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The Key to a Sustainable Economy Is 5,000 Years Old

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We are again reaching the point in the business cycle known as "peak debt," when debts have compounded to the point that their cumulative total cannot be paid. Student debt, credit card debt, auto loans, business debt and sovereign debt are all higher than they have ever been. As economist Michael Hudson writes in his provocative 2018 book, "...and forgive them their debts," debts that can't be paid won't be paid. The question, he says, is how they won't be paid.

Mainstream economic models leave this problem to "the invisible hand of the market," assuming trends will self-correct over time. But while the market may indeed correct, it does so at the expense of the debtors, who become progressively poorer as the rich become richer. Borrowers go bankrupt and banks foreclose on the collateral, dispossessing the debtors of their homes and their livelihoods. The houses are bought by the rich at distress prices and are rented back at inflated prices to the debtors, who are then forced into wage peonage to survive. When the banks themselves go bankrupt, the government bails them out. Thus the market corrects, but not without government intervention. That intervention just comes at the end of the cycle to rescue the creditors, whose ability to buy politicians gives them the upper hand. According to free-market apologists, this is a natural cycle akin to the weather, which dates all the way back to the birth of modern economics in ancient Greece and Rome.

Hudson counters that those classical societies are not actually where our financial system began, and that capitalism did not evolve from bartering, as its ideologues assert. Rather, it *devolved* from a more functional, sophisticated, egalitarian credit system that was sustained for two millennia in ancient Mesopotamia (now parts of Iraq, Turkey, Kuwait and Iran). Money, banking, accounting and modern business enterprise originated not with gold and private trade, but in the public sector of Sumer's palaces and temples in the third century B.C. Because it involved credit issued by the local government rather than private loans of gold, bad debts could be periodically forgiven rather than compounding until they took the whole system down, a critical feature that allowed for its remarkable longevity.

The True Roots of Money and Banking

Sumer was the first civilization for which we have written records. Its notable achievements included the wheel, the lunar calendar, our numerical system, law codes, an organized hierarchy of priest-kings, copper tools and weapons, irrigation, accounting and money. It also produced the first written language, which took the form of cuneiform figures impressed on clay. These tablets were largely just accounting tools, recording the flow of food and raw materials in the temple and palace workshops, as well as IOUs (mainly to these large public institutions) that had to be preserved in writing to be enforced. This temple accounting system allowed for the coordinated flow of credit to peasant farmers from planting to harvesting, and for advances to merchants to engage in foreign trade.

In fact, it was the need to manage accounts for a large labor force under bureaucratic control that is thought to have led to the development of writing. The people willingly accepted this bureaucratic control because they viewed the gods as having decreed it. According to their cuneiform writings, humans were created to work in the fields and the mines after certain lower gods tasked with that hard labor rebelled.

Usury, or the charging of interest on loans, was an accepted part of the Mesopotamian credit system. Interest rates were high and remained unchanged for two millennia. But Mesopotamian scholars were well aware of the problem of "debts that can't be paid." Unlike in today's academic economic curriculum, Hudson writes:

> Babylonian scribal students were trained already c. 2000 BC in the mathematics of compound interest. Their school exercises asked them to calculate how long it took a debt at interest of 1/60th per month to double. The answer is 60 months: five years. How long to quadruple? 10 years. How long to multiply 64 times? 30 years. It must've been obvious that no economy can grow in keeping with this rate of increase.

Sumerian kings solved the problem of "peak debt" by periodically declaring "clean slates," in which agrarian debts were forgiven and debtors were released from servitude to work as tenants on their own plots of land. The land belonged to the gods under the stewardship of the temple and the palace and could not be sold, but farmers and their families maintained leaseholds to it in perpetuity by providing a share of their crops, service in the military and labor in building communal infrastructure. In this way, their homes and livelihoods were preserved, an arrangement that was mutually beneficial, since the kings needed their service.

Jewish scribes, who spent time in captivity in Babylon in the sixth century B.C, adapted these laws in the year or jubilee, which Hudson argues was added to Leviticus after the Babylonian captivity. According to Leviticus 25:8-13, a Jubilee Year was to be declared every 49 years, during which debts would be forgiven, slaves and prisoners freed and their property leaseholds restored. As in ancient Mesopotamia, property ownership remained with Yahweh and his earthly proxies. The Jubilee law effectively banned the outright sale of land, which could only be leased for up to 50 years (Leviticus 25:14-17). The Levitican Jubilee represented an advance over the Mesopotamian "clean slates," Hudson says, in that it was codified into law rather than relying on the whim of the king. But its proclaimers lacked political power, and whether the law was ever enforced is unclear. It served as a moral rather than a legal prescription.

Ancient Greece and Rome adopted the Mesopotamian system of lending at interest, but without the safety valve of periodic "clean slates," since the creditors were no longer the king or the temple, but private lenders. Unfettered usury resulted in debt bondage and forfeiture of properties, consolidation into large landholdings, a growing wedge between rich and poor, and the ultimate destruction of the Roman Empire.

As for the celebrated development of property rights and democracy in ancient Greece and Rome, Hudson argues that they did not actually serve the poor. They served the rich, who controlled elections, just as rich donors do today. Taking power away from local governments by privatizing once-communal lands allowed private creditors to pass laws by which they could legally confiscate property when their debtors could not pay. "Free markets" meant the freedom to accumulate massive wealth at the expense of the poor and the state.

Hudson maintains that when Jesus Christ preached "forgiveness of debts," he was also talking about economic debt, not just moral transgressions. When he overturned the tables of the money changers, it was because they had turned a house of prayer into "a den of thieves." But creditors' rights had by then gained legal dominance, and Christian theologians lacked the power to override them. Rather than being a promise of economic redemption in this life, forgiveness of debts thus became a promise of spiritual redemption in the next.

How to Pull Off a Modern Debt Jubilee

Such has been the fate of debtors in modern Western economies. But in some modern non-Western economies, vestiges of the debt write-off solution remain. In China, for instance, nonperforming loans are often carried on the books of state-owned banks or canceled rather than putting insolvent debtors and banks into bankruptcy. As Dinny McMahon wrote in June in an article titled "China's Bad Data Can Be a Good Thing":

> In China, the state stands behind the country's banks. As long as authorities ensure those banks have sufficient liquidity to meet their obligations, they can trundle along with higher delinquency levels than would be regarded safe in a market economy.

China's banking system, like that of ancient Mesopotamia, is largely in the public sector, so the state can back its banks with liquidity as needed. Interestingly, the Chinese state also preserves the ancient Near Eastern practice of retaining ownership of the land, which citizens can only lease for a period of time.

In Western economies, most banks are privately owned and heavily regulated, with high reserve and capital requirements. Bad loans mean debtors are put into foreclosure, jobs and capital infrastructure are lost, and austerity prevails. The Trump administration is now aggressively pursuing a trade war with China in an effort to level the playing field by forcing it into the same austerity regime, but a more productive and sustainable approach might be for the U.S. to engage in periodic debt jubilees itself.

The problem with that solution today is that most debts in Western economies are owed not to the government but to private creditors, who will insist on their contractual rights to payment. We need to find a way to pay the creditors while relieving the borrowers of their debt burden.

One possibility is to nationalize insolvent banks and sell their bad loans to the central bank, which can buy them with money created on its books. The loans can then be written down or voided out. Precedent for this policy was established with "QE1," the Fed's first round of quantitative easing, in which it bought unmarketable mortgage-backed securities from banks with liquidity problems.

Another possibility would be to use money generated by the central bank to bail out debtors directly. This could be done selectively, by buying up student debt or credit card debt or car loans bundled as "asset-backed securities," then writing the debts down or off, for example. Alternatively, debts could be relieved collectively with a periodic national dividend or universal basic income paid to everyone, again drawn from the deep pocket of the central bank.

Critics will object that this would dangerously inflate the money supply and consumer prices, but that need not be the case. Today, virtually all money is created as bank debt, and it is extinguished when the debt is repaid. That means dividends used to pay this debt down would be extinguished, along with the debt itself, without adding to the money supply. For the 80% of the U.S. population now carrying debt, loan repayments from their national dividends could be made mandatory and automatic. The remaining 20% would be likely to save or invest the funds, so this money too would contribute little to consumer price inflation; and to the extent that it did go into the consumer market, it could help generate the demand needed to stimulate productivity and employment. (For a fuller explanation, see Ellen Brown, "Banking on the People," 2019).

In ancient Mesopotamia, writing off debts worked brilliantly well for two millennia. As Hudson concludes:

> To insist that all debts must be paid ignores the contrast between the thousands of years of successful Near Eastern clean slates and the debt bondage into which [Greco-Roman] antiquity sank. … If this policy in many cases was more successful than today's, it is because they recognized that insisting that all debts must be paid meant foreclosures, economic polarization and impoverishment of the economy at large.

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