Enslavement (2)

My February 2012 column on enslavement elicited a number of responses, from “Thank you for this very good paper,” to criticism. By providing personal anecdotal evidence, professor van der Molen judged my view on loans for the poor in the battle against poverty as “too negative” (see page 47). Let me underpin my basic tenet that ‘debt enslaves the poor’ by clarifying the nature of our monetary system. Since the dawn of the industrial revolution, all currencies are based on four design elements.

Firstly, money is not a commodity in a free market but instead is issued as currency by a nation state or a conglomerate of nations, as is the case with the Euro, in close cooperation with bankers. As legal tender, all entrepreneurs are obliged to accept the national currency and it is the only means to pay taxes. If you have run out of money, you first have to sell an asset on the free market to satisfy the tax inspector.

Secondly, money is created as fiat currency, meaning all money is fiduciary and not backed by a tangible entity. It is based on trust in banks and governments, and in that respect banks have done a lousy job recently. Thirdly, money is created out of thin air as debt. It comes into existence along two lines: sovereign bonds and loans by individuals and entrepreneurs. To improve infrastructure and welfare and to carry out many other tasks, governments borrow money which is directly or indirectly created by central banks by writing a cheque which is backed by nothing. The second line is through loans. What is the origin of money a bank lends you for purchasing a dwelling? It does not exist – it is created the moment you sign the mortgage act, on the spot. Bonds and loans come with a price called interest and that is the fourth design element.

When getting a loan through a mortgage, you not only have to settle the principle by regular payments during the main part of your adult life but you also have to pay interest. Interest is money that does not exist and can only be created by debt, since debt is the origin of all money. So, to pay the interest, you have to put yourself further into debt or to collect money by competing with all the other people on this planet. Your gain is their debt. When you are the winner, other people become losers; that is the striking result of the fourth design element of our monetary system.

When travelling through a developing country, you will notice that poverty is widespread because most people are not in the position to withstand the competition. Many assume that poverty can be eradicated by encouraging the poor to take out a loan in order to make investments. Let us assume that this premise is true and the approach succeeds so that the present poor will become future winners. Who will then be the future losers?