

Money:
where it comes from, where it's going, and why it's all about faith



**Money:
where it comes from**

When your bank makes you a loan, where does the money come from?

- a) Money deposited in the bank by other people and companies
- b) Money lent to the bank by the Bank of England
- c) Dividends from Queen Anne's Bounty, a sum of money invested by Queen Anne in the East India Company in 1710
- d) Created out of thin air by the bank
- e) From Jeremy Corbyn's Magic Money Tree

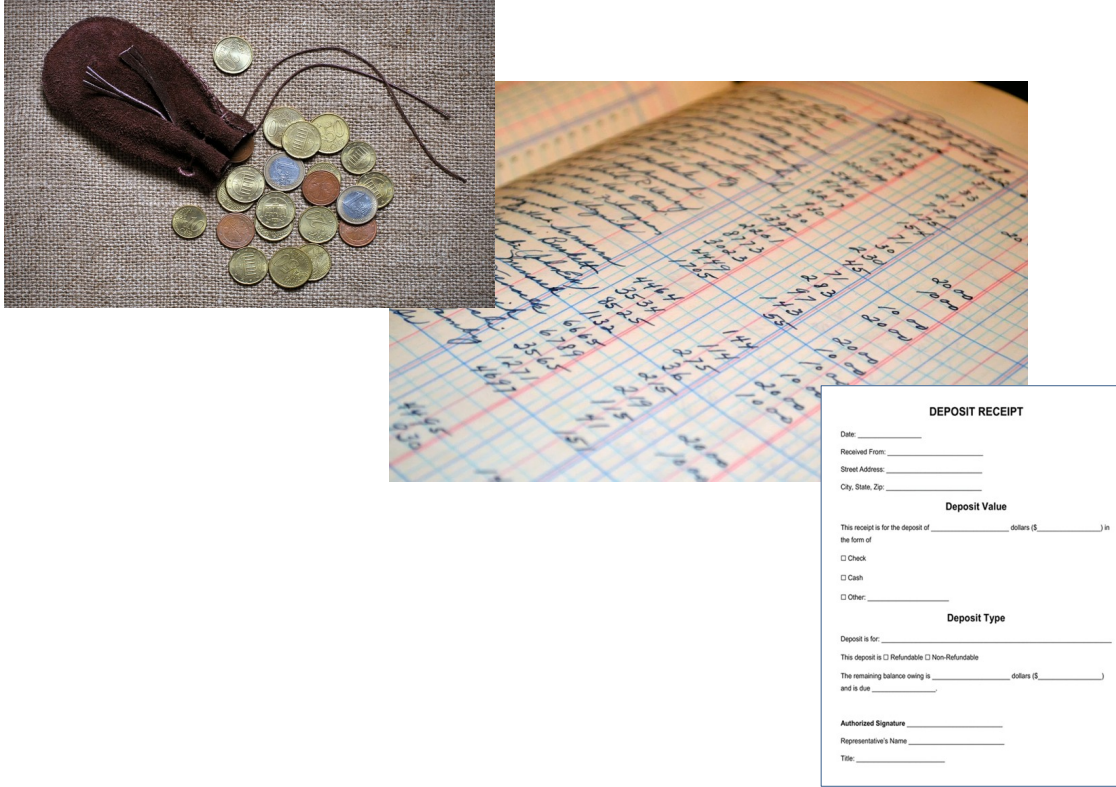


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When your bank makes you a loan, where does the money come from?



The roots of this practice lie in the early 17th century. At that time, goldsmiths had become very significant figures because people used to deposit their gold, silver and other valuables with them for safe keeping in their vaults. The goldsmiths would issue deposit receipts in return. These deposit receipts were a form of IOU. Three hugely important developments followed from this.

When your bank makes you a loan, where does the money come from?

DEPOSIT RECEIPT

Date: _____

Received From: _____

Street Address: _____

City, State, Zip: _____

Deposit Value

This receipt is for the deposit of _____ dollars (\$ _____) in the form of

☐ Check

☐ Cash

☐ Other: _____

Deposit Type

Deposit is for: _____

This deposit is ☐ Refundable ☐ Non-Refundable

The remaining balance owing is _____ dollars (\$ _____) and is due _____.

Authorized Signature _____

Representative's Name _____

Title: _____

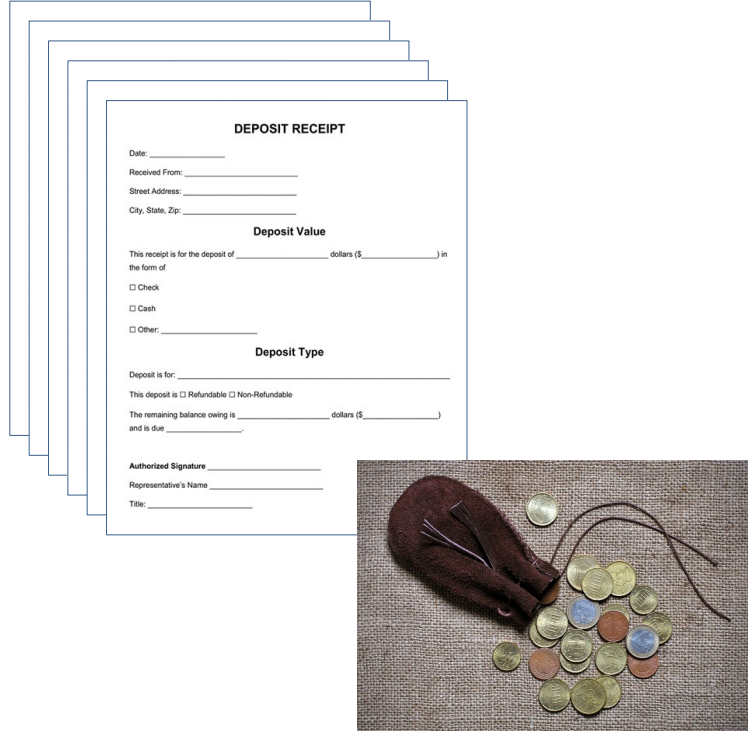
First, over the course of time, people began to accept these deposit receipts, or IOUs, as a form of cash, or means of exchange, in everyday purchases – rather like an endorsed cheque.

When your bank makes you a loan, where does the money come from?



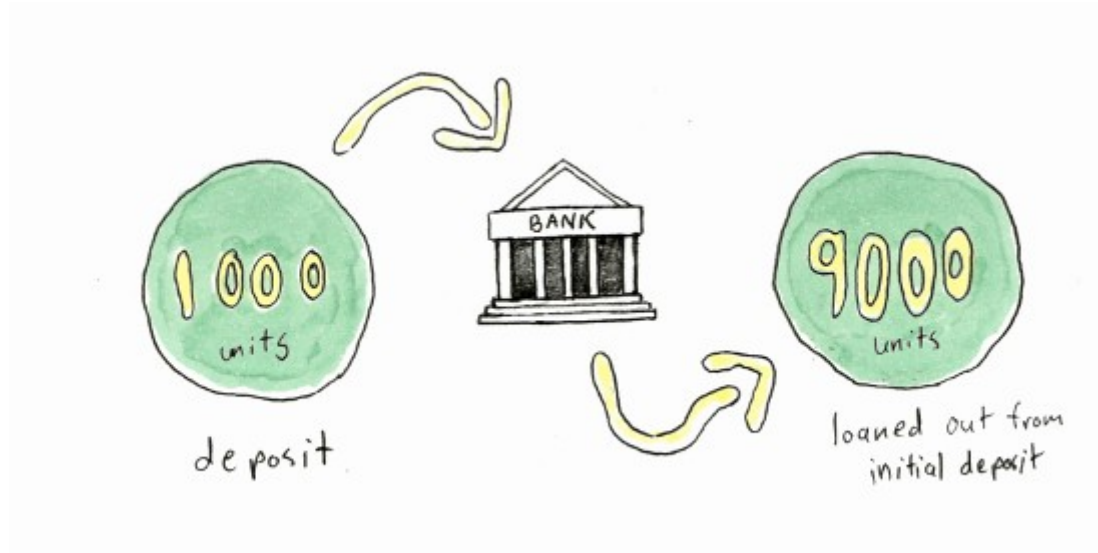
Second, goldsmiths came to realise that they could lend out some of the gold and silver coins they held on deposit, and charge interest to the borrowers in doing so.

When your bank makes you a loan, where does the money come from?



Finally, the goldsmiths also realised that, since their deposit receipts were now being widely used as cash, borrowers would be prepared to accept loans issued in the form of these receipts rather than insist on gold or silver coinage. As a result, **goldsmiths were able to issue receipts for more coinage than they actually held**. After all, who would know the difference? Provided people trusted the goldsmith, that is they believed that he held enough hard currency in the form of gold and silver to cash in a given receipt, everyone was happy.

When your bank makes you a loan, where does the money come from?



These are the origins (in the UK) of **fractional reserve banking**, the practice of lending out more money, effectively in the form of IOUs, than you actually hold. This 'extra' money is created out of thin air. Banks, the present day equivalents of goldsmiths, effectively have a licence to print money.

When your bank makes you a loan, where does the money come from?



So, for example, at the time of the 2008 financial crash, UK commercial banks held just £1.25 in central bank reserves for every £100 loaned out to customers.

Shocked? You're not alone

‘The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented.’

Lord Stamp, 1880-1941, Bank of England Director

‘The process by which banks create money is so simple the mind is repelled.’

J.K. Galbraith, 1908-2006, economist, advisor to John F. Kennedy

‘It is well enough that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.’

Henry Ford, 1863-1947, attrib.

The Bank of England sets the scene

In 1694 a group of wealthy merchants lent King William III of England (William of Orange) £1.2 million to spend on war against the French, repayable at 8% per annum.

In return, the King's creditors were allowed to create their own private bank with unique public privileges – the Bank of England.



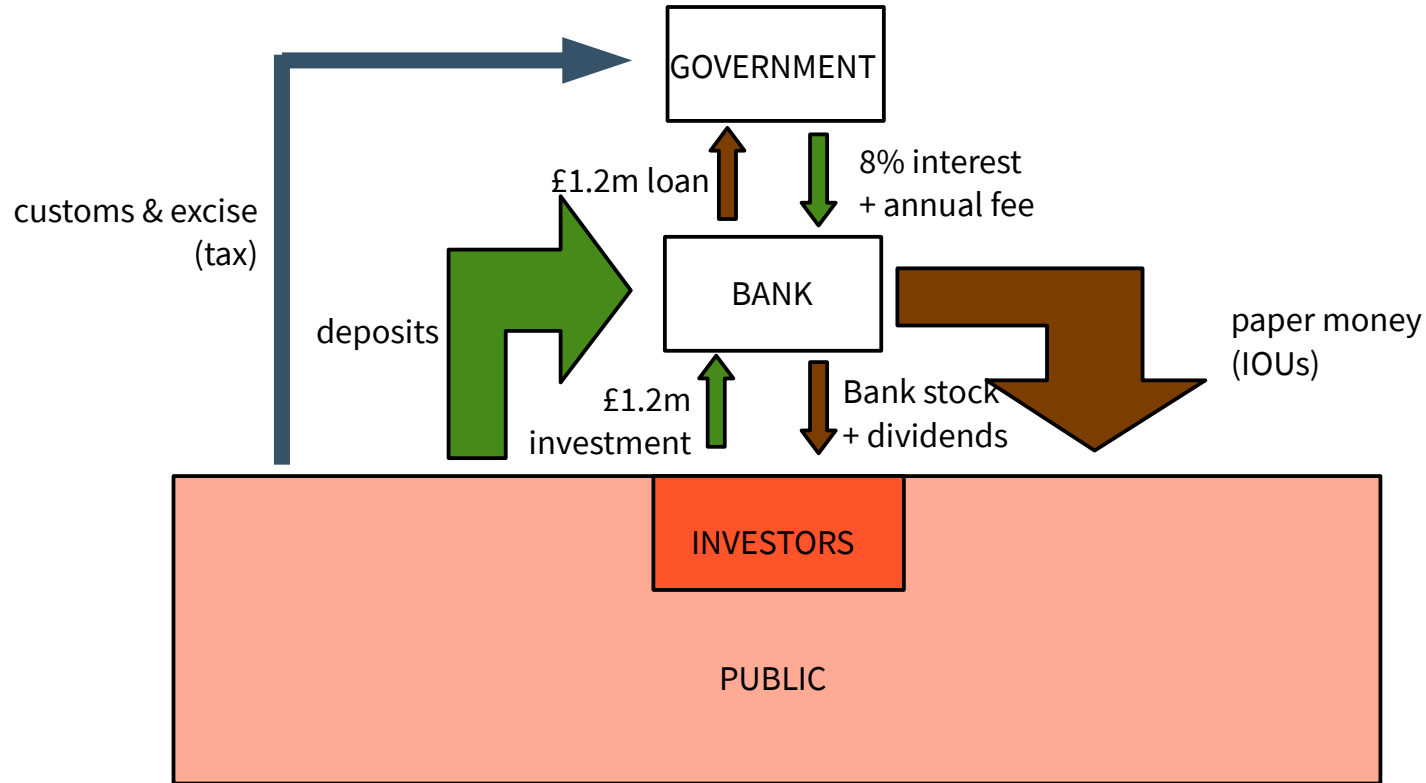
The Bank of England sets the scene



David Graeber, Debt: The First 5000 Years, 2011, p.49:

The investors ‘received a royal monopoly on the issuance of banknotes. What this meant in practice was they had the right to advance IOUs for a portion of the money the King now owed them to any inhabitant of the kingdom willing to borrow from them, or willing to deposit their own money in the bank – in effect, to circulate or “monetize” the newly created royal debt.’

The Bank of England sets the scene



The Bank of England sets the scene



This is why Bank of England notes still bear the legend, 'I promise to pay the bearer on demand the sum of...'

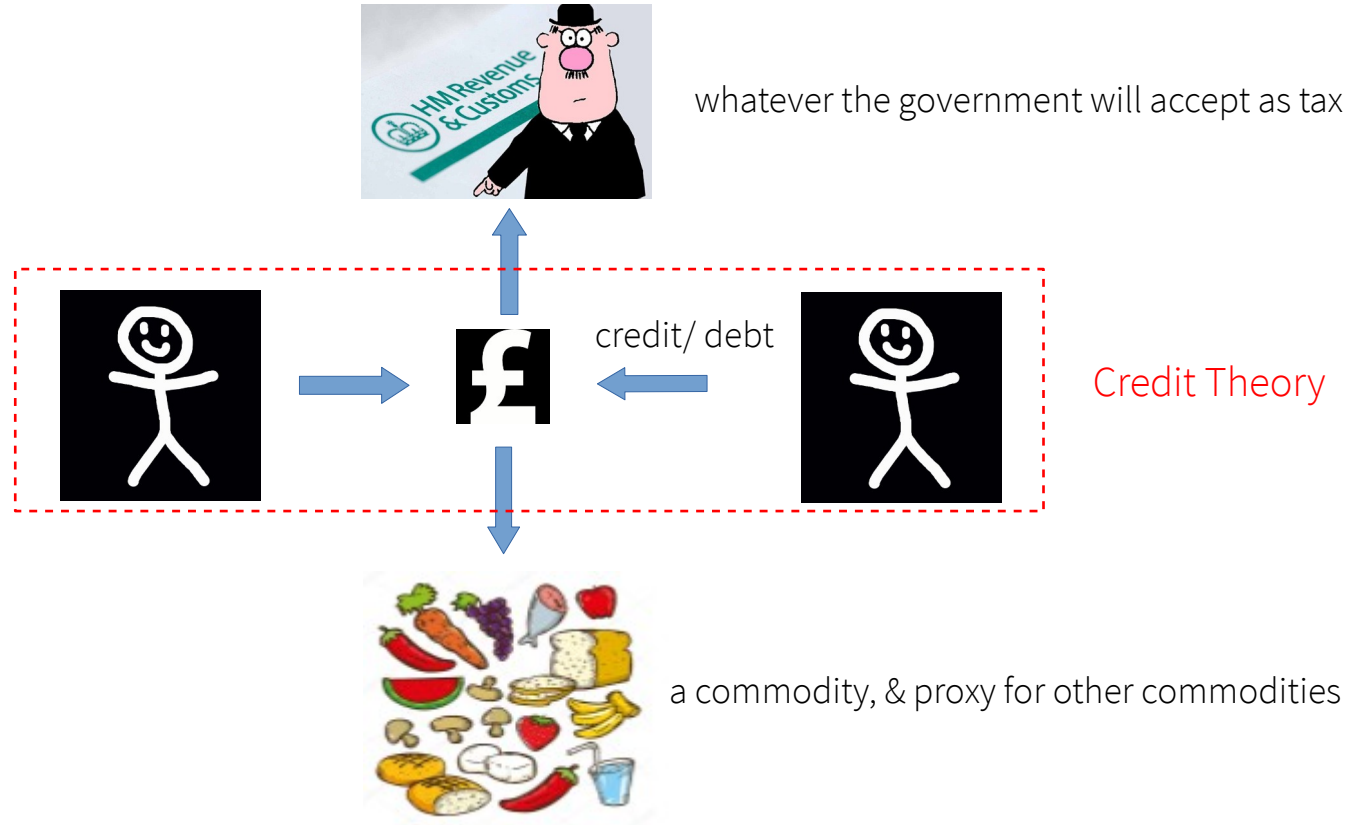
It is a mere IOU, in essence, and so reflects a relationship between people: the Chief Cashier representing the Bank of England, and so the state; the state's creditors, those from whom the state has borrowed; and finally the bearer of the IOU.

Money as IOU



This reflects the **Credit Theory of money**, whereby ‘money’ simply means a social bond of credit and debt. Money need not have any value in and of itself. It is just a claim on the wealth of others – an IOU. That’s why it can take the form of a piece of paper or, increasingly these days, just a number stored in a computer somewhere.

What money is: (1) IOU (2) proxy for useful things (3) tax



Money:
where it comes from - today

Both central banks and commercial banks can create money

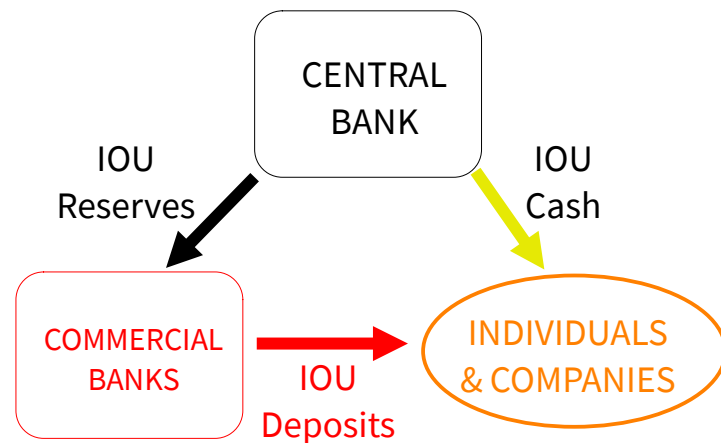
There are currently THREE different kinds of money in circulation in any given national economy:

CENTRAL BANKS (e.g. Bank of England, US Federal Reserve) create

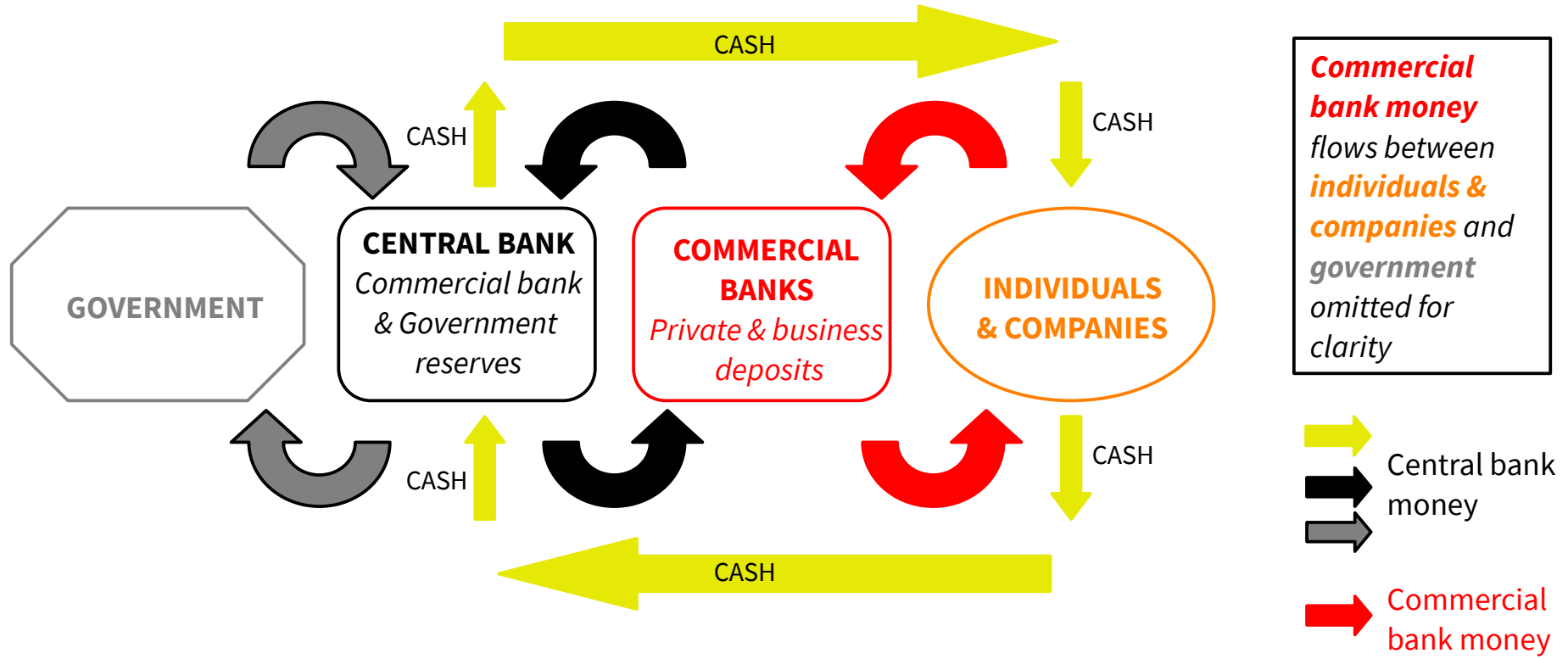
- 1) Physical cash (notes and coins) – circulated widely
- 2) Digital money as reserves for the national government and for **commercial banks**

COMMERCIAL BANKS (e.g. NatWest, Lloyds) create

- 3) Digital money as deposits for **individual & business customers**



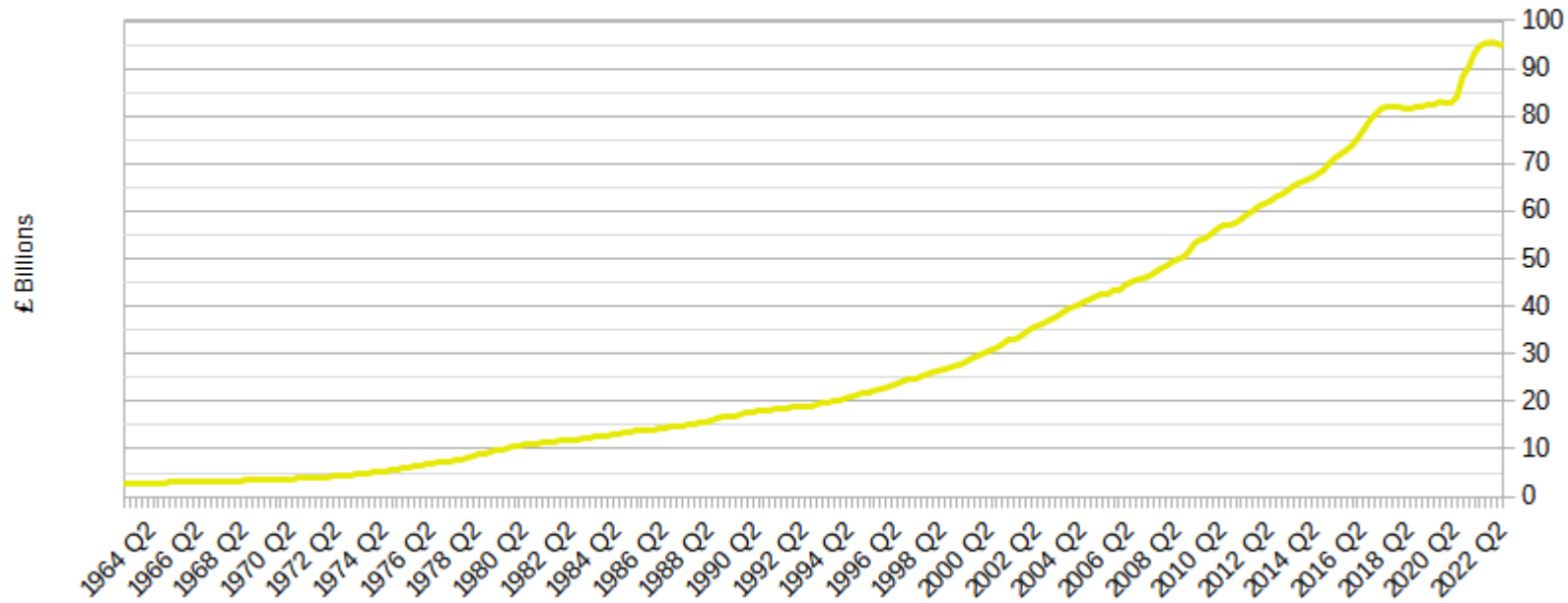
Both central banks and commercial banks can create money



... and boy have they been busy lately

UK Cash in Circulation, 1963 - 2022

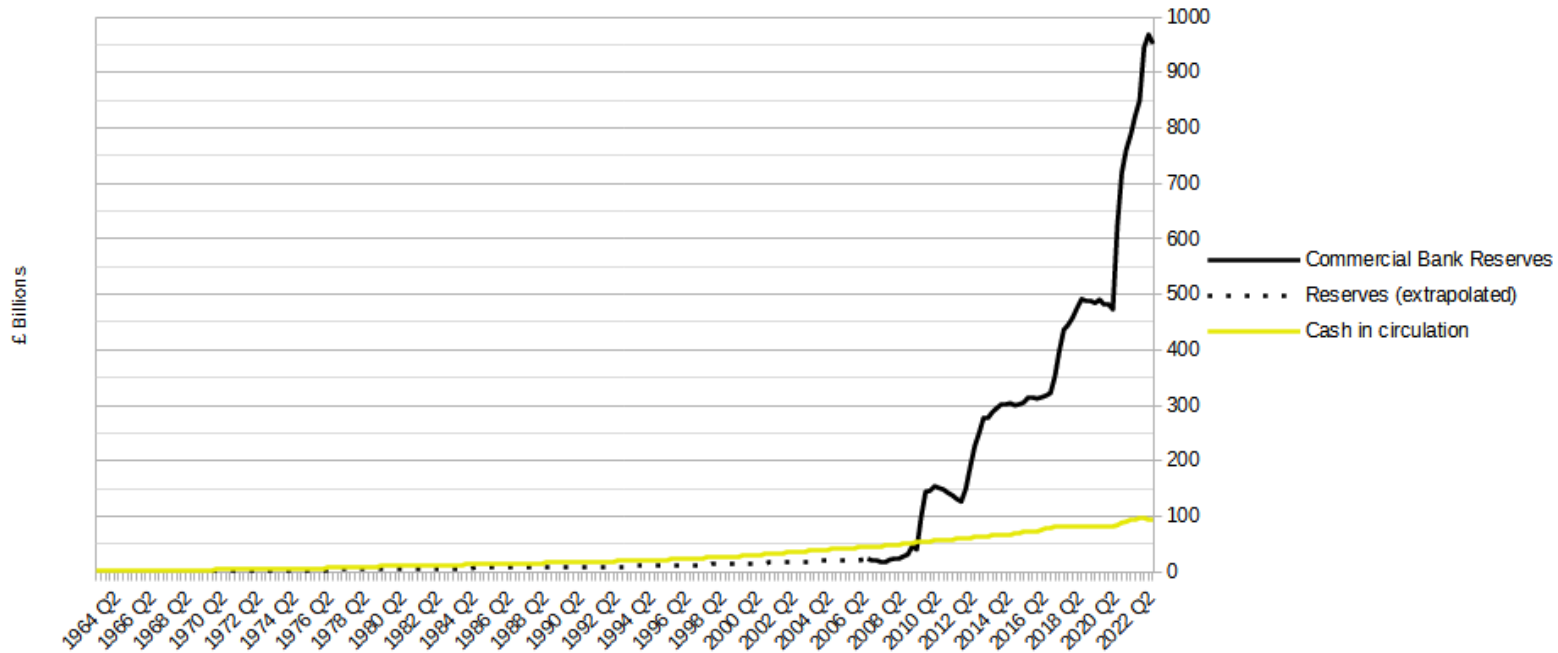
(Notes & Coins)



Source: Bank of England

... and boy have they been busy lately

UK Central Bank Money Supply, 1963 - 2022
(Cash + Commercial Bank Reserves at Bank of England)

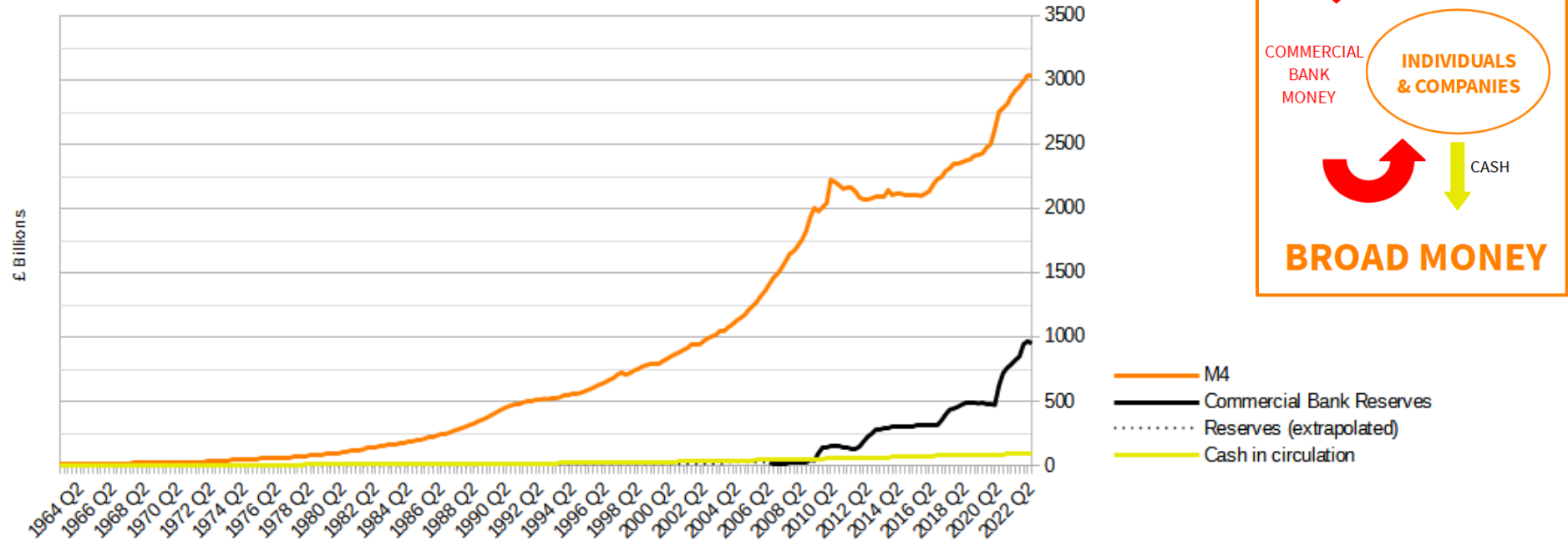


Source: Bank of England

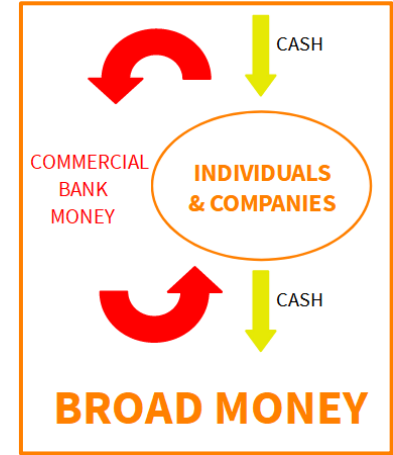
... and boy have they been busy lately

UK Broad Money and Central Bank Money Supply, 1963 - 2022

(Broad money (M4) = Commercial bank money + cash)



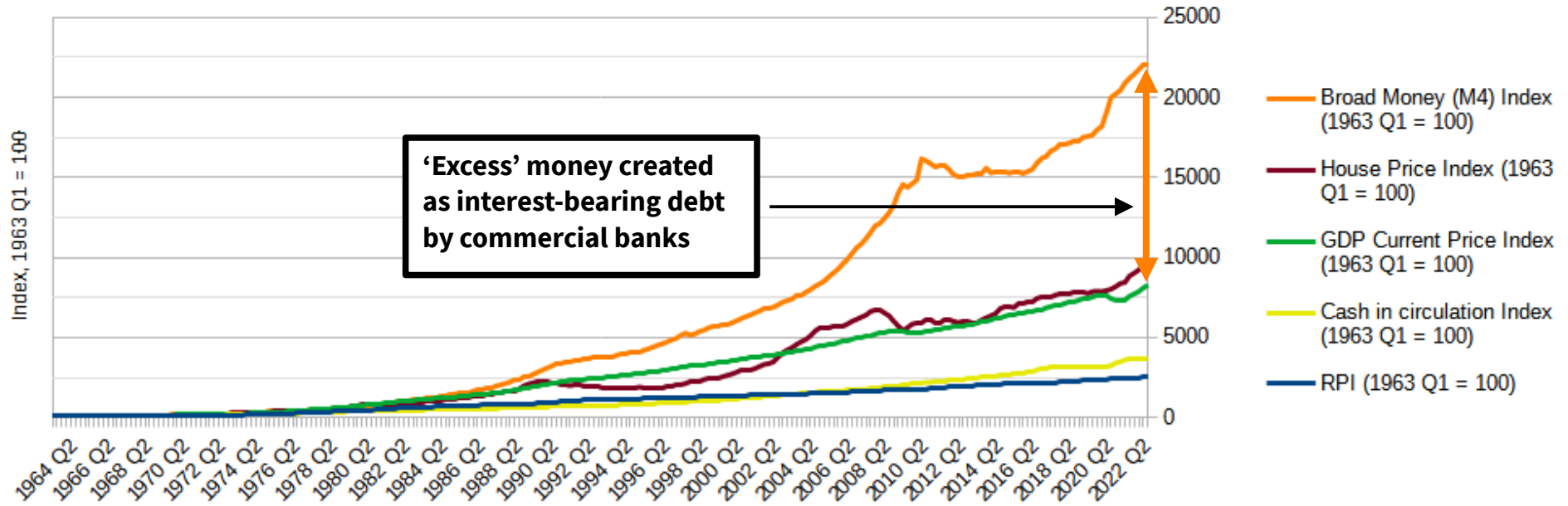
Source: Bank of England



... and boy have they been busy lately

Growth in RPI, House Price Index, GDP, Broad Money and Cash in circulation

1963 - 2022



Source: Bank of England, ONS, Nationwide BS

Too many claims on wealth, not enough wealth



Philip Coggan, financial journalist, on Radio 4 Start the Week, 16 January 2012:

‘Over the last 40 years we have had no constraints on the creation of money; and it has all been used to buy assets.

‘So we’ve had this series of bubbles in which borrowed money has been used to buy houses, shares, whatever. And every time the result of that has been that the finance sector has expanded very rapidly.

‘So Wall Street now depends on the Central Bank to prop up asset markets and keep prices high.

‘We’ve created more claims on wealth than we have created wealth itself – that’s the problem.’

Too many claims on wealth, not enough wealth



‘We’re not going to pay these debts back.’

Options?

- Debt default – collapse of stock, bond and real estate markets
- Inflation (allowing money to lose value/ purchasing power)
 - Consumer price inflation
 - Asset (real estate, stocks & shares) price inflation

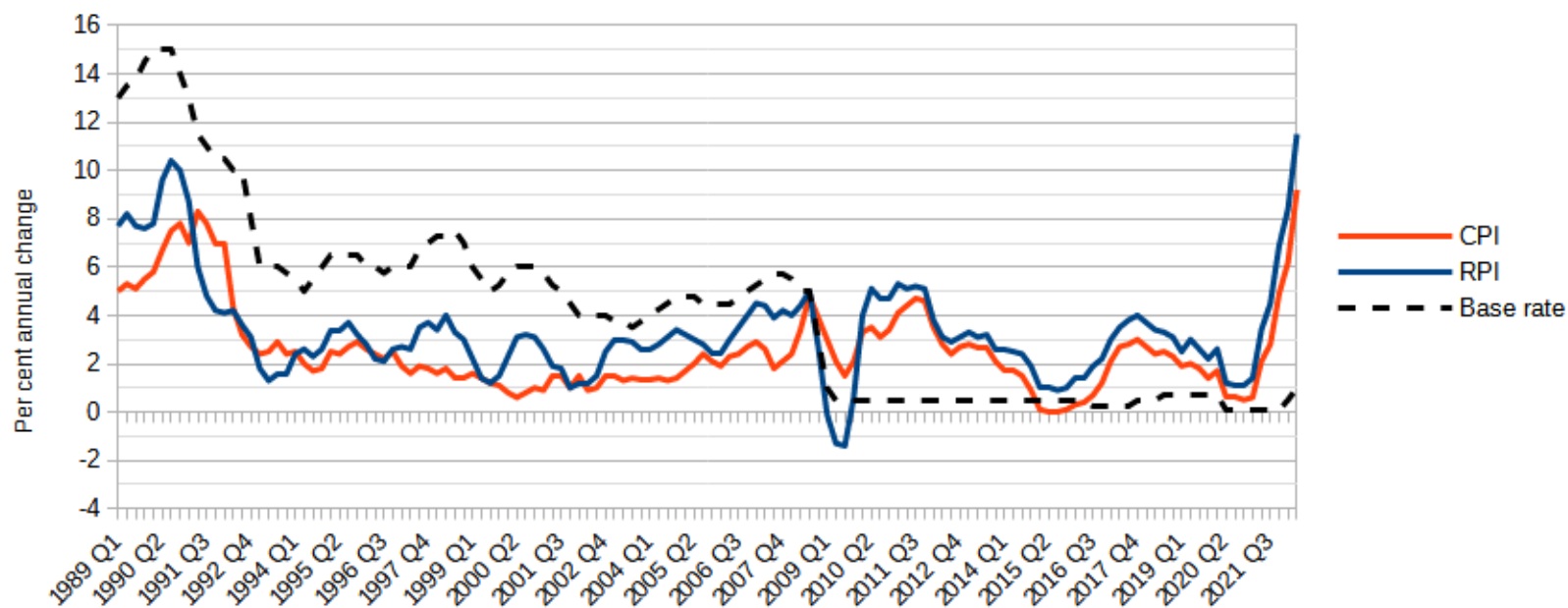
‘A choice between bleeding to death and suffering a heart attack’ – Fabio Vighi

‘One way or another, something negative will happen.’

The return of inflation

UK Quarterly CPI, RPI and Bank of England Base Interest Rate

1989 - 2022



Sources: ONS, Bank of England

**Money:
where it's going**

Where do we go from here?



Nouriel Roubini, emeritus professor of economics, New York University, 1 July 2021:

‘As inflation rises over the next few years, central banks will face a dilemma. If they start phasing out unconventional policies and raising policy rates to fight inflation, they will risk triggering a massive debt crisis and severe recession; but if they maintain a loose monetary policy, they will risk double-digit inflation—and deep stagflation when the next negative supply shocks emerge...

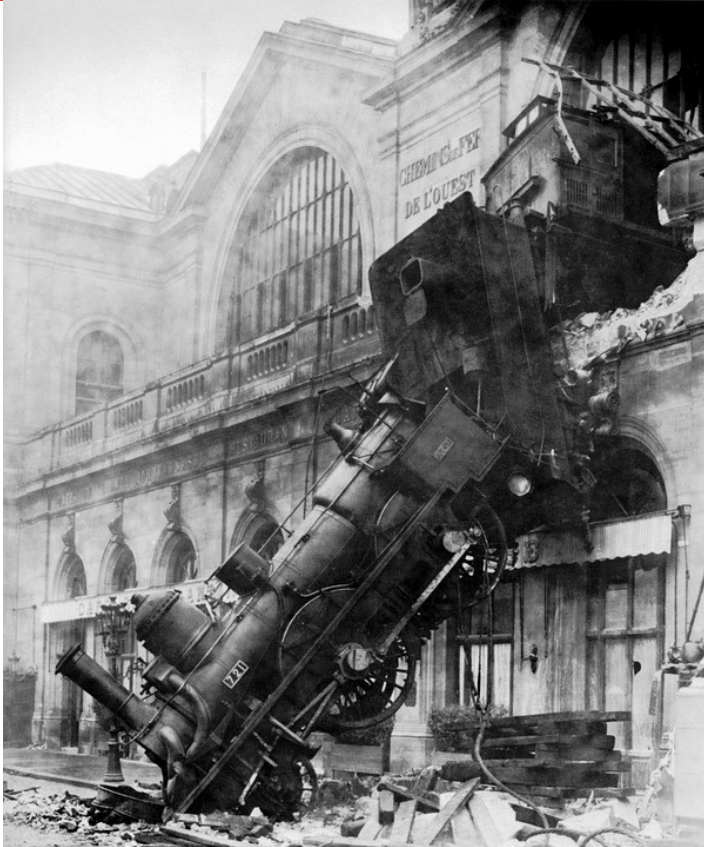
Where do we go from here?



‘Under these conditions, central banks will be damned if they do and damned if they don’t, and many governments will be semi-insolvent and thus unable to bail out banks, corporations, and households. **The doom loop of sovereigns and banks in the Eurozone after the global financial crisis [of 2008] will be repeated world-wide, sucking in households, corporations, and shadow banks as well.**

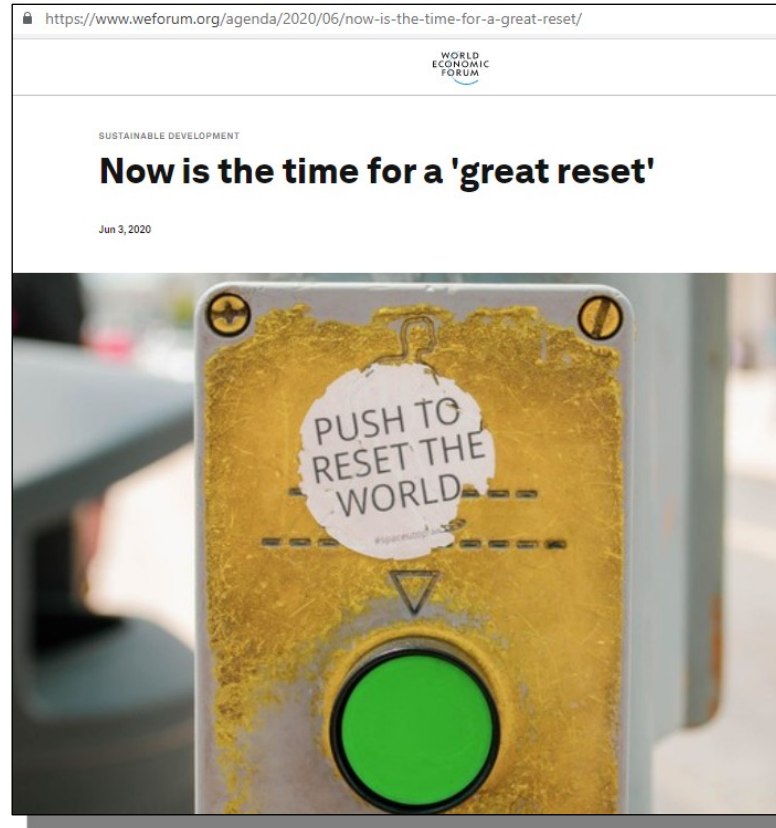
‘As matters stand...

Where do we go from here?

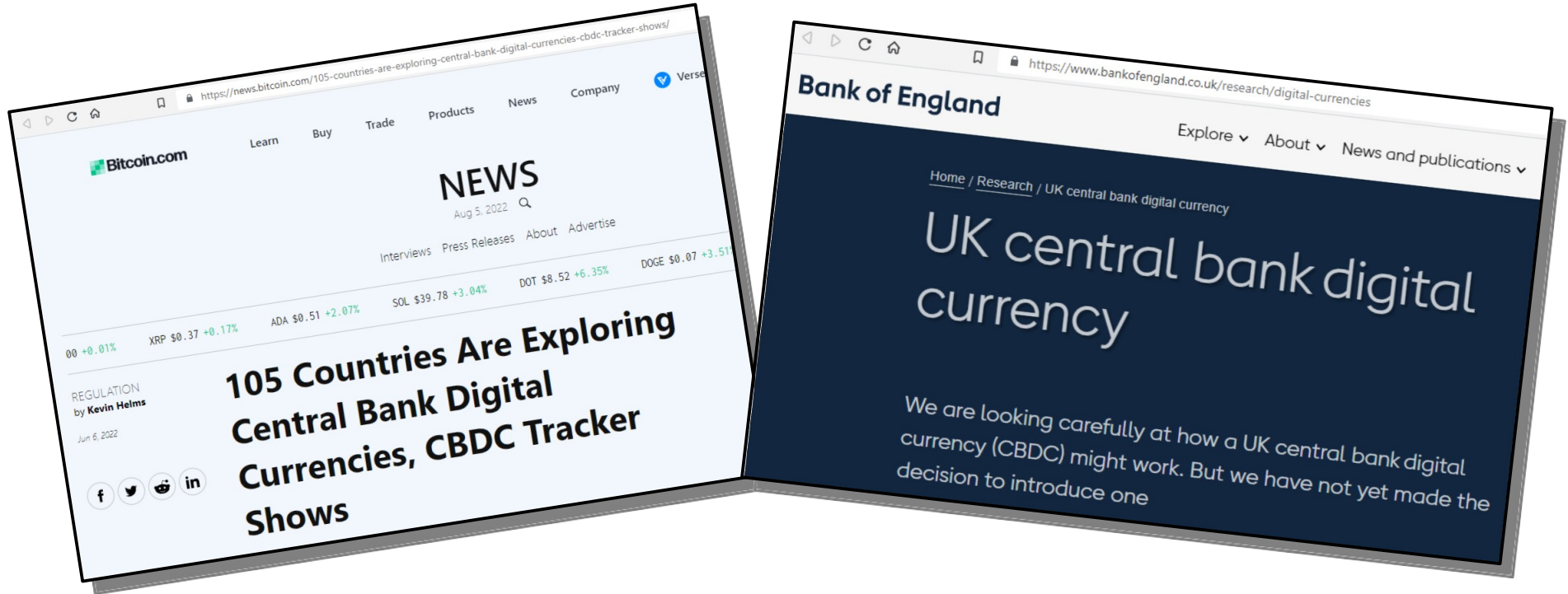


‘... this slow-motion train wreck looks unavoidable.’

Where do we go from here?



The future? Central Bank Digital Currencies (CBDCs)



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A Central Bank Digital Currency (CBDC) would constitute a new, FOURTH kind of money:

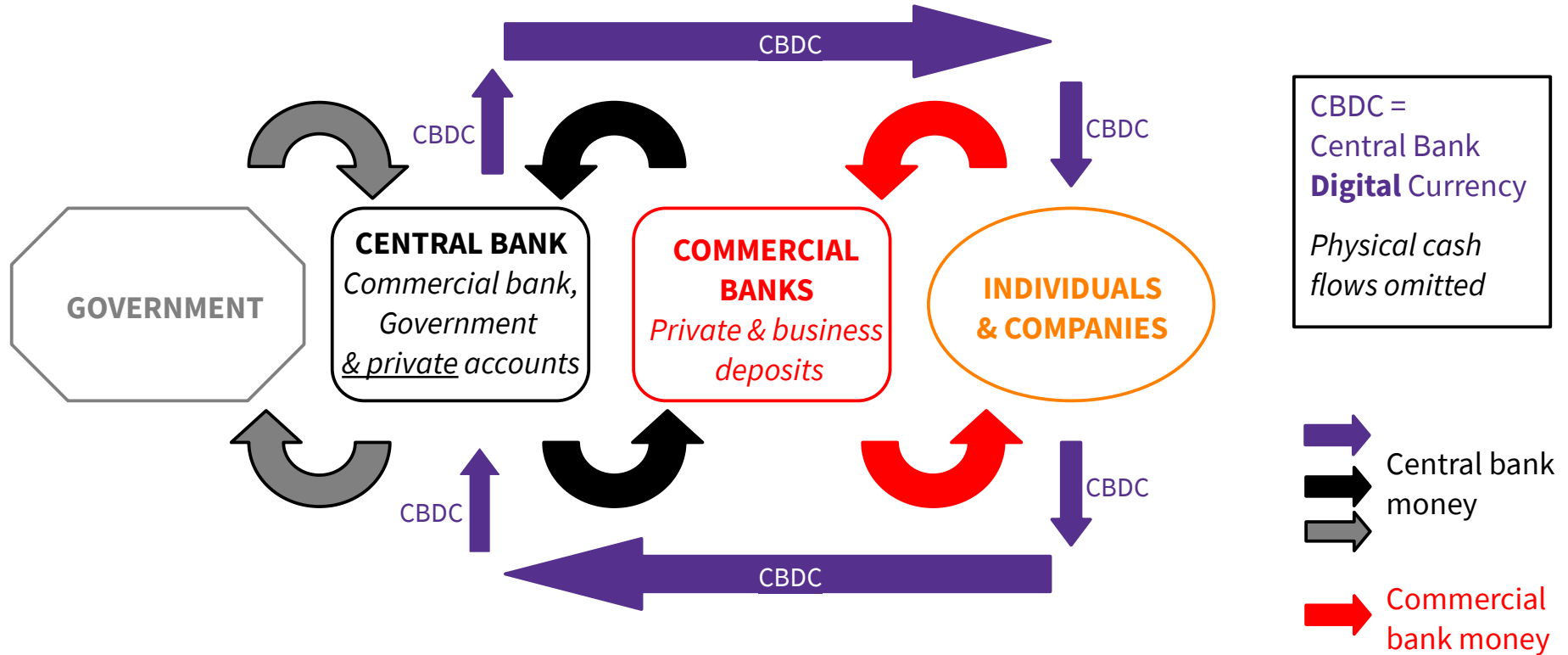
CENTRAL BANKS (e.g. Bank of England, US Federal Reserve) create

- 1) Physical cash – circulated widely
- 2) Digital money as reserves for the national government and for commercial banks
- 3) CBDC as deposits for **individuals & companies** holding accounts at the central bank (via an agent) – ‘digital wallets’ – potentially distributed to all citizens as a Universal Basic Income (UBI)

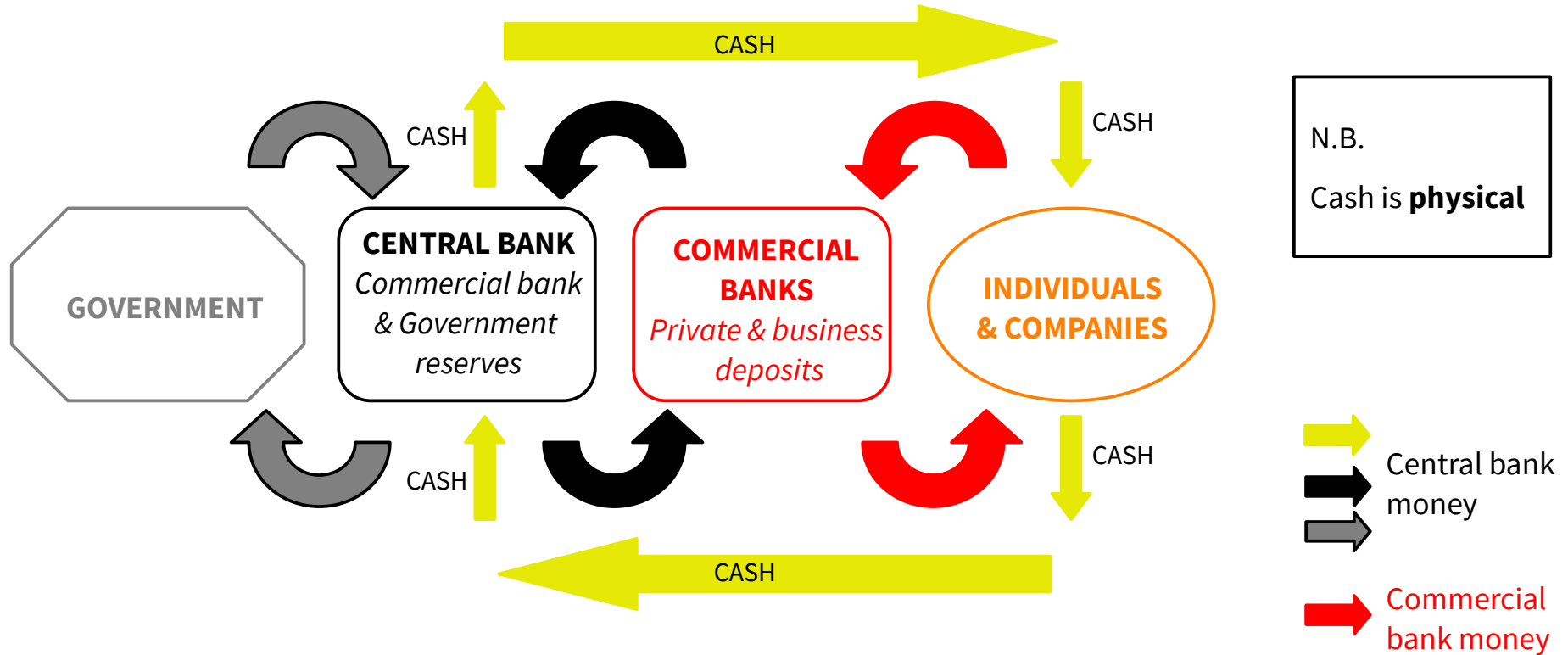
COMMERCIAL BANKS (e.g. NatWest, Lloyds) create

- 4) Digital money as deposits for individual & business customers

CBDC alongside other forms of money



The status quo



CBDC: some possible initial features

- Account-based (cf. existing commercial bank accounts) rather than token-based (cf. Bitcoin)
 - Personal digital ID will be required
- CBDC customer accounts managed by commercial banks &/or other Payment Service Providers
- Enters circulation reactively in response to demand & via commercial banks, as per cash
- Circulates alongside commercial bank money and cash
- Accounts could be interest-bearing (including negative interest rates)
 - Interest rates could be tiered, e.g. 1% p.a. on first £1000, 0% on next £1000, -2% on anything above £2000
 - **‘The ability of the central bank to control the impact of a CBDC on the monetary system is paramount to its existence and appeal’** (*Bikas & Livingstone, Money We Trust, 2020*)

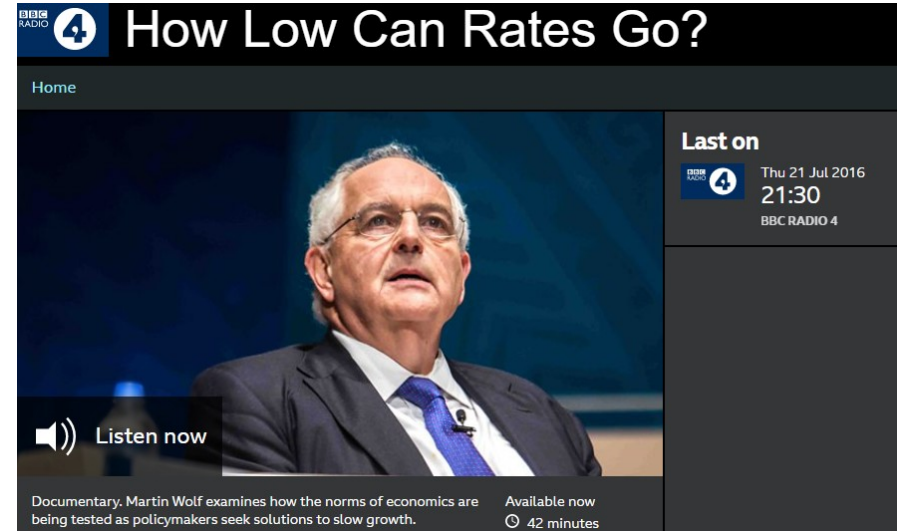
CBDC and Universal Basic Income (UBI)

BBC Radio 4 How Low Can Rates Go? 21 July 2016:

UBI, a form of ‘helicopter money’, is a ‘controversial idea, which until recently economists never considered a realistic proposal, so great are its risks...

‘The simplest form of helicopter money is the idea that independent central banks, subject to inflation targets, would make transfers directly to households [potentially in CBDC]...

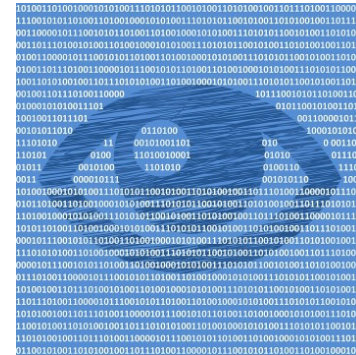
‘The UK Treasury would agree with the Bank of England that the Bank will make an equal transfer to all households in the UK, and it has the power to do that in the quantity and with the frequency that it deems necessary.’



CBDCs are ‘programmable’: some potential features

A central bank (under government direction?) could:

- Monitor all personal financial transactions
- Impose negative interest rates on accounts
- Place expiry/devaluation dates on UBI payments to encourage prompt spending (demurrage)
- Limit spending to certain goods and services
- Limit spending to certain geographical locations
- Assign bespoke individual tax rates and fines
- Freeze a recipient's bank account
- Tailor payments to favour certain social groups



‘CBDCs are not just a matter of technology, but also a matter of political power and social justice. They have the potential to unleash unintended, unwanted and unexpected societal consequences.’
(Freiman, ‘Central bank digital currencies could mean the end of democracy’, 2022)

Maybe they could, but they wouldn't – right?



BBC Radio 4 How Low Can Rates Go? 21 July 2016:

‘Andy Haldane is the Chief Economist of the Bank of England. He has postulated the idea of a cashless society, currency distributed through a digital wallet. It’s a radical and controversial idea, but it could serve a purpose. Electronic cash could make using the lever of interest rates more effective, especially if those rates drop below zero, since **the value of the money in your digital wallet could go up or down**. And the technology to make this possible is with us today...

“In principle you could earn a return on your cash... [but equally] **it would provide a degree of extra potency for monetary policy to set negative rates if so required...**”

Maybe they could, but they wouldn't – right?



Agustin Carstens, General Manager, Bank for International Settlements, 19 October 2020:

Regarding CBDCs, 'we tend to establish the equivalence with cash. And there is a huge difference there. For example, with cash, we don't know who's using a \$100 bill today, we don't know who's using a 1000 peso bill today. A key difference **with the CBDC** is that **the central bank will have absolute control over the rules and regulations that will determine the use of that expression of central bank liability. And also we will have the technology to enforce that.** Those two issues are extremely important, and that makes a huge difference with respect to what cash is.'

Maybe they could, but they wouldn't – right?

DEMOCRACY AND SECURITY
2018, VOL. 14, NO. 4, 331–357
<https://doi.org/10.1080/17419166.2018.1517337>

A Wave of Global Sociopolitical Destabilization 2010s: A Quantitative Analysis

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^bAfrican Studies of the Russian Academy of Sciences, Moscow, Russian Federation

ABSTRACT

After the beginning of the Arab Spring in 2011, explosive global growth was observed for the majority of indicators of sociopolitical destabilization in all parts of the World System. In order to identify the structure of this destabilization wave, we apply a series of statistical techniques such as trend analysis and t-tests to study the degrees of intensification of various instability indicators (as recorded by the Cross National Time Series database). We reveal explosive global growth in anti-government demonstrations, riots, general strikes, terrorist attacks/querrilla warfare, and purges, as well as in the global integral index of sociopolitical destabilization. On the other hand, no statistically significant growth has been detected for assassinations and major government crises, whereas for such an important indicator of global sociopolitical destabilization, as the global number of coups and coup attempts, we find a statistically significant decrease.

KEYWORDS

Arab Spring;
Protest activity; sociopolitical
destabilization; World System

Trudeau vows to freeze anti-mandate protesters' bank accounts



Henan: China Covid app restricts residents after banking protests

by Tracy Wang and BBC Chinese
BBC News
14 June

This Winter, Europe Plunges Into "The New Dark Ages"



Priti Patel must be rubbing her hands with glee as the Police, Crime, Sentencing and Courts Act finally comes into force



<https://www.idea.int/gsod/>

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The world is becoming more authoritarian.

The world is becoming more authoritarian as non-democratic regimes become even more brazen in their repression and many democratic governments suffer from backsliding by adopting their tactics of restricting free speech and weakening the rule of law, exacerbated by what threatens to become a "new normal" of Covid-19 restrictions. For the fifth consecutive year, the number of countries moving in an authoritarian direction exceeds the number of countries moving in a democratic direction. In fact, the number moving in the direction of authoritarianism is three times the number moving towards democracy.

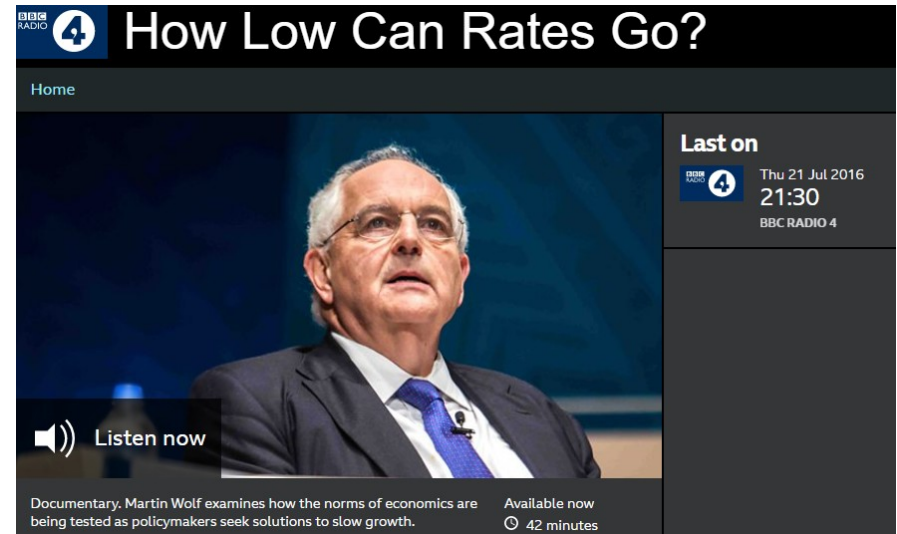
INTERNATIONAL
IDEA
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ELECTORAL
ASSISTANCE

Maybe they could, but they wouldn't – right?

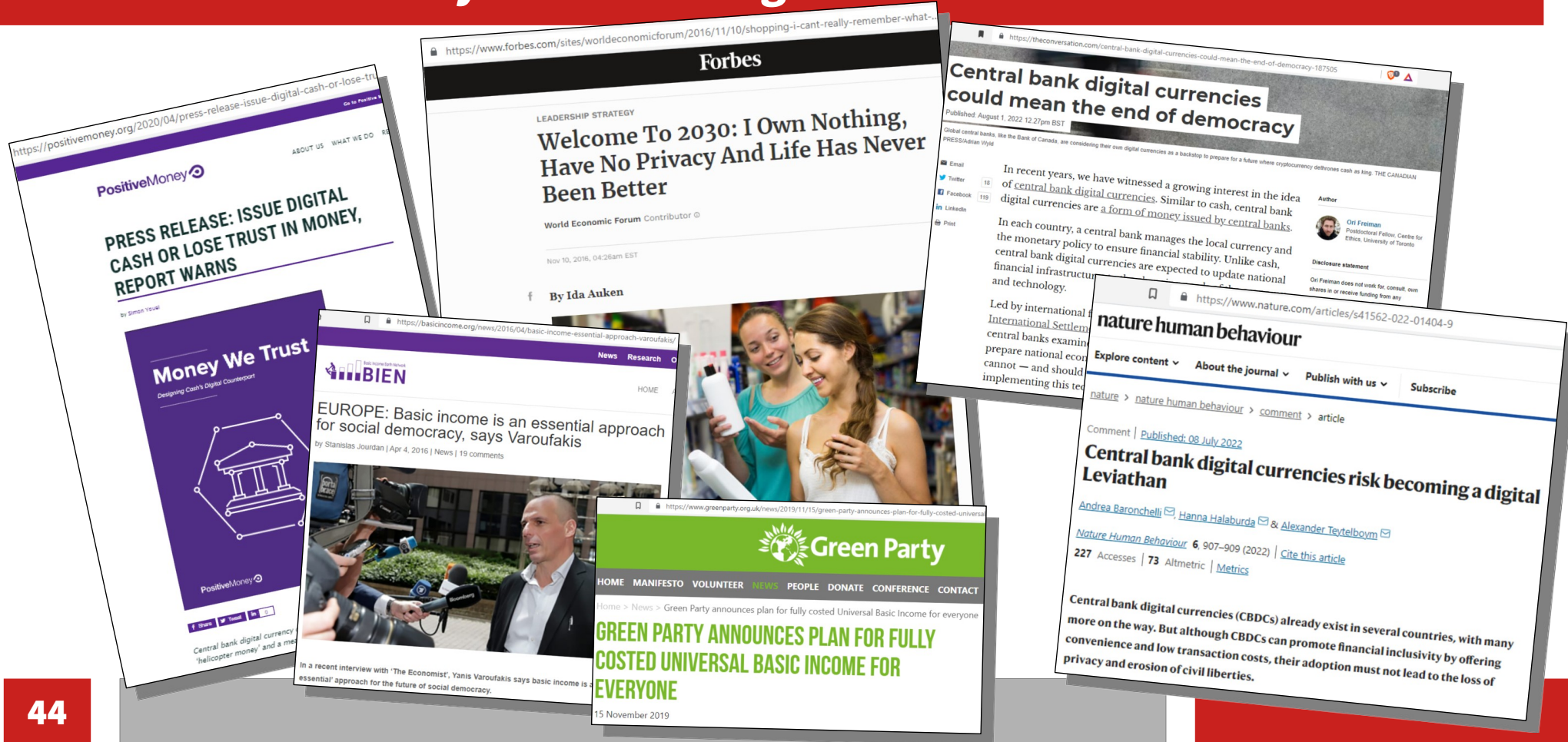
BBC Radio 4 How Low Can Rates Go? 21 July 2016:

‘The fact that we are even considering such possibilities [as helicopter money/UBI and a CBDC]... shows how dependent we have become on **central banks as the only game in town...**

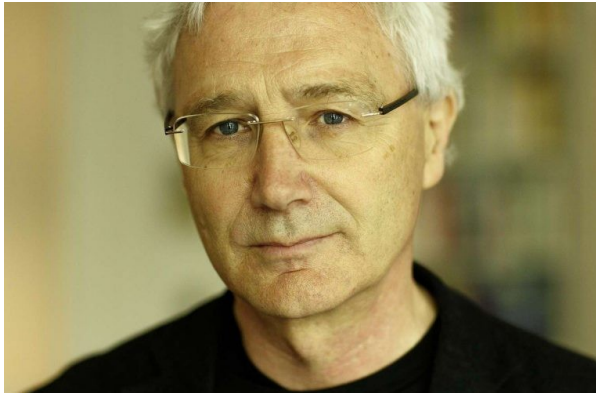
‘If events like Brexit generate recessions, central banks will start from a weak position, with all conventional room for manoeuvre gone. They will be forced to embark on still more experiments, and **we are the guinea pigs. This is an unpredictable, uncomfortable and unprecedented condition for our economies, with profoundly worrying political implications.** It seems set to last.’



The future of money: dream or nightmare?



The future of money: dream?



Joseph Huber, emeritus professor of economic sociology, Martin Luther University, Halle, Germany, January 2020:

‘Despite foreseeable frictions related to the coexistence of CBDC and [commercial] bank money, introducing CBDC is a step in the right direction, that is, pending the tidal change from bank money to CBDC. By comparison, the problems inherent in the present near-complete rule of [commercial] bank money and other new money surrogates [e.g. Bitcoin] are still much bigger. It is about time to recall the sovereign monetary prerogatives.’

The future of money: dream?



Nouriel Roubini, emeritus professor of economics, New York University, 19 November 2018:

A CBDC ‘would amount to a financial revolution – and one that would yield many benefits. Central banks would be in a much better position to control credit bubbles, stop bank runs, prevent maturity mismatches, and regulate risky credit/lending decisions by private banks...

‘In due time, CBDC-based narrow banking and loanable-funds intermediaries could ensure a better and more stable financial system. If the alternatives are a crisis-prone fractional-reserve system and a crypto-dystopia, then we should remain open to the idea.’

The future of money: nightmare?

Richard Werner, professor of banking, De Montfort University, 1 October 2016:



‘Central banks are now in the process of consolidating their powers. They wish to get rid of competition in the form of paper money or [commercial] bank credit. They are driving both cash and bank credit out of business through their negative interest rates, which are not designed to stimulate the economy, but to create deflation and further havoc - havoc that they intend to instrumentalise to accelerate their goal of becoming the complete masters of our lives, by allowing only digital currency that they issue and control – and that they can monitor in terms of all transactions, and that they can switch off, if, for instance, some pesky dissident criticizes them too much.’

The future of money: nightmare?



Fabio Vighi, professor of critical theory and Italian, Cardiff University, 18 October 2021:

‘As public debates are silenced by censorship and intimidation, we are being escorted to a bio-techno-capitalist dystopia whose hellish character is likely to manifest itself fully with the next global crisis. This would justify the rolling out of CBDCs...

‘Digital cash linked to digital identity is shorthand for hi-tech monetary serfdom, which will be extended to the unemployed first (e.g. UBI recipients), and potentially to most of us. When Larry Fink (BlackRock CEO) says that “markets prefer totalitarian governments to democracies”, we should better believe him.’

Where's the faith in all that?

When your bank makes you a loan, where does the money come from?

When your bank makes you a loan, where does the money come from?

The Bank of England sets the scene

Too many claims on wealth, not enough wealth

CBDC and Universal Basic Income (UBI)

CBDCs are 'programmable': some potential features

A central bank (under government direction?) could:

- Monitor all personal financial transactions
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- Limit spending to certain goods and services
- Limit spending to certain geographical locations
- Assign bespoke individual tax rates and fines
- Freeze a recipient's bank account
- Tailor payments to favour certain social groups



Our ultimate loyalties and commitments are not supplementary to mundane acts of faith and trust, but rather expressed through them.

Money:
where it comes from, where it's going, and why it's all about faith

John Daniels
jwd@phonecoop.coop

October 2022

<https://joyinenough.org/>

Addenda

Where's the faith in all that?

- 1) 'Created out of thin air' – *faith in something that doesn't yet exist, i.e. new value;*
- 2) Fractional Reserve Banking – *faith that your money will be available when you want it;*
- 3) Money as IOU - *faith that your money will be accepted in exchange for useful things;*
- 4) Economic growth - *faith that an economic system based on interest-bearing debt can continue growing forever;*
- 5) Helicopter money, CBDC, etc. - *faith that financial & monetary innovations can enable the system to continue;*
- 6) CBDC programmability - *faith that the Great Reset won't go totalitarian.*

More on CBDC and UBI

CBDC

<https://positivemoney.org/tag/cbdc/>

<https://sovereignmoney.site/>

<https://cbdctracker.org/>

<https://www.neweconomybrief.net/the-digest/digital-currencies>

<https://www.imf.org/en/News/Articles/2022/02/09/sp020922-the-future-of-money-gearing-up-for-central-bank-digital-currency>

<https://committees.parliament.uk/committee/175/economic-affairs-committee/news/160221/central-bank-digital-currencies-a-solution-in-search-of-a-problem-report-published/>

<https://theconversation.com/central-bank-digital-currencies-could-mean-the-end-of-democracy-187505>

<https://www.nature.com/articles/s41562-022-01404-9>

<https://www.theguardian.com/commentisfree/2021/jun/14/central-bank-digital-currency-uk-economy>

More on CBDC and UBI

UBI

<https://www.bbc.co.uk/programmes/b07jyrdq>

<https://www.jrf.org.uk/report/universal-basic-income-good-idea>

<https://www.project-syndicate.org/commentary/basic-income-funded-by-capital-income-by-yanis-varoufakis-2016-10>

<https://www.project-syndicate.org/commentary/why-universal-basic-income-is-a-bad-idea-by-daron-acemoglu-2019-06>

<https://citizensincome.org/>

<https://www.thebalance.com/universal-basic-income-4160668>

<https://www.nature.com/articles/d41586-018-05259-x>

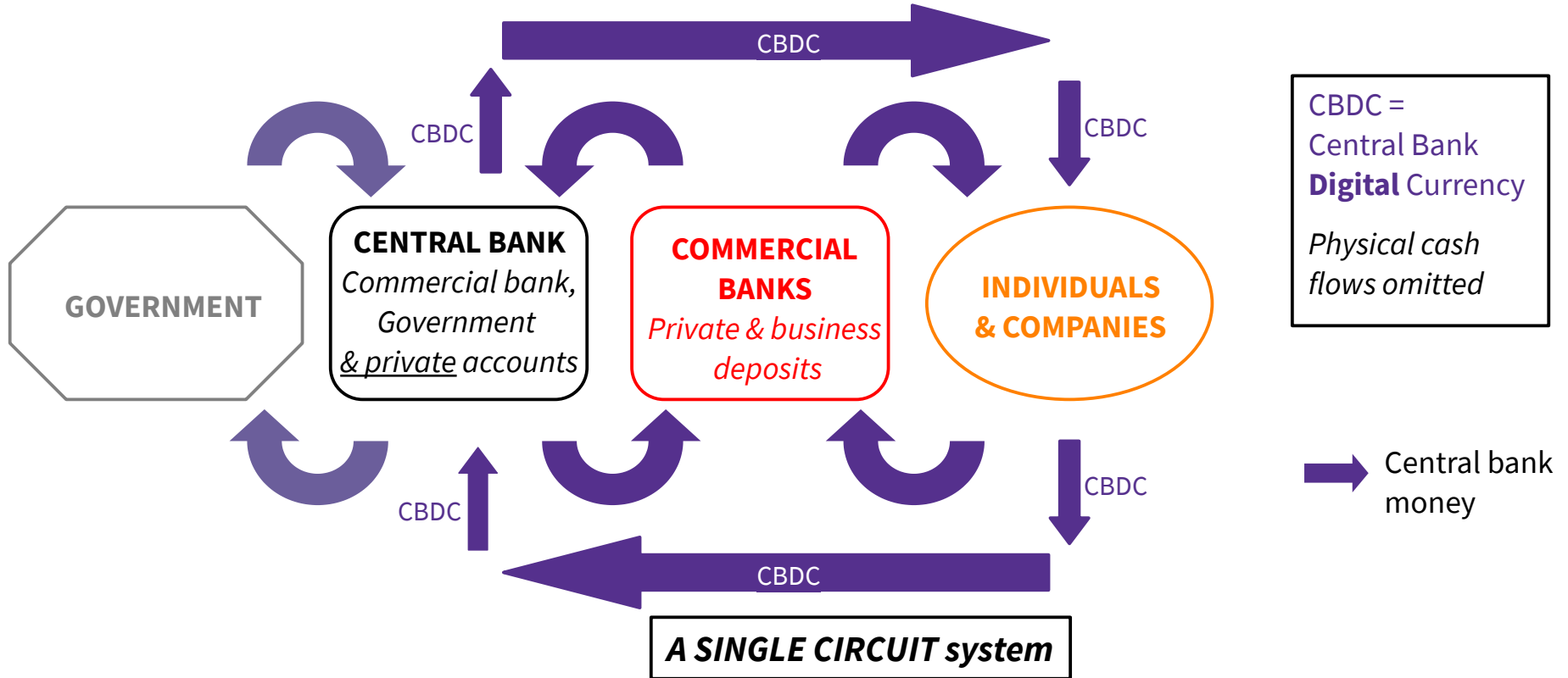
<https://www.forbes.com/sites/worldeconomicforum/2016/11/10/shopping-i-cant-really-remember-what-that-is-or-how-differently-we'll-live-in-2030/?sh=42b883f31735>

Sovereign/plain money CBDC : some practicalities

- Aim: a debt-free money supply which achieves a ‘growth-commensurate quantity of money’ as determined by a **politically independent BoE committee** (‘proactive issuance’)
- CBDC customer accounts probably managed as trust assets by commercial banks &/or other Payment Service Providers
- CBDC enters circulation via:
 - BoE purchase of government bonds
 - Short-term credit to commercial banks
 - Seigniorage – given to Treasury to spend into circulation (cf. pre-modern coinage) via:
 - General government expenditure
 - Citizen’s dividend/ tax rebate/ Universal Basic Income
- Could circulate alongside commercial bank money initially

after Huber, ‘Sovereign Money’

Sovereign/plain money CBDC only



Richard Douthwaite on a better ecology of money

Some problems with existing money

- tension between means of exchange and store of value functions
- current system prioritises interests of commercial banks
- debt-based currencies create a drive for perpetual growth
- environmental costs of fossil-fuelled economic growth
- decline of fossil fuel resources

To address these problems Richard Douthwaite has proposed the following four-currency system:

Name of currency	Function?	Scope?	Issued by?	Why needed?
EBCU (energy-backed currency unit)	Unit of account (UOA)	International	IMF	Links money to the real world of limited resources
National exchange currencies	Means of exchange (MOE)	National	Government	Created by central banks to match money supply with trade requirements – moderate inflation
National store of value currencies	Store of value (SOV)	National	Government	Hedge against inflation
User-controlled exchange currencies (LETS, WIR, etc.)	Means of exchange (MOE)	Local	Local groups	Facilitates local trade when national MOE inadequate

Proposed world currency system

(Douthwaite, *The Ecology of Money*, p. 52)

