A travesty of financial history – which bank lobbyists will applaud

Review of William Goetzmann, *Money Changes Everything: How Finance Made Civilization Possible* (Princeton University Press, 2016)

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Debt mounts up faster than the means to pay. Yet there is widespread lack of awareness regarding what this debt dynamic implies. From Mesopotamia in the third millennium BC to the modern world, the way in which society has dealt with the buildup of debt has been the main force transforming political relations.

Financial textbook writers tell happy-face fables that depict loans only as being productive and helping debtors, not as threatening social stability. Government intervention to promote economic growth and solvency by writing down debts and protecting debtors at creditors' expense is accused of causing an economic crisis (defined as bankers and bondholders not making as much money as they thought they would). Creditor lobbyists are not eager to save indebted consumers, businesses and governments from bankruptcy and foreclosure. The result is a biased body of analysis, which some extremists project back throughout history.

The most recent such travesty is William Goetzmann's *Money Changes Everything*, widely praised in the financial press for its celebration of finance through the ages. A Professor of Finance and Management at the Yale School of Management, he credits "monetization of the Athenian economy" – the takeoff of debt – as playing "a central role in the transition to … democracy" (p. 17), and assures his readers that finance is inherently democratic, not oligarchic: "The golden age of Athens owes as much to financial litigation as it does to Socrates" (p. 1). That litigation consisted mainly of creditors foreclosing on the property of debtors.

Goetzmann makes no mention of how Solon freed Athenians from debt bondage with his *seisachtheia* ("shaking off of burdens") in 594. Also airbrushed out of history is the subsequent buildup of financial oligarchies throughout the Mediterranean. Cities of the Achaean League called on Rome for military intervention to prevent Sparta's kings Agis, Cleomenes and Nabis from cancelling debts late in the third century BC.

Violence has often turned public policy in favor of debtors, despite what philosophers and indeed most people believed to be fair, just and stable. Rome's own Social War opened with the murder of supporters of the pro-debtor Gracchi brothers in 133 BC. By the time Augustus was crowned emperor in 29 BC, the die was cast. Creditor elites ended up stifling prosperity, reducing at least 15 percent (formerly estimated as a quarter) of the Empire's population to bondage. The Roman legal principle placing creditor rights above the property rights of debtors has been bequeathed to the modern world.

The Bronze Age was not yet ripe for oligarchies to break anywhere near as free of palace control as occurred in classical Greece and Rome. But to Goetzmann the creditor takeover is the essence of progress, despite the economic polarization and Dark Age it brought on for the 99 Percent.

Misrepresenting why individuals ran into debt in ancient economies

Ignoring the abundant documentation, the author misrepresents why early economies ran up personal debt. He falls into the modernist trap of depicting all debt as resulting from borrowers taking out loans, eager to invest the proceeds profitably. He does not recognize debts as accruing in the form of unpaid taxes or fees. Yet this was the case with most Mesopotamian debts, which is where he starts his narrative. Personal debts subject to royal Clean Slate edicts did *not* result from money lending, but accrued as obligations owed to the palace and its collectors – for example, to providers of temple or palace services such as boatmen, "ale women" and so forth.[1] These payments were to be made at harvest time. But sometimes the harvests failed, as a result of drought, flooding or war.

Taking it as an article of faith that debt always benefits the "borrower," Goetzmann does not recognize any need to write down debts under such conditions. His blind spot regarding the problems that arose when crop failure or military hostilities prevented cultivators from paying their debts leads him to single out a royal edict from Rim-Sin of Larsa (1822-1763) that allegedly caused the quite modern-sounding "great crash of 1788."

The idea that Clean Slate edicts were a "crash"

Mesopotamian rulers are documented as protecting their citizenry from foreclosing creditors by cancelling debts since at least as early as Enmetena of Lagash c. 2400 BC. By the Old Babylonian epoch (2000-1800 BC) it was customary for nearly every Near Eastern ruler to cancel personal debts upon taking the throne, and again as economic or military conditions required – *e.g.*, if a flood or other natural disaster or military disturbance prevented harvest debts from being paid on a widespread basis. Goetzmann treats this normal practice of protecting debtors from losing their liberty (and hence their ability to serve in the army and provide corvée labor on public building projects) as if it were an isolated example, not the rule – and as if it *caused* a crisis, not *prevented* it.

Rim-Sin is reported to have cancelled debts on three occasions.[2] But only agrarian debts for consumption or public fees were subject to such Clean Slate edicts. Like other rulers of his epoch, Rim-Sin evidently recognized that if he permitted usury and debt bondage to persist, much of the population would lose its land and be unable to provide labor services or fight in the army. He needed "warriors from abroad, from the surrounding deserts, who had to be attracted by agreeable conditions." That may have been the proximate cause of Rim-Sin's moves to break the influence of powerful creditors "and to favor his soldiers, for example, by means of the loan of fields, upon which taxes were levied when the soldiers were not on

[1] See Cornelia Wunsch, "Debt, Interest, Pledge and Forfeiture in the Neo-Babylonian and Early Achaemenid Period: The Evidence from Private Archives," in Michael Hudson and Marc Van De Mieroop, eds., *Debt and Economic Renewal in the Ancient Near East* (CDL Press 2002), pp. 221-255.
[2] F. R. Kraus, *Königliche Verfügungen in altbabylonischer Zeit* (Leiden, 1984). On Rim-Sin's measures see Charpin, *Archives familiales et propriete privee in Babylonie ancienne* Geneva-Paris 1980), pp. 273f. and 133f. and W. G. Lambert, *Babylonian Wisdom Literature* (Oxford, 1960; 2nd ed. 1967), pp. 54f.

active service."[3] The economy was saved, not the creditors (mainly collectors or officials in the palace bureaucracy).

As for commercial "silver" loans and investments in trade ventures, they were not affected by these royal decrees. And even in this commercial sphere, economies hardly could have worked (nor can they survive today) without leeway to bring debts in line with the ability to pay. In the case of long-distance trade, financial "silent partners" typically consigned goods or lent money to travelling merchants in exchange for receiving double the value of their original advance after five years. But if a ship were lost or its cargo taken by pirates, or if a caravan were robbed, the merchant was not liable to pay. This debt forgiveness under extenuating circumstances remained a common legal feature from the Laws of Hammurabi down through Roman law.

After misrepresenting Rim-Sin's edict as "eliminating all debt by royal decree," he speculates: "Perhaps he himself or those close to him had gotten into debt" (pp. 57f.). But Goetzmann's reading reverses the actual situation. Bronze Age palaces were society's major *creditors*, not debtors! The agrarian "barley debts" that Rim-Sin cancelled were not those that he owed, but those that the population owed *to* his palace.

Abundant historical documentation exists that could have saved Goetzmann from his embarrassing insistence that finance and money itself arose as individualistic arrangements by private-sector creditors with no role for government, and that it always is best to pay all debts, without regard for the social and economic consequences. When Hammurabi lay dying in 1749 BC, his son Samsuiluna wrote a letter saying that he found the land so burdened by debt that he remitted arrears owed by many types of royal tenants. To revive their economic position he "restored order (*misharum*) in the land," directing that tablets recording non-commercial debts be broken so as to cancel the agrarian debts that had accumulated since the last such *misharum* act thirteen years earlier (in Hammurabi's 30th year, 1762). "In the land, nobody shall move against the 'house' of the soldier, the fisher, and other subjects."[4]

Goetzmann does acknowledge that, "perhaps it was a political move to restore popularity with his subjects." But more than just popularity was involved. Rim-Sin needed their support for his looming fight with Hammurabi, who soon conquered Larsa in 1763. Goetzmann believes that Rim-Sin's debt cancellation was a disaster – as if it ended a golden age. Writing that Larsa lost power as if "the crash of 1788" was to blame, he seems not to understand that the victor, Hammurabi, proclaimed four debt cancellations to protect his own citizen army during his reign.

Goetzmann cites as his source the respected assyriologist Marc Van De Mieroop of Columbia University. As it happens, he and I co-edited a well-known colloquium in 2000 on debt cancellations in the ancient Near East (see fn 1). Leading assyriologists and Egyptologists traced over a thousand years of royal Clean Slates cancelling agrarian debts owed to the palace, its collectors and other creditors. David Graeber's bestseller, *Debt: The First 5,000 Years* (2011) summarizes this volume's findings for the popular audience. This research would have saved Goetzmann from imagining that Larsa's debts were owed by rulers *to*

[3] W. F. Leemans, *The Old Babylonian Merchant: His Business and Social Position* (Leiden, 1950), p. 122.
[4] Translations of this letter (TCL 17 76) in Leo Oppenheim. *Ancient Mesopotamia* (1965), p. 157, and *Letters from Mesopotamia* (1967), and F. R. Kraus, *Königliche Verfügungen* (1984), p. 67.

merchants. His aversion to such findings has the effect of wiping his narrative clean of logic that would show any logic for endorsing regulation or cancellation of debt.

Goetzmann does cite the first historical example of compound interest: the Stele of the Vultures boundary stone erected on the irrigated buffer territory between Lagash and Umma citing the reparations that Umma had accrued to Lagash c. 2440 BC. But he does not note that this debt had grown far too large ever to be paid – and hence became a cause of future war. That is the problem with compound interest (and too large reparations debt demands). The rate of interest outruns the debtor's capacity to pay.

The starting point of financial theory should be recognition of this tendency of debts to be unpayable – that is, unpayable without a massive property transfer, economic polarization and impoverishment. However, today's vested financial interests do not want to see a reasoned discussion of the repertory and consequences of policy responses to this problem through the ages. The guiding motto is: "If the eye offends thee, pluck it out." In order to insist that all debts must be paid, the thousands of years of Bronze Age Mesopotamian examples and those of Graeco-Roman antiquity must be censored, because the policy lesson is that bad debts should be written down or annulled.

Asserting that in the abstract, finance "is not intrinsically good or bad," Goetzmann is unwilling to draw the seemingly obvious conclusion that what determines *whether* its effects are good or bad depends on whether debts are cancelled when they grow beyond much of the population to pay. To have kept Mesopotamia's personal debts on the books (or more accurately, on the clay tablets) would have reduced debtors to bondage and led to loss of the land rights that gave them their status as citizens.

It is not hard to see the modern ay relevance. Keeping bad bank loans on the books in 2008 saved bankers and bondholders from taking a loss, but left austerity in its wake by passing the financial losses onto the economy at large.

The false assumption that all loans are "productive" and readily payable

Goetzmann's misreading of antiquity (on which he grounds his bombastic big assumptions about the long sweep of financial history) follows from his narrow view of debt only in terms of personal bargains between creditors and borrowers – to share in a supposedly mutual gain. In reality, the tendency was for debtors to lose their liberty and land to foreclosing creditors – who put their usurious gains into more land acquisition instead of investing in means of production to expand economies.[5]

It has been to avoid repeating this impoverishing debt dynamic that the past few centuries have seen more humanitarian treatment of debtors. But the past century's "Austrian" and kindred individualistic "free market" financial theories have created a junk archaeology that depicts monetary and fiscal reform as being against nature and leading to a crash – such as Goetzmann's fantasy of "the crash of 1788" – instead of avoiding financial distress by restoring economic balance and equity.

[5] "Entrepreneurs: From the Near Eastern Takeoff to the Roman Collapse," in David S. Landes, Joel Mokyr, and William J. Baumol, eds., *The Invention of Enterprise: Entrepreneurship from Ancient Mesopotamia to Modern Times* (Princeton: Princeton University Press, 2010):8-39.

Goetzmann's obsolete theory of money as a commodity, not a fiscal institution

Georg Friedrich Knapp's *State Theory of Money* (1905), defines money as what governments accept in payment of taxes or fees. This theory also is called Chartalism. It is confirmed by the assyriological research noted above: Mesopotamian mercantile debts typically were denominated in silver, while personal debts were denominated in grain, above all to the temples and palaces.[6] Their acceptability to these large institutions led the economy at large to accept its valuation.

To defend his "free market" ideology, Goetzmann ignores the character of money as debt, headed by debts owed to governments for taxes or other payments. It is as if we are talking about barter, with money being just a commodity, given value by "markets" with no apparent linkage to government to denominate and pay tax debts. He repeats the century-old threefold view of money as a means of exchange, a measure of value and store of value.

For starters, according to this view, metal was a handy *medium of exchange*, presumably to barter. A buyer simply pulled out a coin or broke off a piece of metal to pay for food, wool or whatever product was wanted.

Problems quickly arise with this scenario. Who produced the silver? How was counterfeiting avoided? The Bible and Babylonian "wisdom literature" are rife with condemnations of crooked merchants using false weights and measures – a light weight for lending money or buying commodities, and a heavy weight for measuring out repayment of debts.

To avoid such problems, metallic money had to be public in order to be used as a means of payment. Babylonian contracts typically called for settlement in silver of 5/6 or some similar specified purity. From third millennium Sumer down through Greece to Rome (the Temple of Juno Moneta), temples produced the monetary metals and coins. Their role as minters dovetailed with that of overseeing honest weights and measures to prevent fraud.

Money's second function cited in modern textbooks (which Goetzmann repeats) is to serve as *a unit of account*, a common measure of value against which other commodities (and labor) are priced. The paradigmatic historical example would seem to be the parity between a Babylonian shekel-weight of silver and a "liter" of barley, fixed by royal edict in for a thousand years, mainly to determine how debts could be paid. Such money was a price schedule of how a specialized economy could make payments, apparently evolving as part of the accounting system that enabled the large institutions to allocate food and raw materials to their labor force, to evaluate output consigned to (or bought from) traders, keep their administrative accounts and denominate debts owed to them. (Later, when Rome developed coinage, its nominal value was maintained even while adulterating its purity.)
But this debt dimension is missing from Goetzmann's survey.

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[6] I trace the background in "The Cartalist/Monetarist Debate in Historical Perspective," in Edward Nell and Stephanie Bell eds., *The State, The Market and The Euro* (Edward Elgar, 2003):39-76; "The Archaeology of Money in Light of Mesopotamian Records," in L. Randall Wray (ed.), *Credit and State Theories of Money: The Contributions of A. Mitchell Innes* (Edward Elgar, 2004); and "The Development of Money-of-Account in Sumer's Temples," in Michael Hudson and Cornelia Wunsch, ed., *Creating Economic Order: Record-Keeping, Standardization and the Development of Accounting in the Ancient Near East* (CDL Press, Bethesda, 2004):303-329.

Goetzmann's failure to understand that "finance" has something to do with debt

Goetzmann's desire to credit finance for almost everything good and positive in civilization leads him to attribute the origin of writing to finance. This distorts the researches of the archaeologist whom he credits as acting as his informant, Denise Schmandt-Besserat. Her research started half a century ago at Harvard's Peabody Museum on Neolithic and Early Bronze Age ceramics. It seems that when traders (chieftains or individuals) sent animals, wool or textiles over a distance for trade from about the 9th millennium to the 4th millennium BC, they would indicate each item with a small-animal- or geometric-shaped baked clay token, and wrap it in a clay envelope. The recipient of such deliveries would compare what was received with the itemized set of tokens.

In time, Schmandt-Besserat proposed, impressions of these tokens were imprinted on the clay envelope, to indicate the contents. (Many such envelopes have survived). Such tokens were accounting devices. In time, according to the plausible theory, the design of the impression evolved into cuneiform writing.[7]

The vast majority of cuneiform tablets are accounting records, debt notes and temple and palace accounts, *e.g*., to distribute rations to the temple labor force and track the delivery and allocation of wool, grain and other raw materials. Prices for silver, grain and a few other basic commodities were administered to create an accounting system to co-measure and allocate resources as well as to denominate payments to themselves. But such fiscal accounting practice is not finance. It is an economic and administrative use of writing, but finance involves debt, not just trade or account-keeping. Goetzmann's narrative suggests that "finance" exists without a debt dimension.

This basically public institutional setting for writing, accounting, money and archaic interest rates is precisely what the anti-government and pro-creditor Austrian and Chicago Schools of "free market" financial relations oppose. Their censorial view defends the privatization of money as a "market creation," and hence today's bank monopoly on credit creation as opposed to government creation of money (They claim that this would be hyperinflationary and lead economies on the road to Zimbabwe – as if bank credit has not fueled a vast asset-price inflation bubble that burst in the 2008 crash.) And as noted above, they also insist that all debts must be paid, even at the cost of impoverishing the economy – as the world has seen most recently in Greece.

Some years ago, a German assyriologist told me why so many members of that discipline choose to publish in German or French instead of in English. The reason is that so many Americans (and also Englishmen) take documentation out of context to force into "crazy" theories. To protect itself from such intervention, the assyriological discipline is isolated from other academic departments. An unfortunate byproduct is that cuneiform studies are rapidly shrinking throughout Europe.

No doubt a contributing factor is that the practices of Bronze Age Mesopotamia and its neighbors controvert the most basic assumptions of today's free market orthodoxy, above all its denigration of public enterprise and opposition to government money creation (leaving this as a private bank monopoly), and its refusal to acknowledge logic justifying debt writedowns.

[7] Denise Schmandt-Besserat, *Before Writing* (2 vols., University of Texas Press, 1992), and *How Writing Came About* (University of Texas Press, 1996).

Goetzmann has used the exclusion of early economic history from the academic curriculum, and hence from popular discussion, as an opportunity to substitute unrealistic pro-creditor assumptions for the reality that he seems to find too abhorrent to inform his readers about.

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