

Funding the Future

Article URL

Published: January 12, 2026, 5:04 pm

I got this link from Steve Keen, [whose Substack is worth subscribing to](#).

Ted Cruz has claimed that the Federal Reserve should stop paying banks interest on Reserves:

The Federal Reserve pays banks interest on reserves. For most of the history of The Fed, they never did that. But for a little over a decade, they have. Just eliminating that saves \$1 trillion.

The discussion is about 4 minutes and 30 seconds into this interview:

<https://www.youtube.com/watch?v=v1dZVwH58Zo?si=eMkZ330SnW8pEGU1>

What Senator Ted Cruz in the US and Richard Tice for Reform UK are both now arguing is that central banks should stop paying interest on the reserve accounts they maintain for commercial banks. They are, unusually for them, right to do so, albeit that they are for all the wrong reasons.

I have long argued that these payments should stop (see a list of links to articles on this theme, below). There are a number of reasons for doing so.

First, the reserves in question – whether in the UK or the USA – were largely created by the governments of the country in question, when working in conjunction with their central bank during two crises. The first was after 2008, and it happened again during the Covid pandemic. The process was one of deliberate monetary creation, injecting what is properly called base money into the economy. The commercial banks were simply the mechanism through which this injection was done so that the benefit could reach their intended recipients, who were not the banks in question.

Second, what this makes clear is that these reserve balances were not generated by commercial bank decision-making. They are not the result of ordinary deposits. They are not the outcome of productive commercial activity. They are not even surplus

shareholder equity. They are, quite simply, government-created money parked in these commercial banks' central bank reserve accounts, for which the banks did nothing to deserve compensation.

Third, these balances cannot be used in any other way. They are not transferable in the ordinary sense. They only exist in the base money system, and then only because the government created them. That means that they can only be removed by the government, either through taxation or through quantitative tightening. The banks are, in effect, captives of the system, but they are being paid to be so. In effect, their liquidity has been increased, reducing the risk to them of any form of failure, whilst providing them with the capital to ensure that inter-bank settlements can always take place, and they are now being rewarded with massive unearned profits for having been provided with this considerable benefit. This makes no economic sense at all.

Fourth, the consequence has been predictable. Commercial banks have been handed billions in interest payments, benefiting their highest-paid employees and shareholders. Meanwhile, public services have been slashed, people are being denied basic needs, and politicians claim there is no money left, so that austerity is required. Injustice is rarely more obvious than this.

Fifth, this policy has persisted because of economic ignorance, or worse, complicity, within the extreme centrist political class, who are dedicated to maintaining the status quo. They either do not understand, or refuse to acknowledge, that this money was created by the government and that payment of interest on these balances means that government-created money continues to flow into the coffers of private banks as a matter of choice, and not necessity.

The far right has begun to notice this, but only to advance their own agenda of slashing the state. Ted Cruz and Richard Tice are not interested in economic justice. They simply want smaller government. However, this issue should not belong to them. The funds in question should be reclaimed for public use. In a political system where it is pretended that money is limited in supply (even though it is not), these funds should be used to enhance care, education, social housing, and to restore opportunity. This money was created by the government, and it should now serve people's needs and not those of bankers. Interest should not be paid on most, if not all, of these balances.

These are previous blog posts by me on this issue.

* Murphy, R.J., 2024. *The Bank of England should not be paying interest on the money the government gifted to our commercial banks*. Tax Research UK / Funding the Future. [Available here](#).

* Murphy, R.J., 2024. *It is time to end the massive government subsidy that's being paid to the UK's commercial banks*. Tax Research UK / Funding the Future. [Available](#)

[here](#).

* *Murphy, R.J., 2024. Is Farage right on the central bank reserve accounts?. Tax Research UK / Funding the Future. [Available here](#).*

* *Murphy, R.J., 2023. Why is the state paying interest to banks on money the state created?. Tax Research UK / Funding the Future. [Available here](#).*

* *Murphy, R.J., 2022. How are the central bank reserve accounts created?. Tax Research UK / Funding the Future. [Available here](#).*