

If the Bank of England is to publish a textbook on econo...

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This comes from page 182 of the Kindle edition* of the new [Bank of England book on economics](#), which is in the chapter explaining the virtue of banking:

Then there's the third function of banks: they match borrowers to savers. Banks act as middlemen between people who want to save money and people who want money to spend. In principle, we don't need banks to do this – everyone could just borrow money

from friends or family members. But this could cause problems. First, you may not know anyone who has spare money lying around, especially large sums of it. Second, even if you have rich friends with a lot of spare cash, they might not be willing to lend it to you – not because they're a bad friend, but because they're unsure whether you would be able or willing to pay it back.

The implications are:

- a) Money is tangible when it is not;
- b) Banks lend other people's money when they don't; they always create loans out of thin air;
- c) Banks are intermediaries when they are not, which the Bank of England has acknowledged since 2014.

I admit that in the previous chapter it was explained that banks could and do create

money out of thin air. But then we get his nonsense - which heads straight back to the old textbook teaching about banks as intermediaries. Not only does this contradict the previous chapter (never a good idea in a book) it is also wrong. Banks in the UK - the target audience for this book - do not act as intermediaries. They never match savers and borrowers. The suggestion that they do so is just wrong and is deeply misleading.

And this is not a one-off mistake. On page 190 they say:

So matching savers to borrowers is a socially important task, as well as a way of making money. Banks' most crucial role is funnelling money to where it can be most productive – and so stimulating the economy, while also making a profit for themselves.

And on page 191 they say:

But goldsmiths in the seventeenth century and banks today have still a lot in common; they both convert short-term deposits – the gold or cash that people hold in their accounts – into long-term lending of money. This process is known as 'maturity transformation'. Through this process, banks benefit themselves, savers, borrowers and others in the economy – leading to more and more productive economic output.

This is just drivel, to be polite. If banks do not need deposits to lend - and they do not - then this is total nonsense.

The Bank of England really should understand banking before they publish a book about it.

And for the record, they should follow their own advice. [In 2014 they said in an article:](#)

This article explains how, rather than banks lending out deposits that are placed with them, the act of lending creates deposits — the reverse of the sequence typically described in textbooks.

Now they have published their own textbook and then have done so using the out of date model of banking that they condemned as wrong in 2014. It's very hard to make incompetence on this scale up.

And, for the record, they also don't understand money. They never once note that it is a record of debt.

This is really grim stuff.

* *Bought so that I could screenshot it.*