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***The Grip of Death, a Study of Modern Money, Debt Slavery and Destructive Economics*,**
by Michael Rowbotham (1998);
published at Charlbury (UK) by Jon Carpenter

review by Keith Rankin, October 1998

The Grip of Death is a 326 page polemic by Michael Rowbotham that blends Social Credit and Green approaches to economics.

Like others of its genre, the book fails because it blames virtually all economic ills on a single cause; in this case the banking system through which 97% of our money is created. A rather unlikely scheme of monetary reform is then presented as the solution.

It would be a mistake to dismiss totally Rowbotham's book, however, on account of its analytical shortcomings. The role of entrenched indebtedness surely is an important part of any useful analysis of economic crises. His proposed solution of monetary reform, while simplistic, contains elements which should not be dismissed out of hand. Governments should print money; the real questions are "when?" and "how much?".

The title "Grip of Death" is a loose translation of the word "mortgage", which means literally "death pledge. Rowbotham outlines the growth of mortgage finance as a particularly insidious form of personal indebtedness, which places the householder into a position of complete dependence with respect to the financial system. In particular, given the growth of mortgages relative to national income, consumer debt places workers into a state of "wage dependence" or "debt slavery". Wage dependence causes the supply of labour to be higher than it would otherwise be, leading our economies into a state of "forced economic growth". A chronic lack of demand, caused by the indebtedness that is a necessary corollary of the means we have adopted to create money, causes us to produce more than we have in order to be able to buy what we already have. Furthermore, the tension created by indebtedness forces us to innovate, to find creative new ways of overproducing.

Whereas the Social Credit analysis of the interwar depressions sought to explain why our economies underperformed, the same analysis is used here to explain what might be called overperformance. The overperformance becomes a problem, Rowbotham asserts, because of reduced quality of the goods and services now produced, and because debt dependence denies us the option of choosing more leisure and less work. In claiming reduced quality, he directly contradicts Alan Greenspan and New Zealand's Reserve Bank Governor (Donald Brash), who claim that inflation is overstated by perhaps 1% per annum because no account is taken of *increased* quality (Rankin 1995).

Rowbotham claims that everyone except for a few rich individuals (who do not matter because they are so few), and every government, is subject to the travails of debt. This debt arises from the fact that our bank advances are created as debt, and not borrowed from creditors. While he denies that there is any serious problem of income distribution in modern capitalist economies, he argues that there are huge imbalances in economic power, meaning that international financial intermediaries impose their collective will on governments and households alike. While Rowbotham concedes that "the matter of interest is a superficial connection" between debtors and creditors, he claims that the only relationship of consequence is that between banks and their debtors. Creditors don't feature.

In pursuing his analysis, Rowbotham touches on many of the intractable issues facing the international economy. He surely is correct to emphasise that excessive levels of competition arise from the difficulty we face in disposing of goods and services to scarce customers, and not in the accepted economic problem which is that of many consumers competing for scarce goods and services. Undoubtedly the financial system plays a large part in creating economies of apparent abundance by encouraging firms to produce more wage goods than wage earners can afford to buy. He is correct, also, to emphasise the mercantilist nature of the international trading system, whereby countries compete with each other by each trying to achieve export surpluses. Further, he notes that institutions such as the International Monetary Fund expect debtor nations, usually in the Third World, to bear the cost of correcting their imbalances, despite the fact that they play an essential role in the creation of the world's money supply, and that it is the surplus countries which are both more responsible for the international debt problem and more easily able to take the steps required to alleviate it.

In the second part of *The Grip of Death*, Rowbotham surveys the history of banking and financial crises, laying particular emphasis on the period from 1815-1848, when the British government consciously tried to repay the war debts through a spectacular contraction of the money supply. This period, that of the classical Industrial Revolution, certainly fits the thesis of forced economic growth, of extreme poverty coexisting with a particularly dramatic expansion of the British production possibilities frontier.

Rowbotham considers the monetary reform ideas of Abraham Lincoln, who proposed to continue creating government credit money after the US Civil War, in contradistinction to the efforts of British governments after Waterloo. Lincoln's assassination is thus seen as one of those pivotal events by which an historical window of opportunity was missed.

The most substantive chapters are those which fully discuss the social credit ideas of CH Douglas, and in which he applies his version of Douglas's remedy. The essence of Douglas's approach is that there is a chronic gap in purchasing power which can only be met by newly created money. Douglas proposed a "national dividend" to be paid entirely to all adult citizens, as a means of injecting credit money into the financial system. The amount of the dividend would be carefully calculated so as to ensure that the claimed gap between total prices and total distributed incomes would be closed.

Rowbotham concedes that this formula has shortcomings, yet fully accepts Douglas's analysis of underconsumption, which is known as the A+B theorem. In accepting this analysis, Rowbotham is at once a critic of both underconsumption and overconsumption: we consume more than we want, but we cannot afford what we consume.

Rowbotham favours a synthesis of the Douglas and Lincoln reforms. Lincoln wanted new government-created money to be spent in lieu of taxes, in a Keynesian fashion. In addition, Rowbotham favours a universal basic income that goes well beyond Douglas's national dividend. Initially, during the phase of transition from a debt-based to a credit-based monetary system, the basic income as proposed would be funded entirely out of new money. After the transition to a credit-based financial system the basic income would be funded by a mixture of credit and taxation.

Rowbotham is unconvincing on the question of inflation. While he is correct to point out that much of the inflation that western economies have experienced in the last 25 years is cost-inflation, in denying that inflation can ever be linked to money as money (ie not as debt) his reform proposals lose any credibility that they might have otherwise gained.

I am particularly concerned about Rowbotham's universal basic income (UBI) proposal, because I am one of the leading advocates of UBI in New Zealand (see Rankin 1997, 1998a, 1998b). For me, however, the UBI is a basis for income tax and social welfare reform, and should be seen as an entirely separate issue from monetary reform. Linking the UBI with monetary creation confuses the public and detracts from its political credibility.

Overall, *The Grip of Death* is a frustrating book. It presents much interesting material - perhaps too much - while contriving to link it all to a flawed method of creating money. Unintentionally, however, it explains, inasmuch as it explains anything, an historical process of unbalanced economic growth. I wonder what Rowbotham would make of J.A. Schumpeter.

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