

There is almost no money in banks these days

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My [latest video has just been published](#). In it I argue that the old idea that there is money in a bank is almost always wrong now. There's just a pile of bank statements in a bank these days, and it really is time we got our heads around that rather basic fact.

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

The audio file is here:

https://www.podbean.com/player-v2/?i=ii9xb-1643e07-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=3267a3&font-color=&logo_link=episode_page&btn-skin=c73a3a

The transcript is:

There is almost no money in a bank.

That might come as a shock to quite a lot of people. It certainly would come as a shock to bank robbers of old, because when one was once asked why did he rob banks, he said, "Well that's where the money is". And I guess at the time he said it, that was true.

Why? Because there was a period in history, not so long ago, where most transactions in an economy, even like that of the UK, were undertaken in cash. Literally, notes and coin.

But that's no longer true now. Ninety-seven to ninety-eight per cent of transactions of any value in the UK economy are undertaken with electronic money now. That's a number that's increasing, in fact. The use of notes and coins is declining significantly, and a great many of the £80 odd billion or so of notes that are in circulation are, in fact, not circulating. They are used as money under the mattress or whatever else. And the

vast majority of coins that exist are, in fact, sitting in pots in people's homes, which one day they say they'll take in and change back into cash of more significance. So, cash is not what banks deal in anymore.

Banks deal in electronic money. And electronic money is created by those banks.

How do they create it? It's very simple. You go into a bank, you ask for a loan, they decide you're credit-worthy, and they give you the loan. That is not somebody else's money that is then passed on to you. It can't be, because they still owe somebody else's money back to somebody else. So they can't give it to you.

Nope,, that isn't the way it works. Instead, they create new money for you. New money is simply created by an exchange of promises. You promise to pay the bank, the bank promises to pay whoever you ask that they transfer the money they've just put into your loan account to, and on the basis of that exchange, it promises, oh, and your promise to add a bit of interest when you make the repayment, new money is created.

And that new money is recorded in the bank's ledgers. Quite literally, the only proof that it exists is that there is a balance on a bank statement.

So why do I say there's no money in a bank? Because actually, what is in a bank are those bank ledgers, those bank statements, the computers that run them. The figures that add up in a bank are those ones and not the figures for cash in the till, which are almost insignificant to the transactions that they undertake, which is why the number of banks in the UK is falling so dramatically when we come to talk about high street branches.

So, there is no money in the bank.

So, what is the bank then?

Well, the bank is just a giant accounting exercise, that's all it is. It isn't doing something very clever, it's just recording I owe you, you owe me, now I owe you a bit less, now I owe you a bit more, or something like that, and that's literally all it does.

So, why do we put these banks up on pedestals as if they are the pinnacle of economic activity in the City of London whose wishes with which we must always comply?

I don't know. There are only a bunch of bookkeepers. I'm not saying bookkeeping is wrong, but I'm not saying it is the most clever activity that is ever undertaken in an economy. And the form of a bank, and the form of bookkeeping undertaken by banks, is actually one of the most basic of all. And that's all banks do.

It's time we put them into perspective. They are not places that we should venerate. They're doing incredibly valuable work. We need them. But they are not creating value in the way that most jobs in the UK do. And we need to get that fact into perspective.