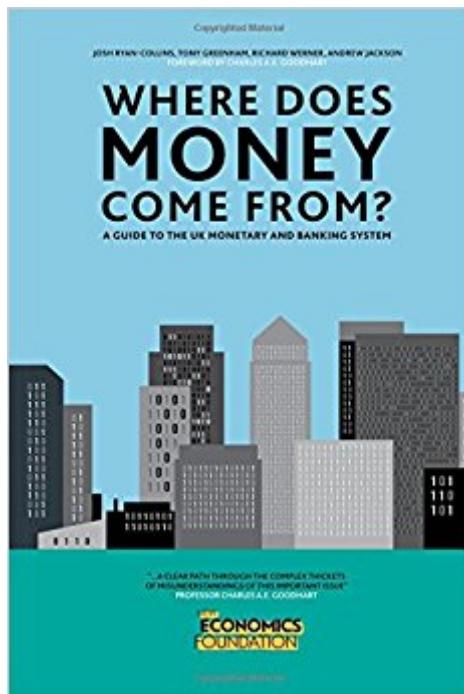


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# Where Does Money Come From?



## Synopsis

Where Does Money Come From? reveals how, contrary to public perception, the bulk of today's money supply is created and allocated by commercial banks in their role as providers of credit. The authors argue that this system is inherently unstable, with little effective regulation of how much credit is provided or whether it is used for productive or speculative purposes. Based on detailed research and consultation with experts, including from the Bank of England, Where Does Money Come From? reviews theoretical and historical debates on the nature of money and banking and explains the role of the central bank, the Government and the European Union. This Second edition includes new sections on Libor and quantitative easing in the UK and the sovereign debt crisis in Europe. Praise for Where Does Money Come From? "Refreshing and clear. The way monetary economics and banking is taught in many " maybe most - universities is very misleading and what this book does is help people explain how the mechanics of the system work" • David Miles, Monetary Policy Committee, Bank of England "It is amazing that more than a century after Hartley Withers' The Meaning of Money and 80 years after Keynes' Treatise on Money, the fundamentals of how banks create money still need to be explained. Yet there plainly is such a need, and this book meets that need, with clear exposition and expert marshalling of the relevant facts. Warmly recommended to the simply curious, the socially concerned, students and those who believe themselves experts, alike. Everyone can learn from it" Victoria Chick, Emeritus Professor of Economics, University College London. I used Where Does Money Come From? as the core text on my second year undergraduate module in Money and Banking. The students loved it. Not only does it present a clear alternative to the standard textbook view of money, but argues it clearly and simply with detailed attention to the actual behaviour and functioning of the banking system. Highly recommended for teaching the subject. Dr Andy Denis, Director of Undergraduate Studies, Economics Department, City University, London

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## Customer Reviews

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The best condensed primer on what the financial structure consists of in terms of actual functionality instead of abstract theory which has proved to be misleading in the extreme. Banks don't lend from

funds collected from depositors. They create money out of nothing. Theory says this is what is called fractional reserve banking. Nothing doing. This is a deception. That's what the financial system is. An edifice constructed out of blind trust on the part of those who prefer ignorance on the one hand and those who on a daily basis take advantage of that trust to stuff their pockets with ill-gotten gain on the other. Read all about it here.

This book should be required reading for politicians, policy makers - and economists, whose models still ignore banks and fail us. It clearly explains the surprising fact that it's private banks that create money, not governments or central banks. The only money the central bank can print is paper money which is now only a couple of per cent of the money supply. The book also puts to bed the widely-held myth that the source of bank loans is the deposits of savers. Far from it. Banks create credit by the simple and cost-free act of an entry in an electronic register. This, of course, is the opposite to how the general public - not to mention politicians, policy makers and economists - sees the money system working. In fact, it sounds so unlikely that it seems a little conspiratorial. But it's fact and this book, supported by sources including central banks themselves, helps us to understand this special right that private banks and their owners have been granted to produce credit "out of thin air". Given the enormous power, impact and financial advantage given by this right, most of us would expect that a government or its central bank would be able to closely supervise it. One of the most surprising and concerning facts this book highlights is just how limited the regulatory powers are over banks. It helps to explain how asset bubbles such as credit-fuelled housing inflation arise with increasing frequency, and how so little is done to prevent the inevitable crashes. The reality is that little can be done because regulatory powers are now so weak and the temptation by banks is so strong to expand credit, profits and bonuses. Nothing makes this clearer than the central role that non-productive housing inflation plays today in providing a home for this excess credit. It dwarfs commercial lending to the productive sector. The arcane world of banking is little understood. That needs to change among both the public and policy makers, so that we can start to mend the broken system. This clearly-written, thoroughly researched book will be an eye-opener for most people. Its role is to explain how things are, and provide wider context to show how the system arose, how similar issues were tackled in the past or, indeed, are tackled in the present by countries with saner banking systems. It doesn't offer a prescription for how to fix the dysfunctional finance system we now have, but it does show that the system we have isn't the only, or the best, way to manage this critical part of the economy. And it provides ample proof that combining self-management ("light-handed regulation") with this amazing right and temptation for

excess, simply isn't working.

Outstanding book on the truth about banking and money.

Simple to read but comprehensive explanation. Summarizes actual monetary mechanism in modern economy. I would recommend to all especially students.

Good introduction that can be read in a couple of days. Clearly explained and accessible without the need for deep economic knowledge.

The book Simplified a difficult topic. Interesting info and insight about money.

Before this book, I never thought money supply in this way. It definitely offers a new yet obvious perspective on banking and recent financial crisis.

Very enlightening about the origin of the present fractional reserve lending system.

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