

Financial capital is not scarce, so why do we pay so mu...

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I shared this video this morning. In it, I argue that if money is not scarce and is created costlessly by banks, why are we paying so much for it? Is doing so completely contrary to our well-being? Lord Keynes certainly thought so.

<https://www.youtube.com/watch?v=VOQ0wO3K6BU>

The audio version is:

https://www.podbean.com/player-v2/?i=9e5vk-162c5de-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=1&font-color=auto&logo_link=episode_page&btn-skin=c73a3a&size=315

This is the transcript:

Financial capital is not scarce.

So the real question is, why do we have to pay for it?

Now this is a really important question because the Bank of England has - as I have criticised them for doing so many times over the last few years - increased interest rates significantly since 2021, making us pay a great deal to get hold of that commodity which all banks create for nothing.

So, why is that appropriate? Well, I want to read you a quote from someone. And it's a pretty important quote. It says this.

"Interest today rewards no genuine sacrifice any more than does the rent of land. The

owner of capital can obtain interest because capital is scarce just as the owner of land can obtain rent because land is scarce.

But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital."

Now, who said that? It was John Maynard Keynes, Lord Keynes, the greatest economist of the 20th century in my opinion; the man whose ideas basically funded the First and Second World Wars for the United Kingdom, and who was made a Lord as a consequence.

He said that in his 1936 book on the General Theory of Employment, Interest and Money. There's a copy on that bookshelf behind me. I read it in 1976. And I've believed in it pretty much ever since.

And why did he say that? Because he wrote in the 1930s. He said that money was at that time being constrained in supply, of course, by what was still, in effect, the gold standard whereby, supposedly, and ultimately, all money in the world was convertible into dollars, and all money in dollars was convertible into gold and therefore there was a scarcity in money supply linked to the amount of gold in the world, supposedly. And I say supposedly with care.

But the point is that Keynes knew then, and we know now, that there is no constraint on the creation of money if it is for useful purpose.

Since 1971, there has been no link anywhere in the world between the supply of money and the amount of gold that there might be in bank vaults. Instead, all money is created on what is called a fiat basis. Simply on the basis of a promise to pay. Which is what fiat, in these terms, means. So, there is no scarcity of money.

The constraint that Keynes referred to in 1936 is gone.

So why are we still paying interest?

Well, it's curious that in another work of his, the National Self Sufficiency Discussion that he took part in, he said this:

"I have become convinced that the retention of the structure of private enterprise is incompatible with that degree of material well-being to which our technical advancement entitles us unless the rate of interest falls to a much lower figure than is likely to come about by natural forces operating on the old lines. Indeed, the transformation of society which I preferably envisage may require a reduction in the rate of interest towards vanishing point within the next 30 years."

In other words, Keynes was arguing that we should not be constraining our ability to deliver for the well-being of people in our society on the basis of limiting the amount of

capital available for that purpose by charging interest on it.

We should instead be ensuring that the interest rate is so low that capital is available for every worthwhile project that we can do within society.

And he was right. That is what we should be doing.

The payment of interest is related to the idea of scarcity and there is no scarcity of money, and we now know that banks can create money without limit and completely costlessly.

We are, therefore, living in a world of economic exploitation where interest is charged inappropriately without any benefit to society at large but to the particular benefit of those who happen to own money on deposit.

This is a situation which Keynes has said has outlived its usefulness. It's time that we imagined a world where low interest rates were there in perpetuity and we worked out how to manage capital better.

Not so that money goes into stupid things, like pushing up the price of shares or the price of homes inappropriately, but into the productive well-being of the economy, so that we have the technology we need to meet our needs.

And our needs are really big, because without investment, we can't manage climate change.

And these issues are intimately related.

PS Thanks for the suggestion for this video from a third party, whom I am happy to name if they give me permission to do so.