Money & Debt: Crash Course World History 202

Crash Course: World History
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Hi, I'm John Green. This is Crash Course World History and today we're going to make it rain. We're going to talk about money, the stuff that makes the world go 'round. I'm not very good at making it rain.

MFTP: Mr. Green! Mr. Green. I'm sorry, but money doesn't make the world go round. It's actually conservation of angular momentum. It's the same thing that allows, like, figure skaters to turn in circles.

John: Look, me from the past. I know you came in fourth for physics, among all "C" students in the entire state of Alabama in the 1994 state academic decathlon tournament, but that doesn't actually make you good at science.

(Intro)

So, here is what economic textbooks say about money. In general it has three functions: medium of exchange, unit of account, and store of value. And its first function is by far the most important.

Like, this is a quote from my actual, physical high school econ text book: "In primitive economies, food might be traded for clothing, or help in building a house might be exchanged for help in clearing a field. But exchange today in all economies -- market as well as command -- takes place through the medium of money."

A couple things about that quote, first off, primitive is a cringe-y word. Secondly, a market economy is basically all economies these days, and a command economy is what we called the Soviet Union's economy back in the eighties.

Anyway, money is very important to history--like, our old friend Adam Smith thought that, quote: "property money and markets not only existed before political institutions, but were the very foundation of human society." Ehh, he was pretty into economies, so he was probably a little biased toward money, but it is important.

Smith also thought that before there was money, there was barter, but barter could be cumbersome; like if I make cheese and you make shoes, and you're lactose intolerant, then barter breaks down because I need shoes, but you don't need cheese. Then I have to live like a hobbit and get this very powerful ring, it's like, really stressful, I end up having to go to Mordor, it's just very complicated.

So, Smith's ideas that rather than adapt to shoelessness, humans created a commodity that they would agree upon ahead of time could be used in exchange, and that commodity is money. Yes, these are all ones.

Stan, I forgot to mention this, but you are buying lunch today.

Now, we generally think of money as like coins, or later, bills, but the material of money is arbitrary. Smith wrote: "In all countries, however, men seem at last to have been determined by irresistible reasons to give the preference, for this employment, to metals above all other commodity." A sentence that shows you why we didn't teach him in Crash Course Literature.

But of course, it's really inconvenient to like, weigh and measure metals every time you wanna buy or sell something, so people hit upon the idea of making coins with a standard size and weight. Now, Smith is probably right that coins are much more convenient than bartering, right? Like, especially if the main store of value in your community is something like cattle. I mean, let's say you still need a pair of shoes, well, they aren't worth an entire cow; trading in partial cows... fairly messy. It's also very bad for the cow's health, and the cow loses a lot of its value, because, you know, it's no longer living.

So that all makes sense, but it's problematic when Smith universalizes that observation by claiming that as a matter of convenience, every prudent man in every period of society must naturally have endeavored to create money.

Smith -- man of the enlightenment that he was -- is positing that the creation of money is part of human nature. Like, in the second chapter of Wealth of Nations, Smith explicitly says that the division of labor is the, quote: "consequence of a certain propensity in human nature ... to truck, barter, and exchange one thing for another."

But yet, no! Like, what made sense for eighteenth century city and town dwellers like Adam Smith doesn't necessarily apply to like, all human beings over the course of many millennia. And if you don't believe me, you can just ask anthropologists. They love to talk about this stuff.

So, here's the fascinating thing to me: when you look at places where the social order is not based on money, we find that people actually don't barter at all. So David Graeber's book "Debt: The First 5,000 Years" surveys the literature of anthropology and discovers that in societies without money, people don't actually barter, but they do find ways to exchange. He quotes an anthropologist named Caroline Humphrey, who concluded: "No example of a barter economy, pure and simple, has ever been described, let alone the emergence from it of money; all available ethnography suggests that there has never been such a thing."

Now, that's not to say that barter doesn't exist or that it never has, I mean, I just traded Stan two copies of my book Paper Towns for the candy left in this pinata. Big money, no whammies. Two things of Sweet Tarts?! Stan! That's not fair.

Alright, let's go to the Thought Bubble.

So, according to Graeber, barter was reserved for trade between strangers, even enemies. For most of human history, humans lived in small communities, and in those small communities, most exchange took place using forms of credit. Basically, when people know each other well, they're willing to trade with the future expectation that what one gives today will be repaid at some future date with something of roughly equivalent value. So in small, localized communities, everyone is in debt to everyone else, and there's no real need of physical money, like coins, as a way of keeping a count, because, you know, you remember when someone owes you forty barrels of beer, or whatever.

We see this historically in the early civilizations of the Fertile Crescent, where the basic monetary unit was the shekel, and one shekel's weight in silver was the equivalent of a bushel of barley. Money in Ancient Sumer was actually created by bureaucrats in order to keep track of resources and move things back and forth between departments. But that doesn't mean that silver actually circulated freely. Graeber writes: "While debts were calculated in silver, they didn't have to be paid in silver."

So while some people seem to think that money is naturally backed by precious metals, usually gold or silver, that doesn't seem to have been the case. It was enough to establish that something was worth a shekel or a fraction thereof, and then trade for something of equivalent value -- meat, or whatever else, without actually having to have the shekels change hands.

And this was especially helpful in economies where taxes and payments to workers were both in grain, rather than money.

Thanks, Thought Bubble. So, first, Graeber blows our minds by telling us that Adam Smith was all wrong about money evolving

from barter societies, but what about credit as the precursor to money?

I mean, it's basically saying that credit cards aren't an advancement so much as they're a return to the glorious past, except instead of trust, there are like, large, faceless corporations with the power to sue you.

So the essence of credit is debt, and at least according to Graeber, that's the glue that holds social orders together, at least, if you consider debt at its heart, to be about obligation. At least one of the things that binds us together as a community is the recognition that we owe our neighbors something and that they owe something to us in return. It's like keeping your lawn mowed so that you can keep your neighbor's property value high. It doesn't make sense to have a lawn -- they're expensive and time consuming, and you can't eat grass. But you take care of your lawn for the same reason your neighbors take care of theirs. Out of the sense of mutual obligation.

But money changes our understanding of those obligations, right? Because once we're able to put a price on our obligations, we can make them transferable, which wouldn't be possible without money. Like, for instance, it allows you to hire someone to mow your lawn for you, but Graeber argues that money, especially in the form of coinage, also may chattel slavery, possibly.

So in West African social orders before the arrival of Europeans, money was used, but only for weddings, funerals, and other activities that like, cemented human relationships. And the money largely had symbolic value. But when Europeans arrived, they introduced monetized trade into the system, and in the process, transformed that system. Money was no longer about transferring value to solidify relationships between individuals and families; it was about quantifying debt and also making it transferable.

So, Graeber's theory links money as we know it to slavery and war, like, coins began to be used in India, China, and the soon to be Persian province of Lydia, almost simultaneously, all around 600 BCE. And in Graeber's view, this happened because this was a period of time that saw a shift from earlier forms of honor-based warfare, like, what is described in the Iliad, to a new, more state-based warfare.

Armies started fighting over things like territory and resources, rather than, like, kidnapped wives. So in a-- oh, it's time for the open letter!

But first, let's see what's inside my globe today. Oh, look, it's a molten core of nickel and iron! Can--can you turn into coins? Oh! Stan! Look how rich I am! Virtually.

Thought Bubble's clearly much better at making it rain than I am. An open letter to honor-based warfare.

Dear Honor-Based Warfare, um, I guess now is the time in the video that I have to tell you that I don't entirely agree with Mr. Graeber. Like, with the Iliad we were telling ourselves a story about why we went to war, right? We went to war not for resources, but for glory. Honor. Now, I don't want to sound cynical and disbelieving, but we still tell ourselves those stories. These days, the President rarely goes on TV and says, "You know why we're going to go to war? We need resources." No, we still say it's about honor and ideas and standing up for the defenseless, and et cetera, which is all about as historically convincing as the Iliad. In short, honor-based warfare, I'm not entirely convinced that you, you know, exist. Best wishes, John Green.

Anyway, so in all three of these governments in India, China, and Lydia, they were pretty small scale, especially compared to the empires that would soon come, but they built their power on professional armies that needed to be paid, and coins were a great way to pay them. It just works much better than like, trying to split up the plunder among everybody. The plundering method of payment is just like a garage sale. The people who get there early get all the good plunder, and then the rest of the people, they're just left dividing up, you know, old clothes.

Also, in Graeber's view, states began to encourage the use of coins because of the uncertainty of war -- like, violence creates uncertainty for merchants, and decreases the likelihood that they will accept payment in the form of some kind of trust-based credit arrangement. And soldiers aren't known for accepting credit as payment, either, because, you know, soldiers are keenly aware that they might die soon. So, according to Graeber, this combination of war and state-building led to the rise of coinage. And then in order to keep paying soldiers, rulers, like, say, Alexander the Great, needed to continue their conquests. So you need an army in order to have an empire, and your army only likes to be paid in coins.

Now, you can seize some sweet, sweet metal plunder and then melt it down and make coins, but with an empire-sized army, that's not gonna cut it. You need more silver. Where are you gonna get new silver? Mining. Nope, Stan, not miming, I said "mining", don't ever put mimes in Crash Course again.

So now you need a steady supply of miners; fortunately, you've conquered a bunch of people, so you have lots of prisoners of war, and now you have slavery.

This military-coinage slavery complex was described explicitly in the Arthashastra, a political guidebook written by Minister Kautilya for the Mauryan dynasty, that made it clear that coins and markets sprung up, above all, to feed the machinery of war. He wrote: "The treasury is based upon mining, the army upon the treasury; he who has the army and the treasury may conquer the earth."

And Graeber says that China followed a similar pattern: he writes, "The same fractured political landscape, the same rise of trained, professional armies, and the creation of coined money largely in order to pay them." So, if money is a creation of the state and its military, then it follows that when the state fails, as it did in Europe after the fall of the Western Roman Empire, coinage largely disappears. And that's exactly what happened, actually, but of course, that doesn't mean that transactions failed to take place or that trade completely disappears, but it did decline a lot. And in situations like that, people often revert to the virtual credit systems that we talked about earlier: the ones that rely more on personal connections than on like, state enforcement.

So Adam Smith's origin myth of money -- that it derives from people's natural desire to make barter more convenient through the creation of a medium of exchange -- really doesn't hold up to scrutiny. I mean, there are clearly examples of an alternate history where production and exchange work okay without actual coins or bills changing hands. It's kind of like today, actually -- money works as long as there is some form of trust and a way to make people meet their obligations. People used to feel obligated because failure to meet their obligations would hurt their standing in their small, localized communities, and now we meet our obligations because otherwise, like, people take our houses or whatever.

But while we have evidence that money, as we conceive of it today, isn't necessary for exchange, it IS necessary, or, at least, very useful, for states, and I think states are probably good.

Oh, maybe not, I'm not positive. I just like the internet so much; I don't think we would have the internet without states.

So I wanna be clear that I don't entirely buy Graeber's version of history. I might be wrong, of course, but I'm not convinced that coins necessarily lead to slavery. And I don't think that ancient slavery is really comparable to the chattel slavery that we saw in the Americas. But I do think that it's important to look at alternative points of view when it comes to history, even when you don't agree with them. It's helpful to understand that there's more than one well-argued point of view in the world. And I do think Graeber very effectively challenges the idea that human beings are like natural, rational, economic actors who wouldn't be possible without money. And in the face of overwhelming anthropological evidence, at least this much is true: money is not the product of human nature; it's the product of human actions, like the formation of governments and markets.

In short, and I know this will disappoint some of the economics majors out there: ultimately, I think my mom was right. We aren't made of money. Thanks for watching, I'll see you next week.

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