The Social Ontology of Debt (M.A. thesis project)

More precisely: exploring the relationship between debt and money in terms of social ontology – or: what role does debt play in how money works?

Point of Departure

The origins of money are most commonly explained with the **Barter Theory of Money**: it alleges that in ancient times, people would simply engage in exchange of whatever they had for whatever they wanted, e.g.: I have chickens and you have shoes; you want chickens and I want shoes; I give you x number of chickens in exchange for you giving me y pairs of shoes. The main problem with such exchanges is that they rely on the **coincidence of wants**, meaning: I do in fact have what you want, and you have what I want. But as this is a rather improbable situation in reality, a third item is introduced as a common means of exchange, such as seashells, squirrel skins, or pieces of metal. Famous early proponents of the Barter approach include Adam Smith and Carl Menger, and it is used in mainstream economic textbooks until today (cf. Graeber 2011, chapter 2: "the myth of barter").

However, there is **no empirical corroboration of the Barter Theory**. It serves much more as a thought experiment to explain how money works, rather than as an actual historical account of how it came to exist. In contrast, Graeber (2011) argues that searching for the origins of money in the creditor-debtor relationship is a historically more accurate approach, writing: "Why not simply write off the myth of barter as a quaint Enlightenment parable and instead attempt to understand primordial credit arrangements – or anyway, something more in keeping with the historical evidence?" (p. 44)

I'd like to explore the corresponding philosophical question: **what role do credit and debt play in the logic and functionality of money?**

Social ontology of money

Social ontology is a relatively young philosophical 'discipline' which explores social phenomena with analytical methods. It studies "the various entities in the world that arise from social interaction" (SEP entry on "Social Ontology", intro). Money is one of its favorite objects of analysis. It is obvious that money is socially constructed: that seashells or coins or pieces of paper hold value and can be used to exchange goods and services is based on agreement and common practice among social agents; otherwise they would simply be seashells or pieces of metal or paper.

One dominant approach to spelling this out is associated with **Searle** (1995, 2010): money's existence is brought about through **collective intentionality**, i.e. someone declares that something is money (a performative speech act), and others accept it such that it becomes a rule. In this way we collectively intend for that thing to be money. This corresponds with the ordinary understanding that money works because we all believe that it does; if we all just stopped believing that, money would cease to exist. Following Searle's theory, money has a **status function**: seashells or coins or pieces of paper function as a medium of exchange in virtue of having received the status of money through social agreement and practice.

According to an alternative account, the intention or declaration that something be money is not necessary; instead something is money because it is a **solution to a social problem** like the coincidence of wants, and not because it has been declared to be money. This approach criticizes the first for emphasizing beliefs and intentions too much, and focuses instead on how something works (functions) in a social setting (cf. Hindriks & Sandberg 2020; Smit et al. 2015).

Social ontology of debt (in money)

In economics, the two main theories of money are (cf. SEP entry on "Philosophy of Money and Finance, section 1):

- **The commodity theory of money or *metallism***: money is a commodity which fulfills several functions; typically the following are named as money's main three functions are: (i) medium of exchange, (ii) unit of account, (iii) storage of value. These functions emerge as solutions to problems of the Barter scenario. Money consists in whatever things are dedicated to fulfilling those functions; historically, those things were typically given form in metal coins, so this theory is often called *metallism*.
  → Social ontological interpretation: **money as a commodity is a physical object** (such as coins) which has use value in serving those three functions. It is grounded in already existing valuable items, such as with the gold standard or in labor theory of value (i.e. products that have already been created).

- **The credit theory of money or *chartalism***: pieces of money are tokens of credit relationships: someone's promise to (in the future) give a product or service to whoever holds the token. State's governments are typically the entities which enforce such promises and thus guarantee money's value, hence the name *chartalism*. This theory's advantage over the other is that it has a better grasp on fiat money, which is the dominant kind of money today.
  → Social ontological interpretation: **money as credit or debt is a social relationship**. It also fulfills the three functions above, but its value is grounded in items whose existence is not yet, but which are promised to exist in the future. *Does that mean that the status function of debt is to give money value?*