

Section 3. Redistributive prosthetics funded with redistributive debt

Debt has played a major role in funding prosthetic employment-generating spending at least since the Renaissance.²⁹ Debt originates as redistributive debt, which is considered in this section, and rises to expansive debt, which is considered in the two following chapters. If we define redistributive debt as debt without money creation, as we do, we must be aware that even commodity money regimes knew some money creation, namely by finding and mining gold or silver. Still, it is useful to begin with this abstraction and to exclude debt, which is enabled by simultaneous money creation for the time being.

Redistributive debt generation

We analyze redistributive debt's prosthetic potential by looking out for preconditions for debt generation. These are: First, money exists; second, debtors are out there willing to take out debt and spend it but are still able, at least in principle, to repay the principal and the agreed-upon interest. Third, there must be debt holders, creditors, who own enough money and are willing to give it away for some time.

The creditors' side

Many people think that if they possessed a lot of money or other wealth, then they would not likely give it away as a money loan and expose it to the risk of not being repaid. They would rather keep it safe or at least invest it in a venture of their own, which they could oversee and manage themselves. There are, though, several errors in this. First, we have already touched upon the fact that *all* wealth, not just debt, is always at risk. Land may become useless if centers of living or of (agrarian or other) production move elsewhere, if the land is exhausted, polluted, destroyed by natural catastrophes or expropriated, or if the small peasants or tenants, who paid rent for the use of the land, die out. Businesses, too, may lose value, even going bust or may be expropriated, either in whole or in part. Even if money is held in bank deposits, it may be lost as banks may go bankrupt; fiat money may lose its value in inflations or currency reforms, or it too may be expropriated. Gold may be robbed or expropriated, and it may also lose value. The first error is, therefore, that all alternatives to giving loans are far from riskless – and what risk will materialize always depends on uncertain future circumstances. The second error: Debt is far less risky than people believe. Even a simple loan without any collateral (in the form of mortgages, pledges, or additional personal guarantors) always involves one build-in security: it involves a *claim for repayment against a debtor as a person*. This person is, regardless of what happens to the loaned money, obliged to repay the loan; in other words, the given away

29 See, e.g., *Ferguson* (2008) page 34 et seq., 42 et seq., 71 et seq

money is *secured by all other personal wealth* of the debtor and even by his capability to work or otherwise draw income in the future, including inheritances. Compare that to the risk-position of a wealth owner who poorly invests the money himself. If he opens up a restaurant that fails, then that money is gone for good; if he loans out the money to somebody who opens up a restaurant, then he retains a claim for repayment against the poor restaurant entrepreneur. Fourth, in fact, in many cases creditors can ask for and will receive additional collateral, e.g., pledges or mortgages of assets, assignments of claims for security or guarantees of third parties. A creditor who finances an investment under such circumstances need, then, not worry too much about the investment's merits, but may simply look at the other wealth and solvency of the debtor (and at how many other creditors there are that may compete for the wealth, of course). Fifth, creditors may still, in addition, select the recipient of the loan they hand out according to his experience and qualification and may prefer an experienced restaurant entrepreneur over an unexperienced one. People who are skeptical about debt, sixth, also tend to ignore that ultimately *all income must go through a stage where it has "only" the form of debt*. A private person or a firm making a sale receives a *claim* (bookkeeping entry: debit accounts receivable, credit sales); the same is true for a worker with regard to his wages, a lawyer with regard to his fees, a stockholder with regard to his dividends, and even for the state with regard to their tax claims. In this interim phase, the creditor is always and unavoidably exposed to the risks connected to owning debt, such as unwillingness of the debtor to pay or debtor insolvency. Debt is the pregnancy of new wealth and income comes only into this world through the transitory form of a debt claim. Wealth owners are, thus, ultimately *not* mistaken if they do what they have done for millennia – loan out a significant share of their wealth in money form. The issue on the creditor's side is not such much whether it is smart to give loans, but whether wealth owners have enough money. In the latter regard, as we shall see, the invention of new methods of money creation will greatly help.

The debtors' side

Microeconomically, borrowing in order to make an investment makes economic sense from both the borrower's or debtor's perspective, albeit under certain defined conditions. It makes sense if the additional costs of the loan (interest, fees, etc.) are exceeded by the *higher returns* resulting from the *investment being made earlier* (compared to saving up the required amount) or if a profitable investment is only possible because of the loan. Taking out a loan also makes sense if a spending is very urgent from a consumptive view, e.g., for medical treatment, to celebrate a marriage, for a burial³⁰ or to purchase an apartment in which to live. The financial surplus-sacrifice (of the interest or of fees) is then willingly accepted in exchange of

30 Big thing in history, see Graeber (2011) page 9, 131.

the possibility of an *earlier* fulfilment of the need or desire and in some cases, e.g., the purchase of an apartment, rent saved can be off-set against the interest paid.

States seldom borrow because they expect a profit from investing the borrowed money³¹ and states do not consume. Why do they take out loans? State borrowing began for warfare in the Renaissance, e.g., in Venice or Florence. States also borrow in times of national catastrophes. Today, they also borrow, fully aware of what they are doing, not only to create new infrastructure values-in-use (built or repair bridges and highways etc.) but in view of the macroeconomic consequences of already the spending of the borrowed money. They borrow with a view to what good the spending of the borrowed money does to its recipients, not to what states get in return for the money.

States, thus, do not follow the normal microeconomic logic that debt financed expenses ought to have an increased return or, at least, be either necessary or urgent. In a world of egoistic M–C–M'–players, states act altruistically.³² They can afford this as they own, even before money creation exists, a source of income that normal egoistic M–C–M'–players do not possess: The ability to confiscate and to tax their state subjects, and even to sometimes rob wealth or draw tributes from foreign states and tribes.

The money side

A large volume of money must be available for a great many debt contracts to come into being. Its scarcity will restrict debt contracts, but its abundance will propagate them. Quite obviously, if there is only commodity money (mainly gold and silver money), the basis for loans can only grow by finding, mining, or robbing new commodity money. The invention of credit money or state fiat money will, conversely,

31 If states borrow money for warfare, they improve their position to either defend against other countries taking away the wealth of their citizens or to appropriate other countries' wealth themselves. If states borrow to finance infrastructure, that improves the conditions for firms in their country. We still do not regard both cases as "investment" by states here as they are not M–C–M'–players themselves. In the case of war financing, the hoped-for advantages also do not accrue through exchange but outside of the economic system (wealth procurement by violence).

32 Private consumers sometimes borrow outside of, as it appears, reasonable economic logic as they borrow to finance their subsistence without a realistic chance to repay their debt. They, hence, take the resulting wave of reminders, threats, legal proceedings, execution, insolvency, penalty interest payment, extraordinary cancellation of loan contracts etc. into account, which involve significant additional costs and a loss of standing. Yet, we might also say that reasonable logic forces them to borrow, even though they cannot repay. Says Zen-Master *Taisen Deshimaru-Roshi*: "Time is the best solution for problems of money and love. If you climb into the coffin, nobody loves you anymore...". *Deshimaru-Roshi* (1994) page 40 (translation by author).

enable much more powerful money creation, thereby massively increasing the basis for loans.

Prosthetics funded by redistributive debt

Debt shifts funds for spending in space

We remind the reader that we still abstract from money creation. We assume the existence of a certain volume of money that only matters for prosthetics. We, e.g., live a commodity money or gold or silver money world, in which further growth of the physical base money is – fictitiously – excluded and where merchant and private bank credit money creation exist as little as state fiat money creation. Establishing a credit and debt relation, thus, can only make use of a temporarily limited and fix volume of gold or silver. Making a loan means moving scarce money from one unit to another, without the creditor possessing the possibility to fill up the resulting hole by easy-to-procure new money.³³

Debt works via shifting funds for spending *in space*; spending power is directed away from where it originated “naturally” and might otherwise have been applied (or not) and is transferred to the borrower. As borrowers normally have intentions to use borrowed money (and not to hoard it), formerly lazy money is activated more quickly and spent earlier; therefore, redistributive credit also often brings about a shift of spending *in time*; it takes pace earlier. Furthermore, it is likely that the borrower will use it for a *different purpose* than the lender (if the lender were to have used it all). All three dimensions are interesting from the macro-perspective. Debt can increase spending at an earlier point in time; right now, it can redirect spending to a better place, e.g., in our domestic economy, and into better uses, in the productive economy rather than in the sterile economy. We already referred to the last dimension as differences in the *propensity for productive spending*.

Debt is easy because it is consensual – but must be repaid

The debt-based transfer of spending power differs from protectionist redistributive shifts of spending power and from taxation and from other forms of expropriation by being *consensual*. This avoids the dilemmas that enforced ways of money transfer trigger. He who would be an obstinate to-be-expropriated, taxpayer, or victim of protectionism, will be an easy-going voluntary lender and acquiescing creditor. Wealth owners, who would hate to be expropriated or taxed, compete against each other for the chance to give away the same money as a loan.

33 Without money creation, we would indeed live in a world similar to the one suggested by mainstreams economics' supply and demand-curves for money, a world in which banks are mere intermediaries of pre-existing money, and where they need to collect money on savings deposits to make loans.

The initial harmony between the givers and receivers³⁴, though, comes at the price that the loans must (normally) be *repaid*. The borrower/debtor only retains the advantage to *use liquidity for some time*. More present liquidity comes at the cost of a loss of liquidity in the future. The table shows this:

Figure 17: Redistributive debt and the funding of prosthetics I

	Lender	Borrower
Loan given	-1	+1
Loan repaid	+1	-1
Result spending power	± 0	± 0

Interest and fees further reduce macroeconomic usefulness of debt

But this is not yet the end. The table abstracts from interest and fees, which worsen the situation for the borrower. As interest and fees have to be paid in addition to the repayment of the principal, the total debt service is significantly higher than the amount of the loan and the isolated microeconomic result is often an *overall loss* for the borrower. That is not supposed to be the whole story, though. Microeconomically, as we already saw, if the loan is investive, then the borrower expects an increased profit from being able to make his investment earlier or at all, which he expects to overcompensate the interest and fees, etc. – or he accepts the additional costs to satisfy his consumption need or desire earlier. What happens macroeconomically? When does investive debt financing (of *productive* investments, which only matter for us here) add aggregate prosthetic employment-generating spending? First, if investive employment-generating spending is made out of loans, then their beneficial uses do not retroactively go away if the loan cannot be repaid. Microeconomic and macroeconomic rationality part company. Microeconomically, both the lender and the borrower have failed, but macroeconomically, a beneficial employment effect from the initial employment-generating spending has been achieved. Second, even if the borrower repays the loan and pays interest in full, then an aggregate residual gain in employment-generating spending may still survive – *under certain conditions*. Assume somewhere in ancient Greece, in the Middle Ages or in the industrial revolution, redistributive credit made “lazy” money available to a merchant hero, e.g., via a *nautikon daneisma*, *f(a)enus nauticum*, a *commenda* or

34 The borrowers who receive a loan from a hated latifundia owner or from a loan shark at excessive interest, are initially – at least growlingly – grateful for it.

societas maris (for a ship venture³⁵) or a straightforward loan to a stock corporation (for a railway venture). If we allow our loan-recipient to complete his venture successfully, repay the loan, and then fail with a second venture, then we have a result roughly as shown in Figure 18.

This Figure shows that the (upper) scenario in which the loan is given has an aggregate productive (employment-generating) spending of 2.7, whereas the scenario in which the loan is not given has zero productive (employment-generating) spending. Even if we deduct the second project's investive productive spending of 1.7 and the entrepreneur's consumption out of the profits of 0.2, then we still have an original productive spending of 1 out of the remaining loan. Thus, debt service out of profits, while it reduces the microeconomic profitability of the investment, does not reduce the original beneficial effect of the loan on productive spending. Conversely, it is quite clear that *not paying interest* or *not repaying the loan* (e.g., by consecutive debt cancellation or partial debt cancellation) raises aggregate productive spending, given that it would allow for further productive spending (instead of sterile "tribute" spending) to be made.

If we look at redistributive *consumptive* debt we find again that the beneficial effects on employment-generating spending do not go away if the loan cannot be repaid. Loans to propertyless workers, e.g., to enable family celebrations, marriages etc., or which are needed in times of catastrophe, e.g., the Corona pandemic, do, thus, not lose their beneficial macroeconomic effects if they cannot be repaid. The loans taken out by decaying former feudal wealth owners to finance their ongoing luxury consumption also only, ultimately, added to aggregate employment-generating spending to the extent they were not repaid. Otherwise, while they allowed for the nobility to distribute the remnants of their wealth more flexibly in time, the interest and fees ate up a part of the value of the mortgaged mansions and drew it into the sterile economy.

35 See Weber (1980) page 51. These legal forms were mixes between loans, silent partnerships, and partnerships. Rather similar practices existed in Sung China a few centuries before (McDermott/Yoshinobu, Economic change in China, 960–1279, page 403).

Figure 18: Redistributive debt and the funding of prosthetics II

	Original loan	First project spending (fully productive)	First Project revenues	Debt service (repayment principal, interest)	Consumption by Debtor (fully productive)	Second project spending (fully productive)	Second Project revenues (failure)	Aggregate productive spending
Loan given	1	1	3	1.3	0.2	1.5	0	2.7
Loan not given	0	0	0	0	0	0	0	0

The dilemmas of funding prosthetics with redistributive debt

In the above pages on redistributive debt, we have already encountered the first dilemma of funding prosthetics with debt (which applies generally to redistributive and expansive debt alike): *Debt normally has to be repaid* – with interest and fees on top. Yet, the best debt for macroeconomic purposes would be non-repayable debt! The problem with non-repayable debt is, though, the extreme scarcity of creditors who are willing to hand out such loans. Rather wealth owners will scrutinize prospective loan customers, force them to make disclosures on all sort of things that could constitute a risk for the debt service and torment them with score-systems, etc., all this with the purpose to deny loans to such applicants (non-repaying) who would macroeconomically best serve the purpose of funding prosthetics with redistributive debt.³⁶ Thus, the “repayment-restriction” and “interest-restraint”, i.e., ultimately the profit-criterion, pose a dilemma of using debt to generate macroeconomic employment-generating spending. The profit-criterion also restricts the willingness of prospective debtors to take out loans.

On the other hand, if consumptive loans are handed out and used for employment-generating consumptive spending, the principal is repaid and interest and fees are paid, future consumption will fall below the level where it would be without

36 It renders banks more generous towards their worker-customers if they can hope to sell their “NINJA”-loans to each other before their flaw becomes visible – as in the case of subprime loans – or to the central bank – who engages in “quantitative easing”. But that normally only becomes a factor under conditions of money creation; hence, where debt is expansive.

the loan; there will, thus, be an aggregate loss of employment-generating spending in consequence of the loan, a macroeconomic loss. Only in the case of investive loans, which are turned into employment-generating and successful investive spending, will there be a significant macroeconomic gain, which will see all participants microeconomically happy. All this is true, as stated previously, for redistribute and expansive debt alike.

Yet, the macroeconomic use of redistributive debt incurs an additional dilemma. In a regime without money creation, e.g., in a commodity money regime (gold or silver money) without any inflows of new gold or silver, money is very scarce. The lending counterparties ought to possess tons of gold and silver (or credit entries covered with them) to serve all hypothetical requests to finance prosthetics, but they do not have them; *there are simply not enough creditors who will lastingly part with their money*. This will educate borrowers to observe traditional limits of borrowing, i.e., mostly to only borrow money transiently in particularly urgent value-in-use-needs or in the case of particularly promising profit expectations. And, of course, they will only borrow at comparatively high interest rates, which will additionally microeconomically shrink the number of debt contracts that come into being and work against a macroeconomic effect of redistributive debt.

The macroeconomic effect of redistributive debt, is, accordingly, restricted by the profit condition imposed upon granting and taking out repayable loans by lenders *and* borrowers, which two conditions can only be conjointly met in the case of a very successful investive spending of the loan by the borrower. It is, additionally, restricted by the limited volume of money available in a world without money creation. Redistributive debt, thus, never rose to the macroeconomic relevance that expansive debt – debt under conditions of money creation – would later acquire, especially in fiat money regimes.