modern money, debt slavery and destructive economics

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The Grip Of Death

Michael Rowbotham
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'Fascinating'…'lucid and original'…. 'an essential self-education tool'…. 'well researched'…'one of the best' are some of the very favourable comments this book has already received from people like Herman E Daly, Richard Douthwaite, Bryan Gould and Ed Mayo. Their views should be enough to persuade anyone interested in creating a better world that it is essential reading. As David Korten puts it, Rowbotham ‘fearlessly reveals deeply disturbing truths about our debt-based money system that befuddle bankers, economists and politicians'.

So don't let the title, the grim cover illustration, the reference to debt-slavery or even the price put you off. This is a very relevant, informative and well-written book and asking your library to obtain a copy would be a service to your local community.

The truths it reveals are at times shocking. For example, it is frightening to learn the extent to which our collective indebtedness has grown in recent years. The book also explodes more than a few widely accepted myths. However, it is not just a powerful indictment of bankers, economists and the money system. *The Grip of Death* is arguably the best book ever written on how we can move towards a money system for a sustainable and inclusive world.

First, Rowbotham shows the reader how our present type of money is created almost entirely by private banks and other lending institutions. Although the power to issue, manage and control the supply of something so vital to us all as money should be under democratic or government control, unfortunately it’s not.

In the UK for example, 1997 Bank of England statistics show that the total amount of money created by the Treasury on behalf of the UK government is a mere £25 billion in notes and coins. Banks and building societies created the remaining £655 billion (97% of all money in use in the UK.) by lending it into existence in the form of mortgages, personal loans and overdrafts. Consequently, borrowed money makes up almost the entire UK money stock. The same is true elsewhere. In the US well over 90% of the money supply has been lent into existence..

Traditionally, the amount of money banks could create and lend into circulation was controlled by governments setting liquidity and reserve/asset ratios for the institutions to meet. By the 1980s, however, the liquidity ratio had become functionally meaningless because, as Rowbotham explains, the banking system had found ways around it by investing in short-term government securities.

The reserve/asset ratio governed the amount of their own money banks were required to set aside as a standby in case large numbers of depositors wanted to withdrawal their money simultaneously. A reserve/asset ratio of 10% meant that if a bank made a loan of £10,000,000 it must have £1,000,000 of its own capital in cash or on deposit in the central bank to back it. This ratio has since been replaced by the capital adequacy ratio, which also links a bank's lending to the amount of its own capital it has. It is set at 8% by international agreement. However, instead of being an effective restriction on banking and money creation, Rowbotham shows in practice it helps perpetuate the problem of escalating debt and forced growth.

Rowbotham contends that conventional banking theory and these supposed restraints allow economists to present the institutionalised usury of the system as something that operates under control. He then shows emphatically that these controls are inadequate.

In regard to the ownership of money, bankers and economists claim that it is created as a ‘service to the borrower’. Like the myth that banks are merely lending out their depositor’s money, this suggestion is false. Rowbotham shows that bankers create money for themselves, because as borrowers repay the loans which created the money initially, their payments are accounted as assets of the bank.

On monetary policy, the author shows that raising interest rates, the economist’s standard response to inflation, certainly works but in much the same way as a lump-hammer works to carve a chicken. Higher rates do curtail new borrowing, but previous borrowers suffer too by having to pay extra interest. As a result, debt escalates, businesses go bankrupt, homes are repossessed and millions of workers are laid off as the economy sinks into recession

The term mortgage refers to the medieval ‘death pledge’, a form of borrowing where the owner pledges his house to another ‘until death’. This form of usury was forbidden under Christian law. The book’s title derives from that term and the evidence Rowbotham outlines justifies his use of the similarly grim term debt slavery. The distinguishing characteristic of a slave he argues is not that he is badly treated. Rather, it is that he has no say over important aspects of his life.

The statistics presented on British and American mortgage borrowing are indeed shocking. He reports that in 1996 the total value of the UK housing stock was approximately £1100 billion, against which mortgages totalling £409 billion (i.e.; 37%) were registered. In the US in 1997, a massive $4.2 trillion, (i.e. c.IR£3,500 billion) was outstanding on mortgages, equivalent to 48% of the value of the all US residential property.

Rising indebtedness has also been highlighted by some of the contrarian market analysts in recent years. One of them, Robert Prechter, estimated the total debt registered against US citizens, companies and agencies was close to $20 trillion. Certainly, if US citizens stopped buying what they cannot afford, the economy would collapse.

Rowbotham illustrates clearly the central role played by bank credit in economic life and how debt-based money is at the root of destructive economic trends. He shows why most people, businesses and governments get so heavily into debt. Exploring the broad impact of debt he shows the pronounced bias it engenders toward unsustainable growth.

By analysing money in action, the flows and tensions, he enables the reader to see the role and responsibility of the financial system for the nature of modern growth. Forced economic growth is shown to derive from intense competition for money, lack of purchasing power and near total wage dependency. Demonstrating these in action he demolishes the suggestion that growth is responsive to the aggregate desires of people either as consumers or workers. His analysis is revealing and complements Herman Daly’s perspective on decadent growth and Douthwaite’s 'growth illusion' which enriches the few, impoverishes the many and endangers the planet.

It is not consumers, but the debt-based financial system which makes a techno-marvel, disposable, wasteful, junk-product ‘consumer’ economy inevitable, he states. The consumer is ‘completely subordinated to the process.' Industry and consumers are also completely subservient to the regular booms and slumps of the business cycle which he contends is entirely monetary in origin, shape and effect.

Historically both the landed and financial aristocracies have wielded formidable power but Rowbotham does not acknowledge the central role of inequitable land distribution in determining socio-economic evolution. Land still provides the collateral for the largest portion of lending and neither could succeed to the same extent without the partnership of the other. He could perhaps have included landlessness, homelessness, and housing/rent inflation among the factors contributing to forced economic growth.

Although the role of land and property speculation is omitted from his explanation of the boom-bust cycle, his analysis is full of insights and does not seem incompatible with this reviewer's neo-Georgist viewpoint. Land/property owners and banks each benefit greatly from the rampant land price inflation and spatial squeeze so characteristic of the ‘boom’ economy. It was Winston Churchill who described land as the greatest monopoly, a perennial monopoly and the mother of all other monopolies.

Rowbotham’s exposé of the debt-based financial system offers us original and valuable perspectives upon agriculture, centralisation, export trade and the competitive inefficiency of food distribution. He argues that the financial system so dominated agriculture and food production that it forced them to supply people with what they expressly do not want. Transport has become a competitive device which he shows has led to futile waste.

However, the most appalling effects of our debt-based financial system are, he contends, felt in the Third World. The success of the multinationals he attributes not to their efficiency but to the conditions, advantages and pressures created by the debt-based financial system. Countries are locked in trade warfare, desperate to secure the export revenues to service loans which Rowbotham insists are of a fraudulent nature; 'The full horror and iniquity of Third World debt is that the under-developed and indebted countries of the world are acting as part of the money supply to developed nations'. He shows how this money is created as debt registered to impoverished nations but bound up in the economies of the wealthy nations.

Rowbotham talks about disarming the financial system, about the ‘temporary tigers’ and the manipulated consensus. He considers in detail the suppressed alternatives put forward by Abraham Lincoln , CH Douglas and others. Lincoln’s Monetary Policy, a literary gem, is included in full. Thus the author more than amply covers the ground before outlining his prescription.

In the final chapters Rowbotham shows that the opportunity for evolutionary, as opposed to revolutionary change, is within reach. He outlines a ‘spectrum of opportunity’ available through the creation and phased introduction of government-issued debt-free money. This ‘compensating money supply’ is part of a cautious and realistic strategy of reform. Its key objective, it would appear, is to attempt to find the right balance between a stable debt-free money supply and a useful level of bank credit. He provides an outline and statistics on how this strategy could be implemented over two decades in the UK.

The author concludes by stressing that monetary reform is not primarily a technical matter but a political one. He shows convincingly that bank-produced money is neither a neutral nor accurate medium and that money should be created instead by governments answerable to their peoples to whom the right to issue it belongs.

By producing an excellent book which has already been the catalyst for public debate on money and debt-finance, Rowbotham has done us all a service. This is a book which deserves a very wide readership.

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