

Funding the Future

The Green Party's policy on money, and so on the econom..

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Having noted that the Greens were a plausible [recipient of my vote yesterday](#) on the basis of their green policies and support for proportional representation, I then took a look at their economic policies and [found this pile of economic nonsense](#):

EC663 The existing banking system has failed and is no longer fit for purpose. The Green Party believes that the power to create money must be removed from private banks. The supply of our national currency must be fully restored to democratic and public control so that it can be issued free of debt and directed to environmentally and socially beneficial areas such as renewable energy, social housing, or support for community businesses.

EC664 A Green Government will therefore develop and implement a programme of banking reform based on the following principles:

- a) All national currency (both in cash and electronic form) will be created, free of any associated debt, by a National Monetary Authority (NMA) that is accountable to Parliament;
- b) The 1844 Bank Charter Act will be updated to prohibit banks from creating national currency in the form of electronic credit. To finance their lending, investment or proprietary trading activities, banks will have to borrow or raise the necessary national currency from savers and investors;
- c) The NMA will be mandated by law to manage the stock of national currency so that it is sufficient to support full employment, while avoiding general inflation in prices, and taking into account the development of local currencies (Ref. paragraph [EC678](#));
- d) Any new money created by the NMA will be credited to the account of the Government as additional revenue, to be spent into circulation in the economy in accordance with the budget approved by Parliament;
- e) The members of the NMA will be appointed - for fixed terms - by a Select Committee of Parliament;
- f) The independence and integrity of the NMA will be assured by law requiring NMA members and staff to be free of any conflict of interest; mandating full transparency of NMA decisions; and prohibiting lobbying or undue influence of NMA members or staff by government, financial institutions, corporations or any other private interest.

To summarise my reaction, if a party does not understand what money is and how it works then, in my opinion, it is not fit to govern. Given the above, that is where the Greens are.

The policy statement looks as if it came straight from an organisation called [Positive Money](#) which has been writing this economically illiterate stuff for more than a decade now.

A [while ago I wrote a blog](#) post about why I objected to Positive Money's ideas. Since their ideas have not seemed to change, and the Green Party still seems to be dedicated to them, and so in turn to completely crashing the economy (which is what would happen if they tried to implement any such policy) it seems worth reiterating what my objections are. What follows is in italics as it comes from my 2018 post.

The idea I take issue with is this, [which PM says is core to their policy proposals](#):

The [central bank](#) would be **exclusively responsible** for creating as much new [money](#) as was necessary to promote non-inflationary growth. It would manage money creation directly, rather than through the use of interest rates to influence borrowing behaviour and money creation by banks. Decisions on money creation would be taken independently of government, by the [Monetary Policy Committee](#) (or a newly formed [Money Creation](#) Committee). The Committee would be accountable to the Treasury Select Committee, a cross-party committee of MPs who scrutinise the actions of the [Bank of England](#) and Treasury. The Committee would no longer set interest rates, which would now be set in the market.

The central bank would continue to follow the remit set for it by the nation's finance minister or chancellor. In the UK this remit is currently to deliver “price stability” (defined by an [inflation](#) target of 2%), and subject to that, to “support the Government's economic objectives including those for growth and employment.” The inflation target acts as a limiter to stop the creation of money becoming excessive, but subject to that, the central bank is able to create additional money.

I always struggle to know where to start when faced with this proposal, it is so overwhelmingly harmful. The following are the objections within the constraints of a reasonable-length post. They are not necessarily in order of objectionableness: candidly, they all achieve that status.

First, I object to any unelected committee taking control of our economic policy. I object to the current sham of central bank independence and I object to alternatives to it. We elect governments to run economic policy and not unelected 'wise people' whose status may well be challengeable and most of whom will be slaves to some long-dead economist.

Second, I object to inflation being at the core of money policy. Of course it is vital, but most especially to the interests of those with wealth. The object of money creation should be to ensure that there is enough to create full employment and rising median wages. Since the only inflation that money creation policy can control will not happen until there is full employment making inflation the target is to get every priority wrong in that case, and to put the interests of capital over those of labour. And that's not what any progressive should be doing, in my opinion.

Third, this policy fails to understand what money is. Money is, in the modern world, simply a promise to pay. It comes into existence when that promise is

made. It ceases to exist when it is fulfilled. So, governments create money when they promise to pay when spending, and fulfill that promise when accepting the money that they create as payment for tax. And bank borrowers create money when promising to make payment of loans, and do so then they repay them. Conversely, banks promise to pay in the future when accepting net deposits: they say they will recreate the money when returning it. But in each case there is no physical thing called money. There is just a promise. That's all. But Positive Money do not appreciate that. They are saying there is something called 'central bank money' and that a stock of this can be created and distributed for use to banks. This is simply untrue: unless there is a promise to pay there is no money and you cannot distribute promises that do not exist between parties that are unaware that they might make them. The Positive Money idea is not possible unless the fourth objection applies.

Fourth, the PM proposal rations money. This is exactly what the gold standard did. It said money was in limited supply and countries were not at liberty to create it at will. The limitation in supply created a price for money - or interest - which rewarded those who had it and penalised those who had not in a form of rent extraction that reinforced [inequality](#). We have been eliminating this rent: in my opinion this is the best explanation for the rapid decline in real interest rates and the reason why they will not increase again: there is no premium to pay for a commodity that is not now in artificially short supply. But, more important than this, the limitation on money availability constrained growth: desirable transactions could not take place because the means to make settlement was said not to exist. But this shortage is also artificial: there is literally no limit to the promises we can make. The only limit is to the number we are able to fulfill. So long as we focus on productive capacity then (and this is critical) the government's job is to permit all the money required to deliver that capacity and not to constrain it by saying that cash is not available. But that is exactly what PM would do: just as in the 30s the gold standard delivered a depression, so would PM.

Fifth, PM would also hopelessly undermine the use of sterling. The reality is that people borrow and spend in sterling because they need to pay their taxes, and a banking system that can create credit to meet their needs lets them do so. As a result the government has macroeconomic control of the economy. But if credit creation was constrained then people would borrow in and use other currencies: they would have no choice because sterling would cease to be credible. Not only would the microeconomic cost be considerable, as would be the risk, but the [loss](#) of macroeconomic control would be catastrophic.

Finally, PM are in any case just wrong: all sterling is already created by the

government. It cannot, of course, control other currencies but as it stands in a UK context that does not matter: sterling is the invariable [currency of choice](#). And it is created in two ways. One is by government spending, [as explained here](#). Alternatively, it appears to be created by bank lending. But this is a chimaera. Banks may appear to do this, but do so only because customers are willing to offer to pay them in the sterling currency the government creates (and no one else does create it) and second because banks are licenced by the government under very strict controls to accept those promises. There may appear to be lots of banks creating money, but there is only one banking system doing, at the heart of which is the Bank of England that already advances funds to lending banks on demand and controls their lending by reserve requirements and specific regulation as well as specific policy e.g. to encourage or withhold mortgages. The idea that banks float free and do just what they want, as banks, in this system is not true. They do as investment banks, but that is something quite different and why the two should not be in one organisation. But to say banks create most money now is just wrong: they don't. They work under the licence of the Bank of England when doing so. PM are tackling an issue that does not even exist.

PM could play a valuable role in campaigning if they understood [modern monetary theory](#), money and its role in the economy. As it is they promote dangerous policies that would reinforce inequality, crash the economy, and undermine any chance of the government directing any recovery. It's hard to think of many organisations seeking to do much more harm than that. Why it thinks itself progressive when doing so is hard to imagine. There is, thankfully, the MMT alternative. It's the only viable option.

I might add one further thing. It is the category error at the very heart of both Positive Money's work and at the heart of the Green's policy. There is implicit in both the idea that there is something real, tangible and separable that is money. It is as if they think it is tangible. There is no such thing. There are only promises to pay. There are only mutual exchanges. Banks are just accounting mechanisms that record those promises. And given that fact (for fact it is) what the Green's are proposing is not just absurd but dangerous.

I am not sure I could vote Green now.