Book Reviews

Alexander DOUGLAS. *The Philosophy of Debt*. Abingdon: Routledge, 2016. 164 pp.

Recent financial events, especially the subprime and the sovereign debts crises, have revived debate on debts, the necessity of debt repayment and the eventuality of debt cancellations. A milestone in this debate was reached by David Graeber's *Debt* (Brooklyn: Melville House, 2011), but despite the richness of this essay, many normative questions remain unanswered. Should debt always be repaid? Who should repay it? Should government deficits be allowed or even encouraged? Alexander Douglas' recent book aims to provide an answer to all these questions. The main endeavour of the book lies in applied philosophy, that is in finding general principles able to answer such questions and to reconcile our possibly conflicting intuitions about debt and credit. However, the analysis is largely nourished by history, linguistics and economics, which makes the book highly original and multidisciplinary.

The author's general thesis is that debt is an institution necessary for society to benefit from certain goods of common life and that, therefore, this institution should be sustained and respected. Of course, not all debts are indiscriminately beneficial in every instance, only productive debts of a certain kind are. Overall, however, the institution of debt – of making loans for profit – is beneficial. This entails several kinds of obligations for states, banks, firms and individuals, which I examine later on.

The book is divided into 36 short chapters grouped into five parts. In the first part (*Language*), the author insists that the word 'debt' is equivocal and that common usage has often exploited its ambiguities. The biggest confusion concerns the relation between debt and duty. Debt, the author argues, is not a genuine synonym for duty. What one owes to someone else (duty) is not simply determined by what one borrowed in the past (debt). And there are many instances in which one has, in fact, no duty at all to repay one's debts. A first instance may occur when ordinary taxpayers have to repay a debt contracted by a corrupt bunch of apparatchiks. Clearly, the author argues, there is no obligation to repay debts contracted on such terms. A second instance occurs when one borrower cannot repay her debts because of bad luck or unforeseeable changes in circumstances. As the author writes, "ought implies can" (15), so if one cannot repay, one must not. Third, one may not be obliged to pay one's debt if it appears that the creditor had no real trust, at the moment of the contract, in the debtor's ability and willingness to repay it. This means that if the lender did not secure a proper amount of underwritings,

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or if there was, at the moment of the contract, reasonable grounds to think that the debtor was not able or willing to repay the debt, the duty to repay it disappears. Finally, lending money with the fraudulent intent of seizing power over the debtor by taking advantage of her inability to repay does not generate, according to the author, any duty for the borrower to repay her debt.

A natural question arises from all these qualifications: how then can a debt generate an obligation? The author draws on Hume and Anscombe to build his own answer. Hume argued that keeping one's promises (and especially the promise to repay a debt) is mutually advantageous in so far as it allows the market society to function well, and one has therefore a duty to sustain such an institution. Anscombe generalised Hume's argument to all kinds of promises and societies. She maintains that it is everyone's duty to honour promises since the institution of promising is necessary for the "[...] attainment of so many goods of common life" (26). So, the author concludes, since the institution of debt is necessary to certain human goods, it must be sustained and respected. Failing to repay one's debt may weaken the necessary and beneficial institution of debt and is therefore wrong.

One may doubt that the institution of debt is *sufficient* to preserve the sorts of goods (still undefined at this stage) that it is supposed to support, and that such an institution *always* generates such goods. In part II (*History*), the author goes through many historical examples that show that these doubts are indeed sometimes justified. Ancient usury, as the author calls it, was often a form of wealth extraction (extractive usury) rather than a way to enhance production (productive usury). Examples taken from antique Mesopotamia and Rome demonstrate that debts were sometimes a means for kings or powerful creditors to seize power over people's wealth and labour (36), and even a way to force them into slavery. Faced with such facts, however, the author maintains a slightly refined Hume-Anscombe argument that *good* kinds of usury (productive usury) form a useful institution to be preserved in order for all to benefit from the "so many goods" it provides to society (60).

What are these "so many goods"? We have to wait for an answer. The author wants first to understand properly another key institution: money. Part III (*Money*) starts with a critique of the classical theory of money – which conceives money as a mere commodity serving as a means of exchange. History demonstrates that it is wrong. Barter is a myth, the author argues, and money did not simply emerge as a means to make trade easier. Instead, the author supports Mitchel Innes' "The Credit Theory of Money" (*The Banking Law Journal* 31/2, 1914: 151-168), which conceives money as an IOU, as a debt. According to this theory, money represents the debts buyers owe to sellers. Monetary exchanges should therefore be thought of as a relationship between debtors and creditors. In theory, the author argues, each debtor (buyer) could issue its own kind of IOU, if creditors (sellers) accept it. In practice, however, there is only one dominant accepted IOU which counts as money: the official currency guaranteed by the government. In order to account for this fact, the author borrows from the chartalist theory of money (L. Randall Wray. *Modern Money Theory*. Basingstoke: Palgrave MacMillan, 2012). In sum, this theory argues that there can only be one item, one kind of IOU, accepted by all:

the one that people are forced to hold in order to pay their taxes. The government's IOU is today's money because the state is the 'dominant' debtor (81). It is able to force people to accept it "[...] by its ability to impose a tax debt upon [them]" (82). The government's IOU is therefore special. It is debt, but a debt that people are forced to accept and to hold in order to pay their taxes.

The author draws two important conclusions from these two theories. First, government deficits are not as problematic as they may seem. They may even be beneficial. Deficits, or the increase in government debts, are a way for the government to create money, since its debt is accepted by all. The government can therefore, if needed, flood the economy with liquidity simply by going into debt. Taxes, on the other hand, ensure that the government's IOUs are accepted as the only universal means of payment. Taxation may also be used to reclaim money, either to repay debts or to reduce the supply of money in the economy. Taxes and deficits thus have an unexpected monetary role. In times of inflation, governments can raise taxes to decrease the quantity of money circulating in the economy. In times of recession, they can go into debt to flood the economy with liquidity.

The picture is almost complete. In part IV (*Political Economy*), the author argues that "[...] the good of common life" provided by the institution of debt is "increased production" (104). Accordingly, he develops his own theory of production based on classical economic theory (Smith and Marx, mostly). Production, the author argues, is driven by 'greed' (the desire of capitalist to accumulate capital) and by 'debt' (the necessity of some advance in capital for any production to take place). This theory implies that the institution of debt is crucial to sustaining increasing levels of production. Without increased amounts of debt, one cannot find the necessary means to start producing something. The institution of debt should thus be supported. This entails three obligations: (i) one has to repay one's debt, since failing to repay would weaken the whole institution; (ii) one must emit new debts, since this is necessary for production; and (iii) the government must consistently run deficits, so that enough money always circulates within the economy. The government, according to the author, has an obligation to go into debt in order for the economy to reach full employment. This third obligation, however, is subject to one qualification: inflation must be avoided. Governments should not inject too much money into the economy. The quantity of money should not rise above what people require for productive activities. In sum, failing to respect one of these three obligations, the author argues, would be wrong, as it would weaken a necessary institution and provoke damaging consequences for the economy (lack of liquidity and unemployment, among others).

This brief overview shows that the author's account of debt, money and production is particularly in line with his normative claims. Production, which belongs to the goods of common life, requires debt. All economic actors, especially the state, thus have a duty to emit debts and then to repay them so that the institution of debt is strengthened. Despite this internal consistency, I would like to raise two criticisms. The first is concerned with the normative side of the book. The Hume-Anscombe argument – which states that the institution of debt should be honoured – is incomplete. One would need a more thorough examination of why the institution of debt is necessary and beneficial. The second questions certain aspects of the theory of money and debt that the author borrows from chartalism and from Innes' 'credit theory of money'.

On the ethical side, one may wonder how Douglas's general principle can resist the numerous historical counterexamples he himself gives. The book does not provide much empirical evidence that, overall, debt has indeed been a productive institution, beneficial to all. Rather, as we saw in Part II, the author provides many examples of the contrary. Debts were often a means for kings to seize power over people's wealth. Moreover, the discussion of duty and debt undertaken in the first part may suggest that duty to repay one's debt is the exception rather than the rule. According to the author, the duty to repay is conditioned by debtors' ability to honour their debts and by creditors' confidence in the institution of debt. So why respect an institution that behaved so poorly in the past, according to the author's own record, and which accepts so many exceptions? The author argues that, despite these defects, the institution of debt is beneficial and necessary. It allows for 'increased production', one of the 'goods of common life'. First, while nobody would deny that some production is necessary, surely many would disagree that '*increased* production' is indeed always profitable for all. For instance, some oppose growth for environmental reasons. One would need more than a few paragraphs and more than a few complaints about the "evils of unemployment" (104) to show that, indeed, increased production is a necessary part of the goods of society. Second, one may wonder whether the institution of debt always supports the *right* mode of production. In part II, the author shows that the institution of debt helped to sustain exploitative forms of production and dictatorial political regimes. Can the institution of debt be cured of such harmful consequences? The author does not provide any answer to this question. However, a defence of the institution of debt would require a defence of the 'kind of production' it helps to maintain. What should be shown is not only that debt sustains production, but also that it may be designed to sustain the *right* mode of production.

On the economic side, the author contends that the government is the dominant debtor in the economy. It can coerce people into accepting its IOU (its debt) by requiring them to pay taxes. Government IOUs thus become the only ones used in the economy. These conclusions, however, understate the power of creditors and overstate the role of taxation in monetary policy. Firstly, a state's power to raise taxes does not necessarily make it a 'dominant' actor. The state can actually be dominated by its creditors, as the recent case of Greece illustrates. When unable to repay, a state may be forced to give in to its creditors' demands. The more a state is indebted, the more it is accountable before its creditors, and the more these creditors can impose their conditions. The state can certainly coerce people into paying taxes, but this does not imply that it has the power to indefinitely emit debts. Creditors (mainly banks and other financial institutions) may refuse to buy these debts. They may even take over the state's financial sovereignty, as Greece recently experienced.

Secondly, taxation may not be a sufficient condition for the acceptance of a currency, in contrast to what the author is claiming. Some Latin American countries experienced long periods in which people refused to hold and use the government's currency, such that even taxes were paid in another currency. This clearly shows that, even if taxation may be one of the necessary conditions for a currency to be accepted, it is certainly not a sufficient one. Moreover, taxation may also not be enough to sustain the state's monopoly over money. It may not be able to rule out competing kinds of currencies. In Switzerland, for instance, where all taxes have to be paid in Swiss Francs, many small and medium businesses use the WIR, a parallel currency. They just have to maintain a part of their sales in Swiss Francs to be able to pay their taxes. This suggests that other forms of coercion are necessary to impose one's IOU.

The author does not only contend that the state imposes its IOU by taxing its citizens. By emitting new debts or changing the rate of taxation, the state may also manage the supply of money and, consequently, the rate of growth of production. The state can cool down the economy when inflation occurs; or it can speed it up when necessary. This is clearly a simplified view of economic policy. The government cannot raise taxes or emit more debts with such apparent ease, as the recent case of Greece demonstrates. People are not always willing or able to pay taxes. Excessive rates may convince them to hide their money in tax havens, or even trigger revolts. Similarly, the state may not always be able to emit more debt certificates if creditors refuse to hold them.

All these remarks undermine the author's claim that we collectively have a duty to sustain the institution of debt. First, one would need a more thorough examination of the sorts of goods the institution of debt is supposed to sustain. Not all debts are beneficial, and not all forms of production are desirable. Second, the government may not always be able to run deficits and emit debts. It is not at all clear, therefore, that it has a duty to go into debt.

The *Philosophy of Debt* is a book full of examples and insights from many disciplines: history, economics, linguistics and ethics, among others. This richness has to be acknowledged. It helps the reader to understand what debt is, and it sheds new light on the normative issues that lie at its heart. Although several of these normative issues would certainly deserve a further analysis, the book provides a very useful examination of the ethics of debt, which should interest both economists and philosophers.

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Leni FRANKEN. *Liberal Neutrality and State Support for Religion. S.l.* Springer, 2016. 211 pp.

The question of the relation between State and Church or, more generally, between the political and the religious was, is and will probably continue to be one of the most debated questions in political philosophy. Between the two extremes of political atheism and radical theocracy, we finds a whole range of intermediary positions. It is some of these positions which Leni Franken discusses in her recent book on liberal neutrality and State support for religion.