Money as the Means of a New Feudalism

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The first and most important rule of money is that it's a concept, not a thing.

For many if not most people, money is a huge practical and psychological factor in their lives. Perhaps because of this, it is usually regarded as a given – an objectively real quantity which can change hands, sure, and be argued about, but which in effect has to be there already, to have some ill-defined historical provenance before it can be fit, proper and legal. Almost no-one thinks that it's even relevant to ask the questions of how it is created, who creates it and what effects this has.

To the extent that anyone does think about it, the most likely-seeming answer would probably be that governments have a monopoly of lawful money creation: isn't that what the Royal Mint's for, and why forging money is, er... a crime? Well, yes and no – but mainly no. Governments are indeed responsible for the supply of some of the money in circulation. The thing is, in almost all modern currencies only around 3% is actual government-created banknotes and coins, whilst the remaining 97% is entirely virtual, coming into existence by virtue of commercial banks making loans with interest attached. It does not represent any tangible stored resource, gold, silver or anything else. In other words, far from being a solid and neutral tool, almost all money is created out of nothing and exists only as debt.

This immediately seems contrary to common sense. It's such an implausible claim that it surely has to emanate from rather desperate conspiracy theorists. Except that it's documented: in relation to sterling, Bank of England statistical releases show that for September 2013, the total of what they call "narrow money", i.e. notes and coins issued debt free by the state, amounted to 2.8% of the total money supply (designated as M4). The rest is the sum total of bank lending, registered as deposits in bank accounts. When a loan is finally repaid, that money disappears from currency, which means that to maintain supply and keep banks going (in aggregate the same thing), new loans have constantly to be made. That explains a lot, and turns out to have vast knock on effects.

This situation has been building up for hundreds of years, at least since a consortium of subscribers to the newly formed and (then) privately owned Bank of England loaned the crown £1.2 million in 1696 to defray military spending, so initiating the National Debt and being granted in return the exclusive right to issue promissory notes as legal tender. Goldsmiths had for a long time been issuing similar notes, well beyond the quantities of gold they actually held, which were traded more locally and less officially.

The model of money as bank credit, i.e. debt, became established. Perhaps governments found it convenient to follow the practice of borrowing supposedly objective money from private sources, because outsourcing seemed to transfer responsibility. In any event, the literal equation of money with debt to banks has expanded internationally to the present extraordinary ratio, accelerated considerably by the global deregulation of the last 30 years. (In 1965 "only" 80% of sterling was bank-created.)

The effects are profound. 97% of all money is fundamentally owned by banks and hired out to everyone else, with interest charged for the privilege of using it. Therefore almost all economic transactions, since they are carried out by use of money, have to produce not only what is required by participants, but an additional percentage to repay banks for advancing the money. All parties have in effect to find an extra profit margin to achieve this, and the only way to generate it is at each others' expense, by seeking to increase their own share. The overall effect, which as a rule goes completely unrecognised, is to create a ferocious built-in competition for money, as people can only continue to "have" and use it if they can make the interest component. One psychological effect is the increasing sense of "running to stand still".

Not everyone is in debt; however, the debt money ratio does require that debt must exist in correlation with c.97% of traded wealth. The more surplus accrues to some people, the more aggregated debt necessarily attaches to everyone else. Apart from the 3% of "narrow money", for any individual or social group to have positive bank balances, another individual or group must have corresponding negative balances. Any net inherited assets such as land and property which are not directly monetised or represented in bank accounts, will modify that overall balance of assets and liabilities, and weight the distribution of economic power accordingly.

To repeat: the only way to eliminate debt within the existing monetary system would be to eliminate 97% of money – thereby also halting all employment and production. For the great majority of people, owning any significant asset entails debt, a situation which cannot even theoretically be avoided. Debt is obligation, so in a monetised society those who control and benefit from creation of debt are in an increasingly powerful position. This power increases, or tends to become more concentrated, as a result of constant collection of interest on money created, which leads those paying the interest to require extra money – i.e. loans – in self-perpetuating cycles.

Not only do the majority have to work ever harder to stand still, but as loans are repaid, more have to be created to maintain the money supply; if for any reason banks reduce the total recycled loan amounts, money automatically disappears from the economy, leading to recessions or economic depressions.

A steady state economy with stable employment is structurally impossible under this arrangement. The alternatives are increased economic hardship or unlimited growth, which helps to explain why ecological imperatives are effectively ignored.

In the past, government spending based on borrowing has in some degree mitigated these economic effects, with the cost being growing levels of national debt in nearly all countries. It is no coincidence that the historical high point for economic equality in western nations occurred in the 1970s, before the systematic reduction of state provision in the 80s. When governments decide to reduce their borrowing and spending, e.g. because of a perceived need for "austerity", this also results in money being removed from the economy, which far from increasing economic vigour makes recession virtually inevitable.

In recessions, debts are harder to repay and assets are more likely to be repossessed or otherwise sold. Naturally what is sold in these circumstances, frequently at reduced values, will tend to be acquired by those who hold the debt –usually banks – and by those who have financial surplus. The economic and financial pyramid becomes more pronounced, with the majority possessing fewer net assets and being more financially obligated. The more acute this state of

affairs becomes, the more it looks like a modern financially engineered analogue of that mediaeval system of labour and land tenure obligations known as feudalism.

Further reading:

Where Does Money Come From? Ryan-Collins, Greenham, Werner & Jackson (New Economics Foundation, 2011)

Modernising Money Jackson & Dyson (Positive Money, 2012)

Grip Of Death Michael Rowbotham (Jon Carpenter, 1998)

After completing a degree in Human Sciences at Oxford, **Chris Noakes**'s interests in alternative social & economic approaches, and in the types of consciousness that produce them, led to involvement with co-operatives and work in the field of sustainable construction.

He is active in the Transition movement, is director of an ecological building company and of Transition Homes Community Land Trust in Totnes, Devon.

His investigation into the method by which money is created as debt has brought him to the conclusion that it has become a key mechanism promoting the renewed economic and political hegemony of a small global power elite, effectively countering many of the perceived progressive gains of the 20th century. Whilst adequate monetary reform will not by itself solve most major world problems, failure to reform will ensure that they cannot be solved.