

Three Money Myths: A Summary and Debunking References

There are several myths about where money comes from when loans are processed by commercial banks.

One is the myth that banks lend out excess reserves; which is perpetuated by the theoretical fractional reserve banking system and the money multiplier model taught in macroeconomic textbooks.

To debunk reference <https://progressivemoney.ca/money-creation> scroll down to **ARE THERE LIMITS TO THE AMOUNT OF MONEY A BANK CAN CREATE? And CAPITAL ADEQUACY REQUIREMENTS**. Also <https://progressivemoney.ca/textbook-fallacies> scroll down to **The Money Multiplier Fact or Fiction?**

The second myth as an extension from the first myth is that banks lend out deposits. This is quite easy to debunk anecdotally. For example, has your savings (an account where you can access those funds at any time, demand deposits) or chequing account suddenly dropped \$1000.00 inexplicably and upon your discovery you immediately went to the bank to inquire about what is going on to have a bank representative reply with, “Oh, we lent out your deposit because you weren’t using it at the time.” If this has never happened then the money cannot come from demand deposits. Have you ever heard of this happening to anyone else? So where does the money come from?

Note: A term deposit or investment fund where the money is committed for a certain period of time are not the subject of myth two. Myth two applies exclusively to “demand deposits”.

The third myth or rather deceptive phrasing employed by the banking sector is the use of the term “Own Funds”. For example, a bank can say that it lends money from its “own funds” without explaining that it didn’t have those funds before it created that new money through the loans process. For the average person that must go out and provide a good or a service before being compensated with a pay cheque this concept of creating money from nothing is very difficult to accept. A quote by John Kenneth Galbraith “The process by which banks create money is so simple that the mind is repelled.”

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