# It's time to Rethink the Economics of money and the way…

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*I am pleased to be a signatory to this letter organised by Rethinking Economics:*

Dear Economics Professors and Teaching Staff,

Banks and their role in the creation of money are integral to our modern, financialised economies. Yet, the teaching economics students receive doesn't give them the full picture. As those with the power to influence the next generation of economists, it is essential that you review the teaching of the role of banks in economics courses and bring it in line with up-to-date research. Our economics graduates need to understand how banks function in the real-world, in order to avoid past crises and to create better economies in future.

***What is currently taught?***

Economics textbooks across the world, some of them first published in the 1960s, continue to teach students a model of the monetary system in which commercial banks act as intermediaries, that only move existing money around the system, like lubricant in a machine. Many economics courses rely on the models in these textbooks, without recognising the empirical evidence that undermines them. This gives an unbalanced view of the way the monetary system functions and of the role of banks in the economy.

***How is money created?***

As research from the ***Bank of England***, ***Bundesbank*** ***and numerous academics has shown, banks are not intermediaries channelling pre-existing funds from savers to borrowers. Commercial banks create the vast majority of money in circulation. Unlike other financial institutions, they create money when they extend loans to borrowers. In the process of extending a loan, banks do not move pre-existing funds from any other account but newly 'invent' the money by crediting the borrower's account. Therefore, banks' lending is constrained by borrowers' demand, profitability considerations and financial regulations,***

***not by pre-existing funds (i.e people's savings) nor by central bank reserves. This reality is in line with the credit creation or endogenous money theory, which is absent from most current economics textbooks and teaching.***

***Commercial banks also determine where money is directed in the economy. Around 80% of new money created in countries like the US and UK currently goes towards existing property and financial markets, rather than the 'real' or productive economy, leading to soaring house and land prices, and housing crises. In the Global South, 33 major global banks poured $1.9 trillion into fossil fuels since the 2015 Paris Climate Agreement, directly influencing the trajectory of economies that will be hit first and hardest by climate change. The power of banks to create money therefore has enormous implications for the shape and stability of our economy. Yet, in an overwhelming number of cases, economics textbooks and courses do not teach this to the economists of tomorrow.***

***What are the consequences of this teaching?***

These models, taught without balance or regard for existing evidence on the financial sector, lead economics graduates — who often gain influential positions in society — to draw flawed conclusions. One example is the misconception that in order to increase investment in the economy we need to encourage people to save money first. Other misconceptions that arise are that money is a scarce resource and that public investment ***always*** 'crowds out' the private sector.

Furthermore, a main driver of the 2008 global financial crisis was the build-up of debt and credit by the private sector, as banks lent unprecedented amounts to property and financial markets. The crash was unanticipated by the majority of academic economists. This was in no small way influenced by blind spots regarding the power of banks to create money and influence the wider economy.

The same theories that led to these blind spots are still being uncritically presented to economics students 11 years on. When real-world evidence demonstrates that banks function a certain way, why is this not taught to students? Any decisions these students take in their future careers — from financial regulation, to approaching issues like asset price bubbles or unproductive lending — will be influenced by their education at university.

***What are we calling for?***

Around the globe, economics students from Rethinking Economics are calling on their lecturers to address this gap in their education. They are calling for an education of banking which draws on empirical evidence and not on outdated models in many textbooks, which are useful only for contrasting past beliefs with modern realities.  Most importantly, they are calling for balance in the way they are taught about the role of the financial sector, which allows space for simplified models but also includes alternative perspectives. They are submitting this letter to universities in Europe, the Americas, Asia and Africa to push for improvements to the education they receive.

We strongly support the students in their calls. We encourage economics professors and teaching staff to engage with the students' demands and review how a more complete understanding of the role of banks in the monetary system and the modern economy can be better integrated into economics education. Today's economics students will become the policy-makers, economic influencers, politicians, financiers and business leaders of the future. To create stable and productive economies globally, they must have a real-world understanding of banks and money creation.

To achieve this, we ask economics professors and teaching staff to:

* provide a justification for why the current teaching doesn't include the credit creation theory, as put forward by central banks and numerous academics.

* include credit creation theory and empirical studies of the function of banks in the economy in their lectures, teaching material and classes. In particular, this includes more diverse textbooks on reading lists that give students the tools to critically assess the role of banks;

* teach their students that an understanding of what the financial sector actually does is vital to an understanding of capitalism.

Rethinking Economics is an international student-led movement seeking to improve economics education. In publishing this letter, with the support of the signatories, we are extending an invitation to develop an economics education that is grounded in the real-world and gives students of economics the tools to address the challenges of the twenty-first century economy.

***Signatories***

Finance Watch

Positive Money Europe

Positive Money

BankTrack

Bretton Woods Project

Sigurvin Sigurjonsson, Betra peningakerfi

Positiva Pengar

Gode Penge

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Anna Laycock, CEO, Finance Innovation Lab

Kate Raworth, Author of Doughnut Economics; Founder,Doughnut Economics Action Lab

Steve Keen, Author of Debunking Economics

Professor Victoria Chick, Professor Emeritus, University College London

Dirk Bezemer, Professor of Economics of International Financial Development, University of Groningen

Richard Murphy, Professor — City, University of London

Jayati Ghosh, Professor Economics — Jawaharlal Nehru, Delhi; Executive Secretary, International Development Economics Associates

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Ludwig Schuster, Sustainable Money Research Group (Wissenschaftliche Arbeitsgruppe Nachhaltiges Geld)

Martijn van der Linden, Chairman, Foundation Ons Geld (Our Money), Professor New Finance at The Hague University of Applied Sciences

Andres Bernal, The New School, New York

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ML Hardy, International Movement for Money Reform

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Michael Derrer

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Rethinking Economics Victoria

Rethinking Economics The Uploaders, Nigeria

Rethinking Economics Malta

Pluralism In Economics (PINE), Maastricht

Rethinking Economics Bocconi Students (REBS)

Rethinking Economics Bergen

Alternative Economics Society, University of Sheffield

Rethinking Economics Danmark

Kritiske Politter, University of Copenhagen

Business Unusual, Copenhagen Business School

Rethinking Economics TÃ¼bingen

Rethinking Economics Netherlands

Rethinking Economics Norway

Rethinking Economics NMBU

Rethinking Economics ISCTE-IUL, University of Lisbon

Rethinking Economics Torino

Rethinking Economics Blindern

Netzwerk Plurale Ã–konomik

Kritische Wirtschaftswissenschaftler*innen Berlin

Plurale Ã–konomik Bamberg

Plurale Ã–konomik Jena

MÃ–VE (Mehr Ã–konomische Vielfalt Erreichen)

Plurale Ã–konomik Kassel

Plurale Ã–konomik Mannheim

Plurale Ã–konomik Dresden

oikos Witten/Herdecke