

Funding the Future

Article URL

Published: January 12, 2026, 7:42 pm

The next video in the Economic Truths series is out this morning, continuing the theme of discussing money, its creation and its consequences. In this video I argue that it's not true that bank savings fund bank loans. The economic truth is that bank loans create the money in bank savings accounts, however odd that might seem to be.

<https://www.youtube.com/watch?v=nUxT17ZOTP8>

The audio version is:

https://www.podbean.com/player-v2/?i=54uk7-16832ac-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=8bbb4e&font-color=auto&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

It's an economic truth that bank loans create most bank deposits.

I've already done two videos, one of which says that you've got no money in the bank, if that's what you think your bank statement shows, and another one that talks about how banks do not lend out savers' money. But let's just talk about what happens when the bank does lend out money that it has created as a result of the exchange of promises between the bank and a borrower.

The borrower gets money, and they spend it. And what does the person who receives the money that they have borrowed do with that? Well, of course they deposit it with their bank. They will have very little choice in reality because, of course, the vast majority of transactions that take place in the UK economy are now made with electronic money through bank transfers. So, the bank lends money to a person, and that person then says, "Hey, I've got money in my bank account, that's why I borrowed,

I'll go out and buy whatever it is I desire, a car, a new camera, whatever", and with that new money that they have borrowed, they go along, buy that item, and the person who receives their money pays it back into the bank.

That seems extraordinarily familiar to most of us, and totally obvious. But the fact is that that deposit of the money that the bank lent creates most savings in the UK. Yes, tiny proportions are made out of people's income but that's only because there's already money in existence.

Actually, all money in the UK is made in one of two ways. Either by the government spending it into existence, and we're going to deal with that in separate videos, or, as in this example, with the bank lending somebody new money as a result of an agreement between them and the borrower. And that new money that the bank lends is then deposited back in the banking system, because no wise person holds money in cash.

Therefore, in the UK economy and in the economies of the world at large, most bank deposits, that is money in savings accounts, is created by the banks themselves by lending money into existence.

Now that's really important. Because what that really means is that all the private wealth that is recorded through the mechanism of money is only in existence because banks have lent.

Think about that. We are dependent on this record keeping system of money creation the banks. put into operation for us to actually record basically all of the private wealth that we have.

Now that doesn't mean to say that we couldn't have private wealth without money, but a lot of the forms of private wealth that we have are utterly dependent upon being recorded in that unit of currency that we call money, that is being created by the government as legal tender, and as a consequence we are utterly dependent upon this system to make sure that our economy works and that we enjoy our own well-being.

So, banks have to lend to create money, but when they create that money, they create bank deposits.

There is no great surprise in all of this, I hope, to any accountant watching this because, of course, this is double-entry bookkeeping at work. And when you understand double-entry bookkeeping, you realise that the whole world is all about double-entry bookkeeping.

The bank's loan is somebody else's deposit. That's all I'm saying. It has to be because that is what double-entry bookkeeping requires.

And yet, most people think that the deposit comes before the loan and that's not true. The loan has to come before the deposit or else the money would not exist to be

deposited.

So much of what is economically true is the other way around for what most people think. That's my point in making this particular video. Remember that normally, if you think something is obvious, the opposite is true when it comes to economics.

So, savings do not fund loans, loans create savings. It's a simple message, but fundamental to understanding the reality of how the economy works.