

UCLA

UCLA Historical Journal

Title

James Grant. *Money of the Mind: Borrowing and Lending in America from the Civil War to Michael Milken*. New York: Farrar Straus Giroux, 1992, 442 pp. + notes.

Permalink

<https://escholarship.org/uc/item/7q92q950>

Journal

UCLA Historical Journal, 13(0)

Author

Mertes, Tom

Publication Date

1993

Copyright Information

Copyright 1993 by the author(s). All rights reserved unless otherwise indicated. Contact the author(s) for any necessary permissions. Learn more at <https://escholarship.org/terms>

Peer reviewed

BOOK REVIEWS

James Grant. *Money of the Mind: Borrowing and Lending in America from the Civil War to Michael Milken*. New York: Farrar Straus Giroux, 1992, 442 pp. + notes.

A history of debt in the United States could not have come at a more poignant time. Policy-makers, consumers and financial elites are all struggling to free themselves from the excess debt acquisitions of the Reagan-Bush era. *Money of the Mind* attempts to place this crisis in an historical context. The work is limited primarily to a discussion of consumer debt and corporate debt as well as lending by major financial institutions, i.e. banks, savings and loans, and thrifts. Conveniently, national debt is alluded to only in asides—not as an integral part of the argument. Had Grant addressed this issue he would have had a much longer work and would have had to reconsider his anti-state bias.

The author, James Grant, is in a unique position to speculate on the transformation of credit and current problems in the debt markets as the publisher of *Grant's Interest Rate Observer*. This newsletter was launched over five years ago by Grant after he had left *Barron's*. The newsletter's target audience is buyers of debt and financial analysts. It has consistently railed against foolish borrowing, especially loans to the Third World, leveraged buy-outs and junk bonds—in an "irreverent" style. Grant is a fiscal conservative par excellence. Ironically, his principal villain in *Money of the Mind* is one of the primary players in the bond market, where he has made his living, U.S. Government. Despite the fact that the national government has been central to money markets at various times, the state is pointed to as a borrower only in passing. Grant is concerned almost exclusively with the regulatory function of the central state.

Grant maintains that the two primary trends that shaped economy of the 1980s and its crisis were the "democratization of debt" and the "socialization of risk". Democratization of debt is the gradual process by which lending by financial institutions slowly spread to encompass almost all consumers - or at least those who

could obtain a credit card. Grant explains that democratization grew out of the success of turn of the century philanthropic organizations and pawn shops. Moreover, banks became more willing to look to consumers as well as corporations to borrow—to individuals on farms, houses, and small businesses, to corporations on acquisitions, consolidations, and improvement of plant. Socialization of risk is state backing of financial institutions. Thus, deposit insurance and the Federal Reserve are the two most powerful agents of transferring risk from the stockholders, depositors, and corporate managers to the federal government and, ultimately, the taxpayer. If in fact these are the two most important factors in our present credit crisis than borrowing by the national government is secondary. Grant stops short of criticizing Reagan for the logarithmic increase in the national debt and its synergy with other forms of the culture of debt. His own ideological position and conscious effort to avoid treating the national debt points to Grant's possible support of Reaganomics.

According to Grant, the good old days of *laissez-faire* and good banking judgment were the late nineties and early twentieth century when J. P. Morgan, George Baker, and James Stillman rescued the American economy, i.e. the gold panic of 1895. This noble act "saved" the nation from bankruptcy (p. 75). Of course, the nation really was not in that much trouble because the "hard times of the 1890s . . . yielded [little in the way of] radical politics" (p. 73). Surely, William Jennings Bryan, Tom Watson, Ignatius Donnelly, and Eugene Debs would have disagreed. The populists clearly saw that some inflation would go a long way to relieve the burden of debt and the rigidities in the currency system—they were not advocates for the destruction of capitalism. However, with the gold standard saved and the repeal of the Sherman Silver Purchase the United States continue its whiggish march in lockstep with the drummer of the eastern financial community.

For Grant things started to go wrong during the Money Trust Investigation and the subsequent development of the Federal Reserve System. The Federal Reserve gradually wrested control of the American economy from the hands of the New York financial community and placed it in hands of the Federal Government.

Concurrent with this development was the realization by some bankers that consumers were a huge and largely untapped market for lending. Grant states that "World War I marked the great divide in American credit." (p. 145) Things went down hill from this point but fluctuated with the business cycle as psychological pressures drove bull markets and bears ruled triumphantly in depressions and recessions. Important factors did change the course of developments for the worse, especially government intervention: free floating currencies, entering Bretton Woods¹, federally insured bank deposits, leaving Bretton Woods, government funded mortgages, farm subsidies. All these developments led to an ever expanding market for credit that peaked in the 1980s, a period of unprecedented borrowing by corporations and aggressive capitalists, the state and the consumer. The introduction of junk bonds, pyramiding schemes, precarious bank balance sheets, and the disastrous savings and loans debacle were the result.

Grant has an interesting and engaging writing style. Offering a morality play of sorts, he engages the reader by focusing on individuals who represent archetypal figures for the period but with radically different points of view on the practice of lending within a given period. The personalization may be useful but it often obscures the many debates and actions within various periods as well as dilutes the sophistication of Grant's analysis—what were J. P. Morgan and Jacob Schiff's view of credit during the turn of the century as opposed to George Baker? Grant portrays a dichotomy of opinion where a spectrum exists. Moreover, it is not clear why particular figures were chosen to typify a given period.

While *Money of the Mind* is informative and fairly tightly argued, it fails to offer a vision of political economy (a serious defect in a book so concerned with the democratization of debt and the socialization of risk). In part, Grant's libertarian leanings limit his conception of the state to a mere check on the proper functioning of

1. Bretton Woods was an agreement forged by the major industrialized nations in 1944. The agreement instituted a relatively stable currency exchange system between those participating countries by using the dollar as a base rather than gold. It also established the International Monetary Fund to help nations even out their currency problems.

the market. His conceptual model is consistent with his general conservatism in theory relying in part on the work of Milton Friedman and David Stockman who he thanks in his acknowledgments (as well as others). Grant views regulation as a detriment to the economy despite the incredible abuses of the 1980s. The state is neither captured by powerful interest groups nor a black box that regulates for the good of society, but more a brake on, or a wrench in the works of the economy. This allows Grant to use without qualification the reports of bank examiners (p. 69-70) and to omit important cooperation between government officials and businessmen, i.e. the famous Nelson W. Aldrich-Jekyll Island meeting² or Reagan business appointees. His hero is Grover Cleveland, that champion of the gold standard and government by negation (p. 7).

Ironically, Grant does not present any model for the effect of debt on the economy. Generally, he is disdainful of debt but does admit that it was important for growth in certain circumstances. Though he does give a fairly comprehensive description of most forms of institutional debt among the poor and middle income groups, he leaves out a detailed history of the development and spread of credit cards as well as governmental debt.

Despite numerous criticisms, *Money of the Mind* is an important addition to a neglected field of study. Grant brings to bear his years of experience in analyzing credit to a subject crucial to the understanding of the 1980s and 1990s.

Tom Mertes

Northern Illinois University.

Administrator, the Center for Social Theory and Comparative History at UCLA.

2. Senator Nelson Aldrich of Rhode Island met with bankers from the major New York banks in November of 1910 to formulate plans for a central banking system. They met at Jekyll Island. Their plan would become the Federal Reserve System with important modifications demanded by Senator Carter Glass of Virginia.