

# The problem with banks

I want it to be only the Bank of England that's allowed to create our nation's money and not the commercial (high street) banks.

I used to think that it was the government that somehow created the country's money and put it into circulation so we could all use it to live our lives and do our work.

But apparently not! I have learned that it is the commercial banks that create 97% of our country's money. They don't create the 3% of our circulating money that is cash which is indeed created by public authority, ie the Royal Mint and the Bank of England, but they do create, and therefore own and control, all the rest.

For some bizarre reason the government allows the people who own banks to enjoy the immense privilege of creating this 97% of all the money in the country. Even if you think, "My money is mine. It isn't the property of any bank!" even so you got it from someone who got it from someone (etc) who borrowed it from a bank.

You aren't allowed to create money. If you tried to, you'd be put in prison. But the people who run banks are special in that they are allowed to create money and indeed the government urges them to do so. They are desperate for the banks to start lending again.

Banks create money that they lend out as mortgages to people buying houses. Maybe not all of the money lent out in any one batch is newly created. Some of it is probably obtained from savers. But the important thing is that at least some, and probably a lot, is newly created money, magicked into existence by the bank on its computer. They touch a few computer keys and say there's £200,000 and there it is! £200,000 that didn't exist before that instant. Kapow! That's just created £200,000! That was easy!

Then they lend it out to the borrower in exchange for a piece of paper with the borrower's promise to repay written on it. The person they pay it to, to buy the house spends it on another house or on something else or even pays the government a tax bill that they might owe. And so the money created by the bank gets into the general circulation.

It matters because having brought this money into existence, the bank now owns this new money **and can charge interest on it** (that's the bit they like) and dictate where it goes and what things in our nation's life get funded and what don't. Banks chose to lend money for the purchase of houses because they reckon they will get it back with interest and if there's a problem they can repossess the house and still get their

money back. They don't tend to lend this new money to firms to buy machinery because selling a repossessed house is fairly straight-forward, but it might be quite hard to find a buyer for a repossessed machine. So it's a lot simpler to fund houses rather than productive industry – but in the longer term we do need productive industry.

That's why houses have got so expensive over the last 20 or 30 years. Banks love creating money to lend out at interest because they get to keep the interest even if the money lent out is just money they magicked into existence the moment before they lent it out. The new money has cost the bank virtually nothing to create, but the borrower has to go out and do a lifetime's work to pay back the original capital sum and the interest. It is an unequal relationship. The bank touches a few computer keys. The borrower has to get up at 6am every morning to go out to work to earn money to pay it back.

It is such a hugely favourable deal for the bank that they lend as much as they possibly can of this magically created money as long as they think you'll pay it back. If you don't, the bank's reputation is at stake since it doesn't want to be known as a bank with a lot of bad debts on its books because others in the money industry won't trust

it. If a loan really goes bad it may indeed lose that part of it that it had borrowed from others and might have to make that up from its own capital, but the money it magicked into existence can't really be said to have been lost since it didn't really exist in the first place.

Money is funny stuff. It's a social relationship. It's not gold. Some people think it has to represent gold and for a while you could take a bank note to the Bank of England and ask for its equivalent in gold. That got us into all sorts of bother. We fought wars for gold in Southern Africa and 16<sup>th</sup> century Spain ravaged America for gold. If gold is the basis of value and you happen to have a gold mine in your back yard then you are lucky and if you don't you aren't. And if the world economy grows and there isn't a lot more gold found, how will you create more money to keep pace with mankind's increased activity?

Baby-sitting circles allocate points to each couple (say, ten each) to then trade in for evenings of baby-sitting service done within the group, otherwise some couples might use the service and contribute nothing in exchange. The points are just a way to keep tabs on who provides something of value (in this case babysitting). The group just creates these points. They aren't valuable in themselves. You wouldn't dream of borrowing them

from someone outside the circle especially not at interest. There's no need. You have a perfectly satisfactory self-contained system as it is (rather as the original Pennsylvania settlers in America did with their self-contained money system) and you don't need to borrow from someone outside the system at interest (as British banks kept trying to persuade the American settlers to do and that led to the American War of Independence).

So we should become like the Pennsylvania Settlers or a baby-sitting circle and have a monetary system for our nation that is self-contained within the life of our nation and not borrow our entire money supply from someone outside our community whose motive is to make themselves rich and who doesn't basically care about the welfare of the nation.

We are a sovereign nation. We can create our own money as a sovereign act. We don't need to go to an outside money lender to ask them to very kindly create some money out of nothing so that we can borrow it from them at interest and be in debt to them and under their control. Why are they any more able to create money than we are? We have abdicated to them the sovereign right to create our nation's money, and we should take it back by act of parliament – and soon.

The authority to create money should be taken from the banks and returned to the people to whom it

properly belongs. I realise that sounds like a loony-lefty sentiment but it isn't. And who are "the people"? The Bank of England which was nationalised in 1946 should create our nation's money in its capacity as a public servant on behalf of the people, acting in the nation's interests. Banks (ie commercial banks or "high street banks") don't act in the nation's interest. They act in their own interest. Some of them are indeed run by British people but they act in the private interest of making themselves wealthy and not to make the nation as a whole rich.

***The Bank of England should have the exclusive right to create the money of our country and commercial banks should be banned from creating money.***

I don't want to nationalise them. I only want to nationalise the creation of the nation's money. The banks would still have a legitimate job to do as intermediaries between savers and borrowers, accepting money from savers and lending to borrowers, making an honest living for themselves by charging the borrowers a bit more than they pay to savers. Indeed they would probably have to offer savers a better rate than they do today to compete with each other to attract funds from savers.

**My evidence:** On reading the newspaper I noticed that in the years before 2007 the economy (GDP) was only growing at around 2% a year whereas the Bank of England

said money supply "M4" was growing at around 14% a year. Somebody was creating lots of money, far more than any growth in the economy.

I also noticed that a graph of house prices showed one of those lines that pootles along amiably and then explodes upwards from about 20 years ago and so there must be a whole lot more money in total to pay the increased price of all those houses.

I find Bank of England replies hard to decode but I think they were saying that they hadn't created this explosion of money. It doesn't look like the kind of increase that an accountable government would think of if it knew it would have to explain why it had done it. It wasn't them; so who was it?

Lord Adair Turner who ran the Financial Services Authority said recently, "The financial crisis of 2007/08 occurred because we failed to constrain the private financial system's creation of private credit and money." And also "banks can create credit and private money." And quite a lot of people are coming out of the woodwork and saying similar things despite a taboo against talking in these terms in the mainstream media. I think soon everybody will be saying that they have been talking in these terms for ages! - like there are now lots of people who say they predicted the financial crash.

If you ask the Bank of England or the Treasury whether banks create money they shy away from saying so. They say banks create

deposits and these count towards a measure of the money supply. They need to call a spade a spade.

**My proposal: The Bank of England should meet monthly to judge whether the country needs more money in circulation (judging by employment levels and other social and economic indices). If yes, then it should create the money needed electronically at a touch of a button (which it can do – the commercial banks having been stopped from doing it) and it should give it to the government to spend on things that help us run a lively export economy and earn our living in the world.**

And banks shouldn't be allowed to lend out your current account deposits. They should be kept safe at the Bank of England.

We need an Act of Parliament to make these changes and we need it soon to get the economy working again and so to do the things at home and abroad that so urgently need doing for a fair and prosperous world.

Please ask your MP to make this happen. Their address is House of Commons London SW1A 0AA or get their email address at [www.parliament.uk](http://www.parliament.uk)

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