Funding the Future

Does money just disappear in a crash?

Published: January 12, 2026, 9:20 pm

When crashes happen, vast quantities of money are reported as being lost. But are they really? Or is it that they actually just cease to exist? It’s an important question that needs an answer.

https://www.youtube.com/watch?v=dPNpXGAtz8U?si=qD-UcbjyraTaR-vG

This is the audio only version:

https://www.podbean.com/player-v2/?i=d9ssp-176a183-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

And this is the transcript:

What happens to all the money that disappears in a crash?

It's a question that I am often asked, and it seems a reasonable thing to speculate upon, because, after all, most people think that money is, somehow, tangible and a real something that you can get your hands on, and the reality that money is only a debt, and that the debt can fail because it is just a promise to pay is something that most people find very hard to comprehend.

But it is that reality that is reflected in the fact that when a crash takes place, money can literally simply disappear. Money is quite simply a promise, and as we all know from

experience in life, promises can be broken.

The promise to pay is something that we usually accept at face value because most of the time, most organisations, and especially banks, are quite good at keeping that promise. It is at the core of their business model.

But suppose there is a crash, then the promise to pay might fail. And we know that possibility exists because in the UK, for example, there is a guarantee provided by the government on every single person's bank account with every single institution with which they bank for a sum of up to £85,000.

In other words, a person who has, for example, £50,000 in a UK high street bank will get their money back from the government in the event that the bank in question cannot pay them. And if they have accounts with ten banks all with £50,000 in them, then they will enjoy a guarantee of all their money back - half a million pounds from the government - and nobody suggests that there is anything wrong in them arranging their affairs to ensure that is the case.

But why would they arrange their affairs in that way when it would, very obviously, be much easier to put all their money in one bank? That's because deep down people do not trust the promise that a bank makes to pay.

It is as simple and straightforward as that. And in the event of a crash, the sort of thing that we had in 2008, when we saw people queuing up outside Northern Rock, which actually was in 2007, and the precursor of the 2008 crash that followed - but the point remains valid all the same - people queued up outside Northern Rock, and they wanted their money back, but there was no guarantee that they would.

That is why the government had to step in, and in that case, they guaranteed repayments of all deposits to all people with money in that bank. And the day was saved, in a sense. The run on the banking system as a whole ceased to be a threat. The promise was maintained, not by the bank, but by the government.

Now, what happens in a crash? That promise was kept is under threat. It's under threat for all sorts of reasons. Most particularly in the event of a crash, asset prices fall. Let's be clear what I mean by that.

The assets we're talking about are the things that the banks take as security for their loans. The one with which almost all of us are familiar in some way or other, whether or not we've ever had one, is, of course, the domestic mortgage. The mortgage is what is called a legal charge, and what it means is that if you are not, as the borrower, able to repay your liability to the bank, then the bank can claim your asset - the property that you bought with the loan that the bank provided - and use the proceeds from the sale of that property to repay the loan that they provided you with.

It may not clear all your debt by the way, you might still owe money, but the point is that they use the property as security for the loan and this is also commonplace with regard to business loans. The assets that are used as security might differ, but in many cases they will still be property, but they might also be the debtor's book of a company, or all the property within the company itself. It could be a personal guarantee from a director, which is a problem for many small businesses, and is usually backed up by value of a property yet again. In other words, what the banks always look for are a means of recourse for the loans that they make.

And in some cases, they might use more esoteric assets as their security. They might, for example, lend money against the security of shares. When you're very large, you can get away with this. When you're an individual, it's highly unlikely that you can. But the point here is that, just like houses, the value of shares can fall. And once the value of assets is falling, in a crisis situation, markets tend to become intensely chaotic. Values might rise steadily over time. That is a feature of most markets. As people get confidence since the time elapsed since the last crash happened, then they begin to believe that prices will always rise.

And so they do, until the day when they don't.

And then, as happened in 1929, as happened in 1987, as happened at around the period when banks were falling over in 2008, the value of shares and other properties fall dramatically.

And as a consequence, we get a crash. There is no better word for it than crash because that is the way in which the prices fall.

And at that moment, the security available to a bank for the loans that it has provided vapourises in so many cases that it suddenly looks as though the value of the loans it has made on its balance sheet, which are its asset, because they have to be, because they are the borrower's liability, suddenly look to be worthless or unfounded. And unfounded in the sense that there is nothing to back up the asset value because the security that was provided to guarantee repayment either no longer exists or does not have sufficient value to cover the value of the loan that the bank made. And then the bank is vulnerable to failure.

This is what happens in a crash. The promise from the person to the bank to repay their loan has failed.

In turn, the promise from the bank to the depositor to repay the money that they owe to that person might also fail. And here another aspect of banking comes into play. You might say “Well, why can't the bank create more money to just make the repayment?” and of course that is true of the central bank.

But it isn't true of the individual bank because they do not now have another

counterparty available to them to create the new funds by creating a new loan when what they're being asked to do is to is to repay an existing loan, and in this case the loan is from the depositor to the bank because it's an asset for you and therefore it's a liability of the bank. And they can't do that in the short term because they can't get their hands on the required assets.

Now, this situation has radically improved since 2008, because in 2008, the value of the central bank reserve accounts that the banks maintained with the government were tiny, little more than £20 billion in total. And now they are in excess of £700 billion in total, although the Bank of England is doing its very best to try to reduce this figure as fast as is possible, even though that threatens the stability of the banking system.

But what is clear is that those funds could, at that point of time, be used as security for making the repayment that is required to the depositor to provide stability to the system that would then be required.

So don't doubt that quantitative easing did, in this sense, provide significant new capital to the banks that bailed them out in 2008 and afterwards, but which now provides us with security that the banks may be able to repay us using, in effect, government created money because the system might provide for that.

And the government could itself, of course, create new money, as it did in 2008 for this very purpose. It disguised it through the quantitative easing process, but what happened in 2008 and 2020 was that new money was created to keep the economy going. It's as simple and straightforward as that, and it will happen again in the event of a crash.

That's necessary because the only person's promise to pay that has any value in the event of a crash is the government's. Nobody else's has any worth at all. The government can create money that still has value at that instant. And, therefore, they have to step in and it's because the rest of the monetary system has fallen into disarray because the promise to pay has failed.

It's not that the money has disappeared. There never was money. There was only a promise to pay and that promise to pay has now failed. And because it's failed, the government steps in.

But, and this is a video riddled with buts, the reality is that the greater the risk within the banking system because of the quality of the assets used to back up the promise to pay made by the customer, then the greater the risk is to the government that they will have to bail out the system.

And this is where Bitcoin comes into play. If people are using Bitcoin as security for loans from banks, and it seems possible that they are, then the likelihood that there will be a crash is increased because the possibility that the value implicit in Bitcoin might

disappear at a moment, any moment, when a crisis occurs is very high indeed.

And that's why it creates risk of creating a crash. But in a crisis the money doesn't go anywhere. The money was simply a promise to pay, and that promise to pay was broken, and therefore the money disappears. It vapourises, because there is no tangible physical quality to money, and it doesn't go anywhere. It's just gone.

You have to understand that intangibility to understand how the economy works, how money works, how banking works, and why government has to be the provider of all money at the end of the day.