Funding the Future

The problem with the money banks make up

Published: January 13, 2026, 7:25 am

There's a very good letter in the Guardian today, which I share in full in the hope they and the author will forgive me (feeling fairly confident about the latter):

*Your editorial (*Negative shock, 28 February) refers to the possibility of direct financing of the deficit by "made-up" money. It is important to recognise that the banking system also creates made-up money as loans. The majority of our money is now issued in this way. There are only two sources of money — state-issued currency and bank-issued debt — and the latter outstrips the former by nearly 10 to one.

Effectively, our money supply system has been privatised. However, in a crisis, the public makes no distinction between the two forms of money, and states have ended up responsible for all money issued in their currencies. The problem with bank made-up money is that it is only issued as debt, which must continually expand if it is to be repaid with interest. Eventually the system can take no more debt. The only source of debt-free money is the state, hence quantitative easing, but under neoliberal ideology this has been given to the banks to lend rather than being issued directly into the economy. Think what wonders £375bn would have done to the real economy. This would have been no more inflationary than bank-issued money and arguably would have been much easier to tax as it would have been spent in much more transparent ways.

Public made-up money is the only money supply system than can be responsive to the democratically expressed needs of all the people. Instead, public services and vulnerable people are being punished through austerity for the sins of "leveraged" (ie borrowed) speculative finance feeding off its control of the national money supply.

Mary Mellor
Emeritus professor of sociology,Northumbria University

All very true.

There's much more on this in ***The Courageous State.***