

# Strip Private Banks Of Their Power To Create Money

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## Strip private banks of their power to create money

By Martin Wolf [Author alerts](#)

The giant hole at the heart of our market economies needs to be plugged

Printing counterfeit banknotes is illegal, but creating private money is not. The interdependence between the state and the businesses that can do this is the source of much of the instability of our economies. It could – and should – be terminated.

I explained how this works [two weeks ago](#). Banks create deposits as a byproduct of their lending. In the UK, such deposits make up about 97 per cent of the money supply. Some people object that deposits are not money but only transferable private debts. Yet the public views the banks' imitation money as electronic cash: a safe source of purchasing power.

Banking is therefore not a normal market activity, because it provides two linked public goods: money and the payments network. On one side of banks' balance sheets lie risky assets; on the other lie liabilities the public thinks safe. This is why central banks act as lenders of last resort and governments provide deposit insurance and equity injections. It is also why banking is heavily regulated. Yet credit cycles are still hugely destabilising.

What is to be done? A minimum response would leave this industry largely as it is but both tighten regulation and insist that a bigger proportion of the balance sheet be financed with equity or credibly loss-absorbing debt. I discussed [this approach last week](#). Higher capital is the recommendation made by Anat Admati of Stanford and Martin Hellwig of the Max Planck Institute in *The Bankers' New Clothes*.

A maximum response would be to give the state a monopoly on money creation. One of the most

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