though, is that American imperial power is based on a debt that will never—can never—be repaid. Its national debt has become a promise, not just to its own people, but to the nations of the entire world, that everyone knows will not be kept.

At the same time, U.S. policy was to insist that those countries relying on U.S. treasury bonds as their reserve currency behaved in exactly the opposite way as they did: observing tight money policies and scrupulously repaying their debts.

As I’ve already observed, since Nixon’s time, the most significant overseas buyers of U.S. treasury bonds have tended to be banks in countries that were effectively under U.S. military occupation. In Europe, Nixon’s most enthusiastic ally in this respect was West Germany, which then hosted more than three hundred thousand U.S. troops. In more recent decades the focus has shifted to Asia, particularly the central banks of countries like Japan, Taiwan, and South Korea—again, all U.S. military protectorates. What’s more, the global status of the dollar is maintained in large part by the fact that it is, again since 1971, the only currency used to buy and sell petroleum, with any attempt by OPEC countries to begin trading in any currency stubbornly resisted by OPEC members Saudi Arabia and Kuwait—also U.S. military protectorates. When Saddam Hussein made the bold move of singlehandedly switching from the dollar to the euro in 2000, followed by Iran in 2001, this was quickly followed by American bombing and military occupation.¹⁴ How much Hussein’s decision to buck the dollar really weighed into the U.S. decision to depose him is impossible to know, but no country in a position to make a similar switch can ignore the possibility. The result, among policymakers particularly in the global South, is widespread terror.¹⁵



In all this, the advent of the free-floating dollar marks not a break with the alliance of warriors and financiers on which capitalism itself was originally founded, but its ultimate apotheosis. Neither has the return to virtual money led to a great return to relations of honor and trust: quite the contrary. By 1971, the change had only just begun. The American Express card, the first general-purpose credit card, had been invented a mere thirteen years before, and the modern national credit-card system had only really come into being with the advent of Visa and MasterCard in 1968. Debit cards were later, creatures of the

1970s, and the current, largely cashless economy only came into being in the 1990s. All of these new credit arrangements were mediated not by interpersonal relations of trust but by profit-seeking corporations, and one of the earliest and greatest political victories of the U.S. credit-card industry was the elimination of all legal restrictions on what they could charge as interest.

If history holds true, an age of virtual money should mean a movement away from war, empire-building, slavery, and debt peonage (waged or otherwise), and toward the creation of some sort of overarching institutions, global in scale, to protect debtors. What we have seen so far is the opposite. The new global currency is rooted in military power even more firmly than the old was. Debt peonage continues to be the main principle of recruiting labor globally: either in the literal sense, in much of East Asia or Latin America, or in the subjective sense, whereby most of those working for wages or even salaries feel that they are doing so primarily to pay off interest-bearing loans. The new transportation and communications technologies have just made it easier, making it possible to charge domestics or factory workers thousands of dollars in transportation fees, and then have them work off the debt in distant countries where they lack legal protections.¹⁶ Insofar as overarching grand cosmic institutions have been created that might be considered in any way parallel to the divine kings of the ancient Middle East or the religious authorities of the Middle Ages, they have not been created to protect debtors, but to enforce the rights of creditors. The International Monetary Fund is only the most dramatic case in point here. It stands at the pinnacle of a great, emerging global bureaucracy—the first genuinely global administrative system in human history, enshrined not only in the United Nations, the World Bank, and the World Trade Organization, but also the endless host of economic unions and trade organizations and non-governmental organizations that work in tandem with them—created largely under U.S. patronage. All of them operate on the principle that (unless one is the United States Treasury), “one has to pay one’s debts”—since the specter of default by any country is assumed to imperil the entire world monetary system, threatening, in Addison’s colorful image, to turn all the world’s sacks of (virtual) gold into worthless sticks and paper.

All true. Still, we are speaking of a mere forty years here. But Nixon’s gambit, what Hudson calls “debt imperialism,” has already come under considerable strain. The first casualty was precisely the imperial bureaucracy dedicated to the protection of creditors (other than those that were owed money by the United States). IMF policies of insisting that debts be repaid almost exclusively from the pockets

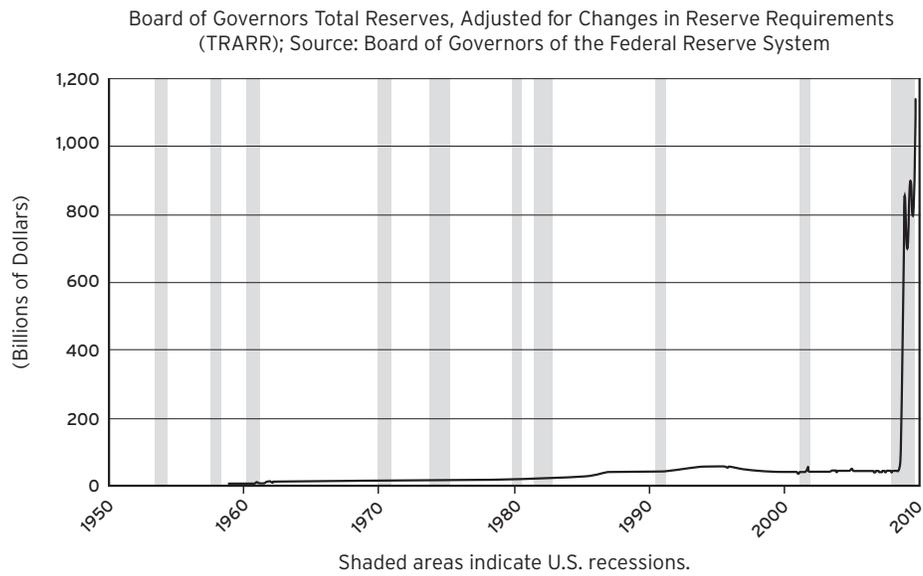
of the poor were met by an equally global movement of social rebellion (the so-called “anti-globalization movement”—though the name is profoundly deceptive), followed by outright fiscal rebellion in both East Asia and Latin America. By 2000, East Asian countries had begun a systematic boycott of the IMF. In 2002, Argentina committed the ultimate sin: they defaulted—and got away with it. Subsequent U.S. military adventures were clearly meant to terrify and overawe, but they do not appear to have been very successful: partly because, to finance them, the United States had to turn not just to its military clients, but increasingly, to China, its chief remaining military rival. After the near-total collapse of the U.S. financial industry, which despite having been very nearly granted rights to make up money at will, *still* managed to end up with trillions in liabilities it could not pay, bringing the world economy to a standstill, eliminating even the pretense that debt imperialism guaranteed stability.

Just to give a sense of how extreme a financial crisis we are talking about, here are some statistical charts culled from the pages of the St. Louis Federal Reserve web page.¹⁷

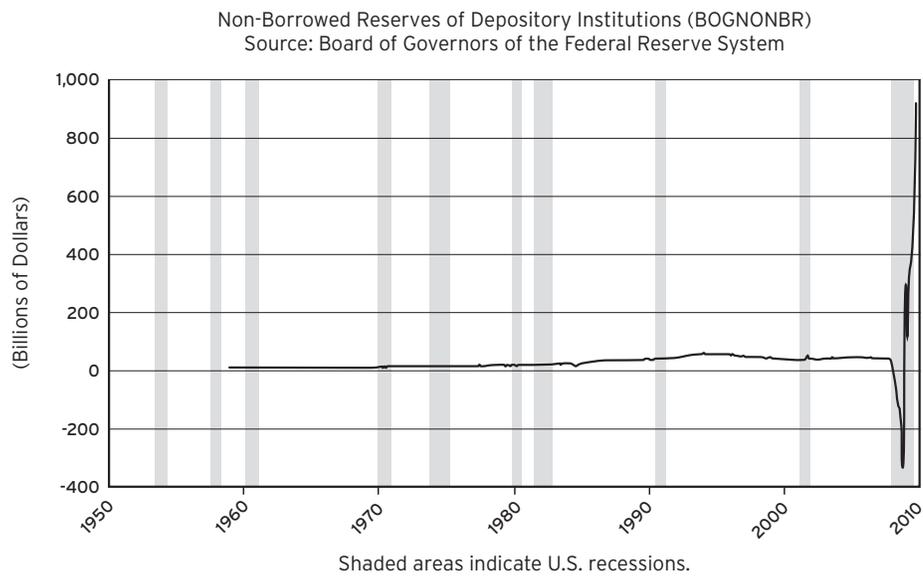
Here is the amount of U.S. debt held overseas:



Meanwhile, private U.S. banks reacted to the crash by abandoning any pretense that we are dealing with a market economy, shifting all available assets into the coffers of the Federal Reserve itself, which purchased U.S. Treasuries:



Allowing them, through yet another piece of arcane magic that none of us could possibly understand, to end up, after an initial near-\$400-billion dip, with far larger reserves than they had ever had before.



At this point, some U.S. creditors clearly feel they are finally in a position to demand that their own political agendas be taken into account.

CHINA WARNS U.S. ABOUT DEBT MONETIZATION

Seemingly everywhere he went on a recent tour of China, Dallas Fed President Richard Fisher was asked to deliver a message to Federal Reserve Chairman Ben Bernanke: “stop creating credit out of thin air to purchase U.S. Treasuries.”¹⁸

Again, it’s never clear whether the money siphoned from Asia to support the U.S. war machine is better seen as “loans” or as “tribute.” Still, the sudden advent of China as a major holder of U.S. treasury bonds has clearly altered the dynamic. Some might question why, if these really are tribute payments, the United States’ major rival would be buying treasury bonds to begin with—let alone agreeing to various tacit monetary arrangements to maintain the value of the dollar, and hence, the buying power of American consumers.¹⁹ But I think this is a perfect case in point of why taking a very long-term historical perspective can be so helpful.

From a longer-term perspective, China’s behavior isn’t puzzling at all. In fact it’s quite true to form. The unique thing about the Chinese empire is that it has, since the Han dynasty at least, adopted a peculiar sort of tribute system whereby, in exchange for recognition of the Chinese emperor as world-sovereign, they have been willing to shower their client states with gifts far greater than they receive in return. The technique seems to have been developed almost as a kind of trick when dealing with the “northern barbarians” of the steppes, who always threatened Chinese frontiers: a way to overwhelm them with such luxuries that they would become complacent, effeminate, and unwarlike. It was systematized in the “tribute trade” practiced with client states like Japan, Taiwan, Korea, and various states of Southeast Asia, and for a brief period from 1405 to 1433, it even extended to a world scale, under the famous eunuch admiral Zheng He. He led a series of seven expeditions across the Indian Ocean, his great “treasure fleet”—in dramatic contrast to the Spanish treasure fleets of a century later—carrying not only thousands of armed marines, but endless quantities of silks, porcelain, and other Chinese luxuries to present to those local rulers willing to recognize the authority of the emperor.²⁰ All this was ostensibly rooted in an ideology of extraordinary chauvinism (“What could these barbarians possibly have that we really need, anyway?”), but, applied to China’s neighbors, it proved extremely wise policy for a wealthy empire surrounded by much smaller but potentially troublesome kingdoms. In fact, it was such wise policy that the U.S. government, during the Cold War, more or less had to adopt it,

creating remarkably favorable terms of trade for those very states—Korea, Japan, Taiwan, certain favored allies in Southeast Asia—that had been the traditional Chinese tributaries; in this case, in order to contain China.²¹

Bearing all this in mind, the current picture begins to fall easily back into place. When the United States was far and away the predominant world economic power, it could afford to maintain Chinese-style tributaries. Thus these very states, alone amongst U.S. military protectorates, were allowed to catapult themselves out of poverty and into first-world status.²² After 1971, as U.S. economic strength relative to the rest of the world began to decline, they were gradually transformed back into a more old-fashioned sort of tributary. Yet China's getting in on the game introduced an entirely new element. There is every reason to believe that, from China's point of view, this is the first stage of a very long process of reducing the United States to something like a traditional Chinese client state. And of course, Chinese rulers are not, any more than the rulers of any other empire, motivated primarily by benevolence. There is always a political cost, and what that headline marked was the first glimmerings of what that cost might ultimately be.



All that I have said so far merely serves to underline a reality that has come up constantly over the course of this book: that money has no essence. It's not "really" anything; therefore, its nature has always been and presumably always will be a matter of political contention. This was certainly true throughout earlier stages of U.S. history, incidentally—as the endless nineteenth-century battles between goldbugs, greenbackers, free bankers, bi-metallists and silverites so vividly attest—or, for that matter, the fact that American voters were so suspicious of the very idea of central banks that the Federal Reserve system was only created on the eve of World War I, three centuries after the Bank of England. Even the monetization of the national debt is, as I've already noted, double-edged. It can be seen—as Jefferson saw it—as the ultimate pernicious alliance of warriors and financiers; but it also opened the way to seeing government itself as a moral debtor, of freedom as something literally owed to the nation. Perhaps no one put it so eloquently as Martin Luther King Jr., in his "I Have a Dream" speech, delivered on the steps of the Lincoln Memorial in 1963:

In a sense we've come to our nation's capital to cash a check.
When the architects of our republic wrote the magnificent words

of the Constitution and the Declaration of Independence, they were signing a promissory note to which every American was to fall heir. This note was a promise that all men, yes, black men as well as white men, would be guaranteed the “unalienable Rights” of “Life, Liberty and the pursuit of Happiness.” It is obvious today that America has defaulted on this promissory note, insofar as her citizens of color are concerned. Instead of honoring this sacred obligation, America has given the Negro people a bad check, a check which has come back marked “insufficient funds.”

One can see the great crash of 2008 in the same light—as the outcome of years of political tussles between creditors and debtors, rich and poor. True, on a certain level, it was exactly what it seemed to be: a scam, an incredibly sophisticated Ponzi scheme designed to collapse in the full knowledge that the perpetrators would be able to force the victims to bail them out. On another level it could be seen as the culmination of a battle over the very definition of money and credit.

By the end of World War II, the specter of an imminent working-class uprising that had so haunted the ruling classes of Europe and North America for the previous century had largely disappeared. This was because class war was suspended by a tacit settlement. To put it crudely: the white working class of the North Atlantic countries, from the United States to West Germany, were offered a deal. If they agreed to set aside any fantasies of fundamentally changing the nature of the system, then they would be allowed to keep their unions, enjoy a wide variety of social benefits (pensions, vacations, health care . . .), and, perhaps most important, through generously funded and ever-expanding public educational institutions, know that their children had a reasonable chance of leaving the working class entirely. One key element in all this was a tacit guarantee that increases in workers’ productivity would be met by increases in wages: a guarantee that held good until the late 1970s. Largely as a result, the period saw both rapidly rising productivity and rapidly rising incomes, laying the basis for the consumer economy of today.

Economists call this the “Keynesian era” since it was a time in which John Maynard Keynes’ economic theories, which already formed the basis of Roosevelt’s New Deal in the United States, were adopted by industrial democracies pretty much everywhere. With them came Keynes’ rather casual attitude toward money. The reader will recall that Keynes fully accepted that banks do, indeed, create money “out of thin air,” and that for this reason, there was no intrinsic reason that

government policy should not encourage this during economic downturns as a way of stimulating demand—a position that had long been dear to the heart of debtors and anathema to creditors.

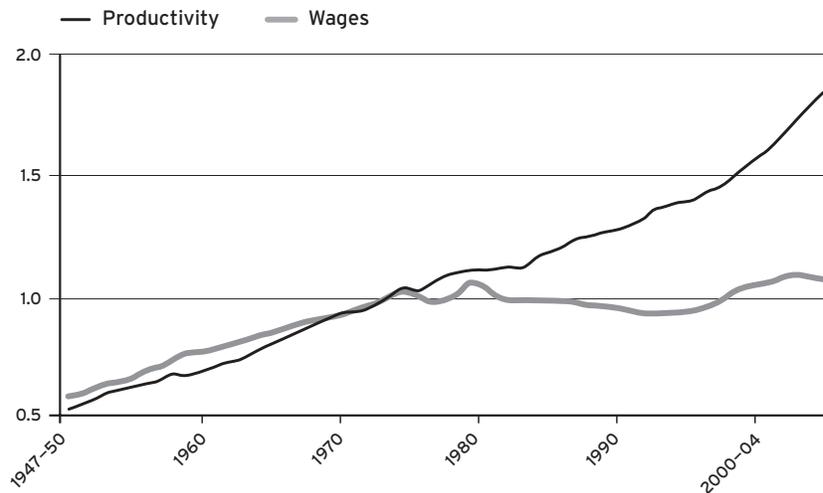
Keynes himself had in his day been known to make some fairly radical noises, for instance calling for the complete elimination of that class of people who lived off other people's debts—the “the euthanasia of the rentier,” as he put it—though all he really meant by this was their elimination through a gradual reduction of interest rates. As in so much of Keynesianism, this was much less radical than it first appeared. Actually it was thoroughly in the great tradition of political economy, hearkening back to Adam Smith's ideal of a debtless utopia but especially David Ricardo's condemnation of landlords as parasites, their very existence inimical to economic growth. Keynes was simply proceeding along the same lines, seeing rentiers as a feudal holdover inconsistent with the true spirit of capital accumulation. Far from a revolution, he saw it as the best way of avoiding one:

I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden . . . and will need no revolution.²³

When the Keynesian settlement was finally put into effect, after World War II, it was offered only to a relatively small slice of the world's population. As time went on, more and more people wanted in on the deal. Almost all of the popular movements of the period from 1945 to 1975, even perhaps revolutionary movements, could be seen as demands for inclusion: demands for political equality that assumed equality was meaningless without some level of economic security. This was true not only of movements by minority groups in North Atlantic countries who had first been left out of the deal—such as those for whom Dr. King spoke—but what were then called “national liberation” movements from Algeria to Chile, or, finally, and perhaps most dramatically, in the late 1960s and 1970s, feminism. At some point in the '70s, things reached a breaking point. It would appear that capitalism, as a system, simply cannot extend such a deal to everyone. Quite possibly it wouldn't even remain viable if all its workers were free wage laborers; certainly it will never be able to provide everyone in the world the sort of life lived by, say, a 1960s auto worker in Michigan or Turin

with his own house, garage, and children in college—and this was true even before so many of those children began demanding less stultifying lives. The result might be termed a crisis of inclusion. By the late 1970s, the existing order was clearly in a state of collapse, plagued simultaneously by financial chaos, food riots, oil shock, widespread doomsday prophecies of the end of growth and ecological crisis—all of which, it turned out, proved to be ways of putting the populace on notice that all deals were off.

The moment that we start framing the story this way, it's easy to see that the next thirty years, the period from roughly 1978 to 2009, follows nearly the same pattern. Except that the deal, the settlement, had changed. Certainly, when both Ronald Reagan in the United States and Margaret Thatcher in the UK launched a systematic attack on the power of labor unions, as well as on the legacy of Keynes, it was a way of explicitly declaring that all previous deals were off. Everyone could now have political rights—even, by the 1990s, most everyone in Latin America and Africa—but political rights were to become economically meaningless. The link between productivity and wages was chopped to bits: productivity rates have continued to rise, but wages have stagnated or even atrophied.²⁴



This was accompanied, at first, by a return to “monetarism”: the doctrine that even though money was no longer in any way based in gold, or in any other commodity, government and central-bank policy should be primarily concerned with carefully controlling the money supply to ensure that it acted *as if* it were a scarce commodity. Even as, at the same time, the financialization of capital meant that most money

being invested in the marketplace was completely detached from any relation to production of commerce at all, but had become pure speculation.

All this is not to say that the people of the world were not being offered something: just that, as I say, the terms had changed. In the new dispensation, wages would no longer rise, but workers were encouraged to buy a piece of capitalism. Rather than euthanize the rentiers, *everyone* could now become rentiers—effectively, could grab a chunk of the profits created by their own increasingly dramatic rates of exploitation. The means were many and familiar. In the United States, there were 401(k) retirement accounts and an endless variety of other ways of encouraging ordinary citizens to play the market; but at the same time, encouraging them to borrow. One of the guiding principles of Thatcherism and Reaganism alike was that economic reforms would never gain widespread support unless ordinary working people could at least aspire to owning their own homes; to this was added, by the 1990s and 2000s, endless mortgage-refinancing schemes that treated houses, whose value it was assumed would only rise, “like ATMs”—as the popular catchphrase had it, though it turns out, in retrospect, it was really more like credit cards. Then there was the proliferation of actual credit cards, juggled against one another. Here, for many, “buying a piece of capitalism” slithered undetectably into something indistinguishable from those familiar scourges of the working poor: the loan shark and the pawnbroker. It did not help here that in 1980, U.S. federal usury laws, which had previously limited interest to between 7 and 10 percent, were eliminated by act of Congress. Just as the United States had managed to largely get rid of the problem of political corruption by making the bribery of legislators effectively legal (it was redefined as “lobbying”), so the problem of loan-sharking was brushed aside by making real interest rates of 25 percent, 50 percent, or even in some cases (for instance for payday loans) 120 percent annually, once typical only of organized crime, perfectly legal—and therefore, enforceable no longer by just hired goons and the sort of people who place mutilated animals on their victims’ doorsteps, but by judges, lawyers, bailiffs, and police.²⁵

Any number of names have been coined to describe the new dispensation, from the “democratization of finance” to the “financialization of everyday life.”²⁶ Outside the United States, it came to be known as “neoliberalism.” As an ideology, it meant that not just the market, but capitalism (I must continually remind the reader that these are not the same thing) became the organizing principle of almost everything. We were all to think of ourselves as tiny corporations, organized

around that same relationship of investor and executive: between the cold, calculating math of the banker, and the warrior who, indebted, has abandoned any sense of personal honor and turned himself into a kind of disgraced machine.

In this world, “paying one’s debts” can well come to seem the very definition of morality, if only because so many people fail to do it. For instance, it has become a regular feature of many sorts of business in America that large corporations or even some small businesses, faced with a debt, will almost automatically simply see what happens if they do not pay—complying only if reminded, goaded, or presented with some sort of legal writ. In other words, the principle of honor has thus been almost completely removed from the marketplace.²⁷ As a result, perhaps, the whole subject of debt becomes surrounded by a halo of religion.

Actually, one might even speak of a double theology, one for the creditors, another for the debtors. It is no coincidence that the new phase of American debt imperialism has also been accompanied by the rise of the evangelical right, who—in defiance of almost all previously existing Christian theology—have enthusiastically embraced the doctrine of “supply-side economics,” that creating money and effectively giving it to the rich is the most Biblically appropriate way to bring about national prosperity. Perhaps the most ambitious theologian of the new creed was George Gilder, whose book *Wealth and Poverty* became a best-seller in 1981, at the very dawn of what came to be known as the Reagan Revolution. Gilder’s argument was that those who felt that money could not simply be created were mired in an old-fashioned, godless materialism that did not realize that just as God could create something out of nothing, His greatest gift to humanity was creativity itself, which proceeded in exactly the same way. Investors can indeed create value out of nothing by their willingness to accept the risk entailed in placing their faith in others’ creativity. Rather than seeing the imitation of God’s powers of creation *ex nihilo* as hubris, Gilder argued that it was precisely what God intended: the creation of money was a gift, a blessing, a channeling of grace; a promise, yes, but not one that can be fulfilled, even if the bonds are continually rolled over, because through faith (“in God we trust” again) their value becomes reality:

Economists who themselves do not believe in the future of capitalism will tend to ignore the dynamics of chance and faith that largely will determine that future. Economists who distrust religion will always fail to comprehend the modes of worship

by which progress is achieved. Chance is the foundation of change and the vessel of the divine.²⁸

Such effusions inspired evangelists like Pat Robertson to declare supply-side economics “the first truly divine theory of money-creation.”²⁹

Meanwhile, for those who could not simply create money, there was a quite different theological dispensation. “Debt is the new fat,” Margaret Atwood recently remarked, struck by how much the advertisements that surround her daily on the bus in her native Toronto had abandoned their earlier attempts to make riders panic about the creeping terrors of sexual unattractiveness, but instead turned to providing advice on how to free oneself from the much more immediate terrors of the repo man:

There are even debt TV shows, which have a familiar religious-revival ring to them. There are accounts of shopaholic binges during which you don’t know what came over you and everything was a blur, with tearful confessions by those who’ve spent themselves into quivering insomniac jellies of hopeless indebtedness, and have resorted to lying, cheating, stealing, and kiting cheques between bank accounts as a result. There are testimonials by families and loved ones whose lives have been destroyed by the debtor’s harmful behaviour. There are compassionate but severe admonitions by the television host, who here plays the part of priest or revivalist. There’s a moment of seeing the light, followed by repentance and a promise never to do it again. There’s a penance imposed—*snip, snip* go the scissors on the credit cards—followed by a strict curb-on-spending regimen; and finally, if all goes well, the debts are paid down, the sins are forgiven, absolution is granted, and a new day dawns, in which a sadder but more solvent man you rise the morrow morn.³⁰

Here, risk-taking is in no sense the vessel of the divine. Quite the opposite. But for the poor it’s always different. In a way, what Atwood describes might be seen as the perfect inversion of the prophetic voice of Reverend King’s “I Have a Dream” speech: whereas the first postwar age was about collective claims on the nation’s debt to its humblest citizens, the need for those who have made false promises to redeem themselves, now those same humble citizens are taught to think of themselves as sinners, seeking some kind of purely individual

redemption to have the right to any sort of moral relations with other human beings at all.

At the same time, there is something profoundly deceptive going on here. All these moral dramas start from the assumption that personal debt is ultimately a matter of self-indulgence, a sin against one's loved ones—and therefore, that redemption must necessarily be a matter of purging and restoration of ascetic self-denial. What's being shunted out of sight here is first of all the fact that *everyone* is now in debt (U.S. household debt is now estimated at on average 130 percent of income), and that very little of this debt was accrued by those determined to find money to bet on the horses or toss away on fripperies. Insofar as it was borrowed for what economists like to call discretionary spending, it was mainly to be given to children, to share with friends, or otherwise to be able to build and maintain relations with other human beings that are based on *something* other than sheer material calculation.³¹ One must go into debt to achieve a life that goes in any way beyond sheer survival.

Insofar as there is a politics, here, it seems a variation on a theme seen since the dawn of capitalism. Ultimately, it's sociality itself that's treated as abusive, criminal, demonic. To this, most ordinary Americans—including Black and Latino Americans, recent immigrants, and others who were formerly excluded from credit—have responded with a stubborn insistence on continuing to love one another. They continue to acquire houses for their families, liquor and sound systems for parties, gifts for friends; they even insist on continuing to hold weddings and funerals, regardless of whether this is likely to send them skirting default or bankruptcy—apparently figuring that, as long as everyone now has to remake themselves as miniature capitalists, why shouldn't they be allowed to create money out of nothing too?

Granted, the role of discretionary spending itself should not be exaggerated. The chief cause of bankruptcy in America is catastrophic illness; most borrowing is simply a matter of survival (if one does not have a car, one cannot work); and increasingly, simply being able to go to college now almost necessarily means debt peonage for at least half one's subsequent working life.³² Still, it is useful to point out that for real human beings survival is rarely enough. Nor should it be.

By the 1990s, the same tensions had begun to reappear on a global scale, as the older penchant for loaning money for grandiose, state-directed projects like the Aswan Dam gave way to an emphasis on microcredit. Inspired by the success of the Grameen Bank in Bangladesh, the new model was to identify budding entrepreneurs in poor communities and provide them with small low-interest loans. "Credit,"

the Grameen Bank insisted, “is a human right.” At the same time the idea was to draw on the “social capital”—the knowledge, networks, connections, and ingenuity that the poor people of the world are already using to get by in difficult circumstances—and convert it into a way of generating even more (expansive) capital, able to grow at 5 to 20 percent annually.

As anthropologists like Julia Elyachar discovered, the result is double-edged. As one unusually candid NGO consultant explained to her in Cairo in 1995:

Money is empowerment. This is empowerment money. You need to be big, need to think big. Borrowers here can be imprisoned if they don't pay, so why be worried?

In America we get ten offers for credit cards in the mail every day. You pay incredible real interest rates for that credit, something like 40 percent. But the offer is there, so you get the card, and stuff your wallet full of credit cards. You feel good. It should be the same thing here, why not help them get into debt? Do I really care what they use the money for, as long as they pay the loan back?³³

The very incoherence of the quote is telling. The only unifying theme seems to be: people *ought* to be in debt. It's good in itself. It's empowering. Anyway, if they end up too empowered, we can also have them arrested. Debt and power, sin and redemption, become almost indistinguishable. Freedom is slavery. Slavery is freedom. During her time in Cairo, Elyachar witnessed young graduates of an NGO training program go on strike for their right to receive start-up loans. At the same time, just about everyone involved took it for granted that most of their fellow students, not to mention everyone else involved in the program, was corrupt and exploiting the system as their personal cash cow. Here too, aspects of economic life that had been based on longstanding relations of trust were, through the intrusion of credit bureaucracies, becoming effectively criminalized.

Within another decade, the entire project—even in South Asia, where it began—began to appear suspiciously similar to the U.S. subprime mortgage crisis: all sorts of unscrupulous lenders piled in, all sorts of deceptive financial appraisals were passed off to investors, interest accumulated, borrowers tried to collectively refuse payment, lenders began sending in goons to seize what little wealth they had (corrugated tin roofs, for example), and the end result has been an

epidemic of suicides by poor farmers caught in traps from which their families could never, possibly, escape.³⁴

Just as in the 1945–1975 cycle, this new one culminated in another crisis of inclusion. It proved no more possible to really turn everyone in the world into micro-corporations, or to “democratize credit” in such a way that every family that wanted to could have a house (and if you think about it, if we have the means to build them, why shouldn’t they? are there families who don’t “deserve” houses?) than it had been to allow all wage laborers to have unions, pensions, and health benefits. Capitalism doesn’t work that way. It is ultimately a system of power and exclusion, and when it reaches the breaking point, the symptoms recur, just as they had in the 1970s: food riots, oil shock, financial crisis, the sudden startled realization that the current course was ecological unsustainable, attendant apocalyptic scenarios of every sort.

In the wake of the subprime collapse, the U.S. government was forced to decide who really gets to make money out of nothing: the financiers, or ordinary citizens. The results were predictable. Financiers were “bailed out with taxpayer money”—which basically means that their imaginary money was treated as if it were real. Mortgage holders were, overwhelmingly, left to the tender mercies of the courts, under a bankruptcy law that Congress had a year before (rather suspiciously presciently, one might add) made far more exacting against debtors. Nothing was altered. All major decisions were postponed. The Great Conversation that many were expecting never happened.



We live, now, at a genuinely peculiar historical juncture. The credit crisis has provided us with a vivid illustration of the principle set out in the last chapter: that capitalism cannot really operate in a world where people believe it will be around forever.

For most of the last several centuries, most people assumed that credit could not be generated infinitely because they assumed that the economic system itself was unlikely to endure forever. The future was likely to be fundamentally different. Yet somehow, the anticipated revolutions never happened. The basic structures of financial capitalism largely remained in place. It’s only now, at the very moment when it’s becoming increasingly clear that current arrangements are not viable, that we suddenly have hit the wall in terms of our collective imagination.

There is very good reason to believe that, in a generation or so, capitalism itself will no longer exist—most obviously, as ecologists

keep reminding us, because it's impossible to maintain an engine of perpetual growth forever on a finite planet, and the current form of capitalism doesn't seem to be capable of generating the kind of vast technological breakthroughs and mobilizations that would be required for us to start finding and colonizing any other planets. Yet faced with the prospect of capitalism actually ending, the most common reaction—even from those who call themselves “progressives”—is simply fear. We cling to what exists because we can no longer imagine an alternative that wouldn't be even worse.

How did we get here? My own suspicion is that we are looking at the final effects of the militarization of American capitalism itself. In fact, it could well be said that the last thirty years have seen the construction of a vast bureaucratic apparatus for the creation and maintenance of hopelessness, a giant machine designed, first and foremost, to destroy any sense of possible alternative futures. At its root is a veritable obsession on the part of the rulers of the world—in response to the upheavals of the 1960s and 1970s—with ensuring that social movements cannot be seen to grow, flourish, or propose alternatives; that those who challenge existing power arrangements can never, under any circumstances, be perceived to win.³⁵ To do so requires creating a vast apparatus of armies, prisons, police, various forms of private security firms and police and military intelligence apparatus, and propaganda engines of every conceivable variety, most of which do not attack alternatives directly so much as create a pervasive climate of fear, jingoistic conformity, and simple despair that renders any thought of changing the world seem an idle fantasy. Maintaining this apparatus seems even more important, to exponents of the “free market,” even than maintaining any sort of viable market economy. How else can one explain what happened in the former Soviet Union? One would ordinarily have imagined that the end of the Cold War would have led to the dismantling of the army and the KGB and rebuilding the factories, but in fact what happened was precisely the other way around. This is just an extreme example of what has been happening everywhere. Economically, the apparatus is pure dead weight; all the guns, surveillance cameras, and propaganda engines are extraordinarily expensive and really produce nothing, and no doubt it's yet another element dragging the entire capitalist system down—along with producing the illusion of an endless capitalist future that laid the groundwork for the endless bubbles to begin with. Finance capital became the buying and selling of chunks of that future, and economic freedom, for most of us, was reduced to the right to buy a small piece of one's own permanent subordination.

In other words, there seems to have been a profound contradiction between the political imperative of establishing capitalism as the only possible way to manage anything, and capitalism's own unacknowledged need to limit its future horizons lest speculation, predictably, go haywire. Once it did, and the whole machine imploded, we were left in the strange situation of not being able to even imagine any other way that things might be arranged. About the only thing we can imagine is catastrophe.



To begin to free ourselves, the first thing we need to do is to see ourselves again as historical actors, as people who can make a difference in the course of world events. This is exactly what the militarization of history is trying to take away.

Even if we are at the beginning of the turn of a very long historical cycle, it's still largely up to us to determine how it's going to turn out. For instance: the last time we shifted from a bullion economy to one of virtual credit money, at the end of the Axial Age and the beginning of the Middle Ages, the immediate shift was experienced largely as a series of great catastrophes. Will it be the same this time around? Presumably a lot depends on how consciously we set out to ensure that it won't be. Will a return to virtual money lead to a move away from empires and vast standing armies, and to the creation of larger structures limiting the depredations of creditors? There is good reason to believe that all these things will happen—and if humanity is to survive, they will probably have to—but we have no idea how long it will take, or what, if it does, it would really look like. Capitalism has transformed the world in many ways that are clearly irreversible. What I have been trying to do in this book is not so much to propose a vision of what, precisely, the next age will be like, but to throw open perspectives, enlarge our sense of possibilities; to begin to ask what it would mean to start thinking on a breadth and with a grandeur appropriate to the times.

Let me give an example. I've spoken of two cycles of popular movements since World War II: the first (1945–1978), about demanding the rights of national citizenship, the second (1978–2008), over access to capitalism itself. It seems significant here that in the Middle East, in the first round, those popular movements that most directly challenged the global status quo tended to be inspired by Marxism; in the second, largely, some variation on radical Islam. Considering that Islam has always placed debt at the center of its social doctrines, it's easy to understand the appeal. But why not throw things open even more

widely? Over the last five thousand years, there have been at least two occasions when major, dramatic moral and financial innovations have emerged from the country we now refer to as Iraq. The first was the invention of interest-bearing debt, perhaps sometime around 3000 BC; the second, around 800 AD, the development of the first sophisticated commercial system that explicitly rejected it. Is it possible that we are due for another? For most Americans, it will seem an odd question, since most Americans are used to thinking of Iraqis either as victims or fanatics (this is how occupying powers always think about the people they occupy), but it is worthy of note that the most prominent working-class Islamist movement opposed to the U.S. occupation, the Sadrists, take their name from one of the founders of contemporary Islamic economics, Muhammad Baqir al-Sadr. True, much of what has since come to pass for Islamic economics nowadays has proved decidedly unimpressive.³⁶ Certainly in no sense does it pose a direct challenge to capitalism. Still, one has to assume that among popular movements of this sort, all kinds of interesting conversations about, say, the status of wage labor must be taking place. Or perhaps it's naïve to look for any new breakthrough from the puritanical legacy of the old patriarchal rebellion. Perhaps it will come out of feminism. Or Islamic feminism. Or from some as yet completely unexpected quarter. Who's to say? The one thing we can be confident of is that history is not over, and that surprising new ideas will certainly emerge.



The one thing that's clear is that new ideas won't emerge without the jettisoning of much of our accustomed categories of thought—which have become mostly sheer dead weight, if not intrinsic parts of the very apparatus of hopelessness—and formulating new ones. This is why I spent so much of this book talking about the market, but also about the false choice between state and market that so monopolized political ideology for the last centuries that it made it difficult to argue about anything else.

The real history of markets is nothing like what we're taught to think it is. The earlier markets that we are able to observe appear to be spillovers, more or less; side effects of the elaborate administrative systems of ancient Mesopotamia. They operated primarily on credit. Cash markets arose through war: again, largely through tax and tribute policies that were originally designed to provision soldiers, but that later became useful in all sorts of other ways besides. It was only the Middle Ages, with their return to credit systems, that saw the first

manifestations of what might be called market populism: the idea that markets could exist beyond, against, and outside of states, as in those of the Muslim Indian Ocean—an idea that was later to reappear in China with the great silver revolts of the fifteenth century. It usually seems to arise in situations where merchants, for one reason or another, find themselves making common cause with common people against the administrative machinery of some great state. But market populism is always riddled with paradoxes, because it still does depend to some degree on the existence of that state, and above all, because it requires founding market relations, ultimately, in something other than sheer calculation: in the codes of honor, trust, and ultimately community and mutual aid, more typical of human economies.³⁷ This in turn means relegating competition to a relatively minor element. In this light, we can see that what Adam Smith ultimately did, in creating his debt-free market utopia, was to fuse elements of this unlikely legacy with that unusually militaristic conception of market behavior characteristic of the Christian West. In doing so he was surely prescient. But like all extraordinarily influential writers, he was also just capturing something of the emerging spirit of his age. What we have seen ever since is an endless political jockeying back and forth between two sorts of populism—state and market populism—without anyone noticing that they were talking about the left and right flanks of exactly the same animal.

The main reason that we're unable to notice, I think, is that the legacy of violence has twisted everything around us. War, conquest, and slavery not only played the central role in converting human economies into market ones; there is literally no institution in our society that has not been to some degree affected. The story told at the end of chapter 7, of how even our conceptions of "freedom" itself came to be transformed, through the Roman institution of slavery, from the ability to make friends, to enter into moral relations with others, into incoherent dreams of absolute power, is only perhaps the most dramatic instance—and most insidious, because it leaves it very hard to imagine what meaningful human freedom would even be like.³⁸

If this book has shown anything, it's exactly how much violence it has taken, over the course of human history, to bring us to a situation where it's even possible to imagine that that's what life is really about. Especially when one considers how much of our own daily experience flies directly in the face of it. As I've emphasized, communism may be the foundation of all human relations—that communism that, in our own daily life, manifests itself above all in what we call "love"—but there's always some sort of system of exchange, and usually, a system of hierarchy built on top of it. These systems of exchange can take

an endless variety of forms, many perfectly innocuous. Still, what we are speaking of here is a very particular type of calculating exchange. As I pointed out in the very beginning: the difference between owing someone a favor, and owing someone a debt, is that the amount of a debt can be precisely calculated. Calculation demands equivalence. And such equivalence—especially when it involves equivalence between human beings (and it always seems to start that way, because at first, human beings are always the ultimate values)—only seems to occur when people have been forcibly severed from their contexts, so much so that they can be treated as identical to something else, as in: “seven martin skins and twelve large silver rings for the return of your captured brother,” “one of your three daughters as surety for this loan of one hundred and fifty bushels of grain” . . .

This in turn leads to that great embarrassing fact that haunts all attempts to represent the market as the highest form of human freedom: that historically, impersonal, commercial markets originate in theft. More than anything else, the endless recitation of the myth of barter, employed much like an incantation, is the economists’ way of fending off any possibility of having to confront it. But even a moment’s reflection makes it obvious. Who was the first man to look at a house full of objects and to immediately assess them only in terms of what he could trade them in for in the market likely to have been? Surely, he can only have been a thief. Burglars, marauding soldiers, then perhaps debt collectors, were the first to see the world this way. It was only in the hands of soldiers, fresh from looting towns and cities, that chunks of gold or silver—melted down, in most cases, from some heirloom treasure, that like the Kashmiri gods, or Aztec breastplates, or Babylonian women’s ankle bracelets, was both a work of art and a little compendium of history—could become simple, uniform bits of currency, with no history, valuable precisely for their lack of history, because they could be accepted anywhere, no questions asked. And it continues to be true. Any system that reduces the world to numbers can only be held in place by weapons, whether these are swords and clubs, or nowadays, “smart bombs” from unmanned drones.

It can also only operate by continually converting love into debt. I know my use of the word “love” here is even more provocative, in its own way, than “communism.” Still, it’s important to hammer the point home. Just as markets, when allowed to drift entirely free from their violent origins, invariably begin to grow into something different, into networks of honor, trust, and mutual connectedness, so does the maintenance of systems of coercion constantly do the opposite: turn the products of human cooperation, creativity, devotion, love, and

trust back into numbers once again. In doing so, they make it possible to imagine a world that is nothing more than a series of cold-blooded calculations. Even more, by turning human sociality itself into debts, they transform the very foundations of our being—since what else are we, ultimately, except the sum of the relations we have with others—into matters of fault, sin, and crime, and making the world into a place of iniquity that can only be overcome by completing some great cosmic transaction that will annihilate everything.

Trying to flip things around by asking, “What do we owe society?” or even trying to talk about our “debt to nature” or some other manifestation of the cosmos is a false solution—really just a desperate scramble to salvage something from the very moral logic that has severed us from the cosmos to begin with. In fact, it’s if anything the culmination of the process, the process brought to a point of veritable dementia, since it’s premised on the assumption that we’re so absolutely, thoroughly disentangled from the world that we can just toss all other human beings—or all other living creatures, even, or the cosmos—in a sack, and then start negotiating with them. It’s hardly surprising that the end result, historically, is to see our life itself as something we hold on false premises, a loan long since overdue, and therefore, to see existence itself as criminal. Insofar as there’s a real crime here, though, it’s fraud. The very premise is fraudulent. What could possibly be more presumptuous, or more ridiculous, than to think it would be possible to negotiate with the grounds of one’s existence? Of course it isn’t. Insofar as it is indeed possible to come into any sort of relation with the Absolute, we are confronting a principle that exists outside of time, or human-scale time, entirely; therefore, as Medieval theologians correctly recognized, when dealing with the Absolute, there can be no such thing as debt.

Conclusion:

Perhaps the World Really Does Owe You a Living

Much of the existing economic literature on credit and banking, when it turns to the kind of larger historical questions treated in this book, strikes me as little more than special pleading. True, earlier figures like Adam Smith and David Ricardo were suspicious of credit systems, but already by the mid-nineteenth century, economists who concerned themselves with such matters were largely in the business of trying to demonstrate that, despite appearances, the banking system really

was profoundly democratic. One of the more common arguments was that it was really a way of funneling resources from the “idle rich,” who, too unimaginative to do the work of investing their own money, entrusted it to others, to the “industrious poor”—who had the energy and initiative to produce new wealth. This justified the existence of banks, but it also strengthened the hand of populists who demanded easy money policies, protections for debtors, and so on—since, if times were rough, why should the industrious poor, the farmers and artisans and small businessmen, be the ones to suffer?

This gave rise to a second line of argument: that no doubt the rich were the major creditors in the ancient world, but now the situation has been reversed. So Ludwig von Mises, writing in the 1930s, around the time when Keynes was calling for the euthanasia of the rentiers:

Public opinion has always been biased against creditors. It identifies creditors with the idle rich and debtors with the industrious poor. It abhors the former as ruthless exploiters and pities the latter as innocent victims of oppression. It considers government action designed to curtail the claims of the creditors as measures extremely beneficial to the immense majority at the expense of a small minority of hardboiled usurers. It did not notice at all that nineteenth-century capitalist innovations have wholly changed the composition of the classes of creditors and debtors. In the days of Solon the Athenian, of ancient Rome’s agrarian laws, and of the Middle Ages, the creditors were by and large the rich and the debtors the poor. But in this age of bonds and debentures, mortgage banks, saving banks, life insurance policies, and social security benefits, the masses of people with more moderate income are rather themselves creditors.³⁹

Whereas the rich, with their leveraged companies, are now the principal debtors. This is the “democratization of finance” argument and it is nothing new: whenever there are some people calling for the elimination of the class that lives by collecting interest, there will be others to object that this will destroy the livelihood of widows and pensioners.

The remarkable thing is that nowadays, defenders of the financial system are often prepared to use both arguments, appealing to one or the other according to the rhetorical convenience of the moment. On the one hand, we have “pundits” like Thomas Friedman, celebrating the fact that “everyone” now owns a piece of Exxon or Mexico, and

that rich debtors are therefore answerable to the poor. On the other, Niall Ferguson, author of *The Ascent of Money*, published in 2009, can still announce as one of his major discoveries that:

Poverty is not the result of rapacious financiers exploiting the poor. It has much more to do with the lack of financial institutions, with the absence of banks, not their presence. Only when borrowers have access to efficient credit networks can they escape from the clutches of loan sharks, and only when savers can deposit their money in reliable banks can it be channeled from the idle rich to the industrious poor.⁴⁰

Such is the state of the conversation in the mainstream literature. My purpose here has been less to engage with it directly than to show how it has consistently encouraged us to ask the wrong questions. Let's take this last paragraph as an illustration. What is Ferguson really saying here? Poverty is caused by a lack of credit. It's only if the industrious poor have access to loans from stable, respectable banks—rather than to loan sharks, or, presumably, credit card companies, or payday loan operations, which now charge loan-shark rates—that they can rise out of poverty. So actually Ferguson is not really concerned with “poverty” at all, just with the poverty of some people, those who are industrious and thus do not deserve to be poor. What about the non-industrious poor? They can go to hell, presumably (quite literally, according to many branches of Christianity). Or maybe their boats will be lifted somewhat by the rising tide. Still, that's clearly incidental. They're undeserving, since they're not industrious, and therefore what happens to them is really beside the point.

For me, this is exactly what's so pernicious about the morality of debt: the way that financial imperatives constantly try to reduce us all, despite ourselves, to the equivalent of pillagers, eyeing the world simply for what can be turned into money—and then tell us that it's only those who are willing to see the world as pillagers who deserve access to the resources required to pursue anything in life *other* than money. It introduces moral perversions on almost every level. (“Cancel all student loan debt? But that would be unfair to all those people who struggled for years to pay back their student loans!” Let me assure the reader that, as someone who struggled for years to pay back his student loans and finally did so, this argument makes about as much sense as saying it would be “unfair” to a mugging victim not to mug their neighbors too.)

The argument might perhaps make sense if one agreed with the underlying assumption—that work is by definition virtuous, since the ultimate measure of humanity’s success as a species is its ability to increase the overall global output of goods and services by at least 5 percent per year. The problem is that it is becoming increasingly obvious that if we continue along these lines much longer, we’re likely to destroy everything. That giant debt machine that has, for the last five centuries, reduced increasing proportions of the world’s population to the moral equivalent of conquistadors would appear to be coming up against its social and ecological limits. Capitalism’s inveterate propensity to imagine its own destruction has morphed, in the last half-century, into scenarios that threaten to bring the rest of the world down with it. And there’s no reason to believe that this propensity is ever going to go away. The real question now is how to ratchet things down a bit, to move toward a society where people can live more by working less.

I would like, then, to end by putting in a good word for the non-industrious poor.⁴¹ At least they aren’t hurting anyone. Insofar as the time they are taking time off from work is being spent with friends and family, enjoying and caring for those they love, they’re probably improving the world more than we acknowledge. Maybe we should think of them as pioneers of a new economic order that would not share our current one’s penchant for self-destruction.



In this book I have largely avoided making concrete proposals, but let me end with one. It seems to me that we are long overdue for some kind of Biblical-style Jubilee: one that would affect both international debt and consumer debt. It would be salutary not just because it would relieve so much genuine human suffering, but also because it would be our way of reminding ourselves that money is not ineffable, that paying one’s debts is not the essence of morality, that all these things are human arrangements and that if democracy is to mean anything, it is the ability to all agree to arrange things in a different way. It is significant, I think, that since Hammurabi, great imperial states have invariably resisted this kind of politics. Athens and Rome established the paradigm: even when confronted with continual debt crises, they insisted on legislating around the edges, softening the impact, eliminating obvious abuses like debt slavery, using the spoils of empire to throw all sorts of extra benefits at their poorer citizens (who, after all, provided the rank and file of their armies), so as to keep them more or less afloat—but all in such a way as never to allow a challenge to the

principle of debt itself. The governing class of the United States seems to have taken a remarkably similar approach: eliminating the worst abuses (e.g., debtors' prisons), using the fruits of empire to provide subsidies, visible and otherwise, to the bulk of the population; in more recent years, manipulating currency rates to flood the country with cheap goods from China, but never allowing anyone to question the sacred principle that we must all pay our debts.

At this point, however, the principle has been exposed as a flagrant lie. As it turns out, we don't "all" have to pay our debts. Only some of us do. Nothing would be more important than to wipe the slate clean for everyone, mark a break with our accustomed morality, and start again.

What is a debt, anyway? A debt is just the perversion of a promise. It is a promise corrupted by both math and violence. If freedom (real freedom) is the ability to make friends, then it is also, necessarily, the ability to make real promises. What sorts of promises might genuinely free men and women make to one another? At this point we can't even say. It's more a question of how we can get to a place that will allow us to find out. And the first step in that journey, in turn, is to accept that in the largest scheme of things, just as no one has the right to tell us our true value, no one has the right to tell us what we truly owe.

(Linebaugh 1993:449; see also Linebaugh 1982, Rule 1986:115–17).

104. Tebbutt 1983:49. On pawnbroking in general: Hardaker 1892, Hudson 1982, Caskey 1994, Fitzpatrick 2001.

105. Linebaugh 1993: 371–404.

106. Usually in order to conclude that today, of course, we are living in an entirely different world, because clearly that's not true any more. It might help here to remind the reader that Marx saw himself as writing a “critique of political economy”—that is, of theory and practice of economics of his day.

107. See the Lockhart translation of Bernal Díaz (Díaz 1844 II:396), which gives several versions of the story, drawn from different sources.

108. Clenninden 1991:144.

109. It is on these grounds that Testart distinguishes slavery owing to gambling, where the gambler stakes his own person, and debt slavery, even if these are ultimately gambling debts. “The mentality of the gambler who directly stakes his person in the game is closer to that of the warrior, who risks losing his life in war or being taken into slavery, than to that of the poor person willing to sell himself to survive” (Testart 2002:180).

110. This is incidentally why complaints about the immorality of deficits are so profoundly disingenuous: since modern money effectively *is* government debt, if there was no deficit, the results would be disastrous. True, money can also be generated privately, by banks, but there would appear to be limits to this. This is why U.S. financial elites, led by Alan Greenspan, panicked in the late 1990s when the Clinton administration began to run budget surpluses; the Bush tax cuts appear to have been designed specifically to ensure that the deficit was maintained.

111. Wallerstein 1989.

112. 1988:600.

113. Britain passed its first bankruptcy law in 1542.

114. This is no doubt what Goethe was getting at when he had Faust, specifically, tell the emperor to pay his debts with

IOUs. After all, we all know what happened to him when his time came due.

115. Sonenscher (2007) gives a long and detailed history of these debates.

116. One might trace a religious element here: in the time of Augustus, a group of religious cultists in the Middle East conceived the idea that fire was about to come from the sky and consume the planet. Nothing seemed less likely at the time. Leave them in charge of a corner of the world for two thousand years, they figure out a way to do it. But still, this is clearly part of a larger pattern.

Chapter Twelve

1. I was first put on to the significance of the date by fellow anthropologist Chris Gregory (1998: 265–96; also Hudson 2003a). U.S. citizens had not been able to cash in dollars for gold since 1934. The analysis that follows is inspired by both Gregory and Hudson.

2. One plausible-sounding version, which cites rather small amounts of bullion, can be found at: www.rediff.com/money/2001/nov/17wtc.htm. For a more entertaining, fictional version: www.rense.com/general73/confess.htm.

3. “The Federal Reserve Bank of New York: the Key to the Gold Vault” (newyorkfed.org/education/addpub/goldvault.pdf).

4. As a minor aside, I remember from the time also reading news reports noting that there were, in fact, a number of expensive jewelry shops in the arcades directly beneath the Towers, and that all the gold in them did in fact disappear. Presumably they were pocketed by rescue workers, but considering the circumstances, it would seem there were no serious objections—at least, I’ve never heard anything about the matter being further investigated, let alone prosecuted.

5. It’s no coincidence, certainly, that William Greider decided to name his great history of the Federal Reserve (1989) *The Secrets of the Temple*. This is actually

how many of its own officials privately describe it. He quotes one: “The System is just like the Church . . . It’s got a pope, the chairman; and a college of cardinals, the governors and bank presidents; and a curia, the senior staff. The equivalent of the laity is the commercial banks . . . We even have different orders of religious thought like Jesuits and Franciscans and Dominicans only we call them pragmatists and monetarists and neo-Keynesians” (ibid:54).

6. This is hardly a new claim, and it rests in part on the Braudelian (world-systems) school, for instance, the recent work of Mielants (2007). For a more classically Marxist version developing the connection since Nixon’s time, see Custers 2007. For a more mainstream neoclassical treatments of the connection, see MacDonald & Gastman 2001, MacDonald 2006.

7. Senator Fullbright, in McDermott 2008:190.

8. I note that this flies directly in the face of the intent of the United States Constitution (1.8.5), which specifies that only Congress was relegated the power “to coin money, [and] regulate the value thereof”—no doubt at the behest of the Jeffersonians, who were opposed to creating a central bank. The United States still observes the letter of the law: United States coins are issued directly by the Treasury. United States paper money, while signed by the head of the Treasury, is not issued by the Treasury but by the Federal Reserve. They are technically banknotes, though as with the Bank of England, one bank is granted a monopoly in issuing them.

9. For those who don’t know how the Fed works: technically, there are a series of stages. Generally the Treasury puts out bonds to the public, and the Fed buys them back. The Fed then loans the money thus created to other banks at a special low rate of interest (“the prime rate”), so that those banks can then lend at higher ones. In its capacity as regulator of the banking system, the Fed also establishes the fractional reserve rate: just how

many dollars these banks can “lend”—effectively, create—for every dollar they borrow from the Fed, or have on deposit, or can otherwise count as assets. Technically this is 10 to 1, but a variety of legal loopholes allow banks to go considerably higher.

10. Which does raise the rather interesting question of what its gold reserves are actually for.

11. Indeed, perhaps the greatest compromise to United States global power in recent years is the fact that there is now one place—the region of China facing Taiwan—where air defenses are now so dense and sophisticated that the United States Air Force is no longer certain that it can penetrate at will. The inability to blow up Osama bin Laden is, of course, the most dramatic limit to this power.

12. Or, to put the money in the United States stock market, which ultimately has a similar effect. As Hudson notes, “American diplomats have made it clear that to buy control of U.S. companies or even to return to gold would be viewed as an unfriendly act” (2002a:7), so, unless they want to move out of dollars entirely, which would be considered an even more unfriendly act, there is little alternative. As to how “unfriendly” acts might be received: see below.

13. Hudson 2002a:12.

14. As many have remarked, the three countries that switched to the euro around this time—Iraq, Iran, and North Korea—were precisely those singled out by Bush as his “Axis of Evil.” Of course we can argue about cause and effect here. It’s also significant that the core euro-using states such as France and Germany uniformly opposed the war, while U.S. allies were drawn from euro-skeptics like the UK.

15. For a few representative takes on the relation of the dollar and empire: from a neoclassical economic perspective, Ferguson (2001, 2004), from a radical Keynesian perspective, Hudson (2003a), from a Marxist one, Brenner (2002).

16. Even the CIA now ordinarily refers to such arrangements as “slavery,” though technically debt peonage is different.

17. Compare this to the deficit/military chart above, on page 366—the curve is effectively identical.

18. See dailybail.com/home/china-warns-us-about-debt-monetization.html, accessed December 22, 2009. The story is based on a piece from the *Wall Street Journal*, “Don’t Monetize the Debt: The president of the Dallas Fed on inflation risk and central bank independence” (Mary Anastasia O’Grady, *WSJ*, May 23, 2009.) I should add that in popular usage nowadays, “to monetize the debt” is generally used as a synonym for “printing money” to pay debt. This usage has become almost universal, but it’s not the original sense of the term, which is to turn the debt itself into money. The Bank of England did not print money to pay the national debt; it turned the national debt itself into money. Here too there is a profound argument going on about the nature of money itself.

19. The arrangement is sometimes referred to as Bretton Woods II (Dooley, Folkerts-Landau & Garber 2004, 2009): effectively, an agreement since the 1990s at least to use various unofficial means to keep the dollar’s value artificially high, and East Asian currencies—particularly the Chinese—artificially low, in order to expedite cheap Asian exports to the United States. Since real wages in the United States have either stagnated or retreated continually since the 1970s, this, and the accumulation of consumer debt, is the only reason living standards in the United States have not precipitously declined.

20. On Zheng He, see Dreyer 2006, Wade 2004, Wake 1997. On the tribute trade in general: Moses 1967, Yü 1967, Hamashita 1994, 2003; Di Cosmo & Wyatt 2005.

21. The argument here follows Arrighi, Hui, Hung and Selden 2003, some elements of which were echoed in Arrighi’s last work, *Adam Smith in Beijing* (2007).

22. Japan of course was something of an exception, since it had arguably achieved something like First World status even before this.

23. Keynes 1936:345.

24. See www.irl.berkeley.edu/events/spring08/feller/

25. The key legislation was the “Depository Institutions Deregulation and Monetary Control Act” of 1980, which struck down all federal usury laws: ostensibly, in reaction to the rampant inflation of the late 1970s, though of course they were never restored when inflation was brought back under control, as it has in the last quarter-century. It left state interest ceilings in place, but institutions like credit-card companies were allowed to observe the laws of the state in which they are registered, no matter where they operated. This is why most are registered in South Dakota, which has no maximum interest rate.

26. The first is from Thomas Friedman (1999) in a cocky and vacuous book called *The Lexus and the Olive Tree*, the second from Randy Martin (2002) in a book of the same name.

27. In America this “universal otherness” is accomplished above all through racism. This is why most small retailing in the United States is conducted on ethnic lines: say, Korean grocers or dry-cleaners, who pool credit with one another, whose clients, however, are sufficiently socially distant that there is no question of extending credit outside, or even expecting basic relations of trust—since they themselves ordinarily expect electricians, locksmiths, contractors of various sorts who provide services to at least attempt to shaft them. Essentially the market across racial or ethnic lines becomes one where everyone is assumed to be Amalek.

28. Gilder 1981:266, cited in Cooper 2008:7. Cooper’s essay is a brilliant exploration of the relation between debt imperialism—a phrase she seems to have coined, inspired by Hudson—and evangelical Christianity, and it is heartily recommended. See also Naylor 1985.

29. Robertson 1992:153. In Cooper again: *op cit*.

30. Atwood 2008:42.

31. This is, incidentally, also the best response to conventional critiques of the poor as falling into debt because they are unable to delay gratification—another way in which economic logic, with all its human blind spots, skews any possible understanding of “consumers” actual motivations. Rationally, since CDs yield around 4 percent annually, and credit cards charge 20 percent, consumers should save as a cushion and only go into debt when they absolutely have to, postponing unnecessary purchases until there’s a surplus. Very few act this way, but this is rarely because of improvidence (can’t wait to get that flashy new dress) but because human relations can’t actually be put off in the same way as imaginary “consumer purchases”: one’s daughter will only be five once, and one’s grandfather has only so many years left.

32. There are so many books on the subject that one hesitates to cite, but a couple of outstanding examples are Anya Kamentz’s *Generation Debt* (2006), and Brett William’s *Social History of the Credit Trap* (2004). The larger point about demands for debt as a form of class struggle is in large part inspired by the Midnight Notes collective, who argue that, however paradoxically, “neoliberalism has thrown open a new dimension of struggle between capital and the working class within the domain of credit” (2009:7). I have followed this analysis to a degree, but tried to move away from the economic framing of human life as “reproduction of labor” that hobbles so much Marxist literature—the emphasis on life beyond survival might be distantly Vaneigem-influenced (1967), but largely falls back on my own work on value theory (Graeber 2001).

33. Elyachar 2002:510.

34. See for instance, “India’s micro-finance suicide epidemic,” Soutik Biswas, BBC News South Asia, 16 December 2010, <http://bbc.co.uk/news/world-south-asia-11997571>

35. I have observed this first hand on any number of occasions in my work as an activist: police are happy to effectively

shut down trade summits, for example, just to ensure that there’s no possible chance that protestors can feel they have succeeded in doing so themselves.

36. In practice, it mainly consists of “interest-free” banking arrangements that pay lip service to the notion of profit-sharing but in reality operate in much the same way as any other bank. The problem is that if profit-sharing banks are competing with more conventional ones in the same marketplace, those who anticipate that their enterprises will yield high profits will gravitate toward the ones offering fixed-interest loans, and only those who anticipate lower profits will turn to the profit-sharing option (Kuran 1995:162). For a transition to no-interest banking to work, it would have to be total.

37. Under the Caliphate, to guarantee the money supply; in China, through systematic intervention to stabilize markets and prevent capitalistic monopolies; later, in the United States and other North Atlantic republics, through allowing the monetization of its own debt.

38. True, as I showed in chapter 5, economic life will always be a matter of clashing principles, and thus might be said to be incoherent to a certain extent. Actually I don’t think this is in any way a bad thing—at the very least, it’s endlessly productive. The distortions born of violence strike me as uniquely insidious.

39. von Mises 1949:540–41. The original German text was published in 1940 and presumably composed a year or two previous.

40. Ferguson 2007:iv.

41. I can speak with some authority here since I was myself born of humble origins and have advanced myself in life almost exclusively through my own incessant labors. I am well known by my friends to be a workaholic—to their often justifiable annoyance. I am therefore keenly aware that such behavior is at best slightly pathological, and certainly in no sense makes one a better person.