

Funding the Future

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It seems appropriate to share this entry on money that I posted to the glossary yesterday in light of the [Silicon Valley Bank failure](#).

SVB would have survived if they had realised that all money is debt.

They failed to match their current and longer-term cash liabilities.

They did not realise that this double entry was really their job.

As a result there is a cost to society.

Understanding money matters.

All money represents a promise to pay denominated in the fiat currency of a particular jurisdiction. The UK pound sterling is a fiat currency, as is the US dollar, the euro, the Japanese yen, and all other major currencies in the world.

Fiat money is created by the acknowledgement of a debt and is destroyed by the settlement or cancellation of that liability (see money creation).

In a fiat currency system, there is no asset backing for the money that a jurisdiction creates. This has been true in almost all jurisdictions, and all major ones, since the final abandonment of the gold standard by the USA in August 1971.

It is commonplace for people to think that money has a tangible existence, mostly because of the existence of notes and coins. This is not true. Notes and coins are simply tangible and transferable representations of the government's promise to pay which it redeems by accepting them in payment of tax.

As a result, the idea that there is 'money in the bank', as many people commonly state, is not true. No one has 'money in the bank'. The only thing that a bank has is a general ledger (see double entry book-keeping) that records the money owed to it and the

people to whom it owes money.

Banks are as a result just giant exercises in book-keeping, whatever mystique they like to create around the process.