

THE PEOPLE'S MONEY

Who Makes America's Money, Who Profits — and How We Change It

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CHAPTER 1

The Invisible Chains

The Night Sarah Did the Math

Sarah is not one person. She is a composite drawn from the kind of family millions of Americans will recognize. Her numbers are real ones, current as of the fall of 2026.

Sarah and her husband earn $120,000 a year between them. Good credit. Two degrees. Two kids in decent schools. A house in a suburb they chose because the schools were good and the commute was bearable.

So why did her stomach tighten every time she opened the banking app?

One night, after the kids were asleep, she pulled up the mortgage statement and did the arithmetic she had been avoiding. They had borrowed $320,000 on a thirty-year loan at 7.32 percent — about where rates stood that October.[1] The payment was $2,198 a month, before taxes and insurance. Over thirty years, if they never refinanced and never paid early, they would hand the bank about $791,000. More than $470,000 of that was interest.[2]

She read it twice: about $791,000 in scheduled principal and interest, over thirty years, on a $320,000 loan.

Then she asked the question that started her down the road this book follows: *Where did the $320,000 come from in the first place?*

She had always assumed the bank lent her other people's savings. It turns out that is not how it works. The Bank of England published a plain-English explanation in 2014:

"Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money."[3]

The bank did not move $320,000 from someone's savings into her seller's account. It created a new deposit when the loan was made. That does not make the loan free for the bank: the new deposit is a debt the bank owes, the bank has to settle payments with other banks, it has to hold capital against the loan, and it carries the risk that Sarah never pays it back.[3] Interest pays for all of that, and for profit. But the money itself did not exist until she signed.

That is not a scandal in itself. Somebody has to create money, and in our system, private banks do most of it, every time they make a loan. But once Sarah understood it, a lot of other things she had felt for years suddenly had a shape.

How Most of Our Money Is Made

Most Americans picture money the way they were taught as children: the government prints it, banks store it, and people borrow what others have saved.

The real picture is different. The great majority of the dollars Americans use — the balances in checking accounts, the numbers on a payroll deposit, the funds that move when you tap a card — are not printed by anyone. They are bank deposits. Banks create deposits when they make loans or buy assets from nonbanks; central-bank purchases and other flows also affect the total.[4] Paper bills and coins are a small slice of the whole.

That design has three consequences most people never hear about.

First, our money supply rides on lending. When banks lend freely, new deposits pour into the economy and the money supply grows. All else equal, when a bank-held loan is repaid, a matching deposit disappears. When banks get scared and stop

lending, or when loans go bad and banks fail, the money supply can shrink fast — and nobody voted for it to happen.

This is not theory. Between August 1929 and March 1933, the stock of money in the United States fell by more than a third, and commercial bank deposits fell by more than 42 percent.[5] More than one in five banks suspended operations.[6] Families who had done nothing wrong found their savings frozen or gone. The two economists who documented it best, Milton Friedman and Anna Schwartz, concluded that the bank failures were the mechanism through which the money supply collapsed — and that this collapse turned a recession into the Great Depression.[7]

The same machine ran in reverse in 2008, and again, in a different way, in 2020 and 2021. Each time, the money supply lurched because of decisions made by banks and by a central bank, not by the people who use the money.

Second, new money reaches some people first. When money is created by lending, it arrives first in the hands of those who borrow it — and the biggest, cheapest borrowers are banks, large corporations, investors and the federal government. They may spend it before prices adjust, and by the time new money shows up in wages, prices may already have moved. How large that effect is, and who gains, depends on employment, debt, savings and what people own. Economists have a name for this — the Cantillon effect, after an eighteenth-century banker who described it[8] — but you do not need the name to recognize it. You have watched asset prices climb for years while your paycheck lagged behind.

Third, the dollar is designed to lose value. Since 1913, the year the Federal Reserve was created, prices have risen roughly thirty-fourfold. A dollar from that year buys what about $34 buys today.[9] The Federal Reserve now officially aims for 2 percent inflation a year — and at steady 2 percent inflation, money held without interest loses about 18 percent of its purchasing power over ten years. The Fed measures its target with a price index

called PCE; in 2022 inflation by the more familiar consumer price index peaked above 9 percent.[10]

None of these three things is anybody's personal failing. They are features of how the system is built.

A Myth We Have to Retire

If you have read other books about the Fed, you have probably met a story about an island. One bank lends the only $100 in existence at 10 percent interest; a year later $110 is owed, but only $100 exists; therefore the debt can never be repaid, and the whole system is mathematically doomed.

That story is told often in reform circles. I am not going to repeat it, because it is wrong, and the people who defend the current system know it is wrong. Money circulates. The interest a bank collects does not vanish into a vault; the bank pays it out as wages, rent, dividends and taxes, and those dollars come back around to borrowers who use them to make their next payment. The same hundred dollars can settle many debts in a year.

The real problem is not that interest is mathematically impossible to pay. It is quieter: **most of the money we use is created when someone borrows, and it shrinks when borrowing does.** When households and businesses pay down loans faster than banks make new ones, deposits are extinguished and the money supply contracts. When loans go bad, the bank takes the loss — a write-off does not erase anyone else's deposit — but losses make banks cautious, and cautious banks lend less. Either way, the money that families and businesses need to pay each other can shrink at exactly the moment they need it most. In the early 1930s, the larger shock came from bank failures themselves, which wiped out deposits outright. That design — a money supply that rises and falls with private lending — is a choice, not a law of nature.

The accurate version is serious enough on its own.

What It Costs a Household

Go back to Sarah's kitchen table.

Her mortgage is the biggest line, but it is not the only one. There are car payments, a credit card balance that never quite reaches zero, and student loans that, like most federal and qualifying private education loans, face a special undue-hardship standard in bankruptcy.[11] None of this makes her reckless. It makes her normal.

And the cushion is thin. When the Federal Reserve surveys American adults each year, it asks how they would pay for a surprise $400 expense. In the most recent survey, 63 percent said they would cover it with cash or its equivalent; the others would borrow, sell something, use a mix of methods, or be unable to cover it; about one adult in eight said they could not pay by any means.[12]

Housing tells a related story. In the 1990s, a typical home cost about 3.2 times a typical household's annual income. By 2024 it cost about five times.[13] There are many causes — zoning, construction costs, where jobs are, how many homes get built. But one of them is monetary: home prices depend heavily on how much buyers can borrow, and for most of the years after 2008, borrowing was cheap and credit grew fast.

What It Costs the Country

The federal government is the largest borrower of all.

As of late October 2026, total federal debt passed $40.5 trillion.[14] Spread across a population of about 342 million, that is roughly $118,000 for every American, including the ones born this morning.[15]

The interest bill is now one of the largest things the government buys. In fiscal year 2025, net interest on the debt was about $970 billion — more than the country spent on national defense, and among the largest items in the federal budget.[16] Federal revenue that year was about $5.2 trillion.[17] Put plainly:

about 19 cents of every dollar of federal revenue went to interest. In fiscal 2026 the bill passed a trillion dollars, about 19.5 cents of every revenue dollar (Chapter 4).

That money does not build a road, staff a hospital or defend anyone. It pays holders of Treasury bonds — pension funds, banks, foreign governments, investors, and the Federal Reserve — for money the government borrowed to cover past deficits. Many of those holders are ordinary Americans through their retirement accounts, which is part of why this problem is hard to solve.

Two things are worth separating here. The deficit itself is a choice Congress makes about taxes and spending; no money system makes that choice go away. What *is* a monetary choice is the arrangement underneath: under current law, the Treasury generally finances deficits by borrowing at interest, subject to cash management and other financing adjustments, even though the federal government controls the issuance of the nation's base money. (Banks, as this chapter explained, create dollar-denominated deposits.) Later chapters ask whether some new money could enter the economy without that borrowing — and are honest about how much of the debt problem that could, and could not, solve.

What It Costs Our Children

Every generation inherits the money system of the one before it, and that system does not treat savers and borrowers, owners and renters, the same way.

When new money enters mainly through lending, and its value is expected to erode a little every year, the people who already own homes, businesses and investments are often cushioned, and sometimes helped, though the effect depends on their debts, income and savings. The people who are just starting out — who earn wages, save cash, and have not yet bought in — are not. Today's young adults entered a job market shaped by the

2008 crisis and then saw the sharpest inflation in forty years arrive just as many of them earned their first real raises. Monetary design is not the only reason for that. But it is one reason, and it is one we can actually change.

That is why this is a generational question, not a partisan one.

What This Really Means

You are not imagining it. Working harder and earning more has not bought the security it used to, and part of the reason is the way our money is made.

That is not a conspiracy, and you do not need one to explain it. It follows from the three features this chapter has described: most of our money is created by private lending, so it swells and shrinks with credit; new money reaches borrowers and asset owners first; and the dollar is managed by a committee that aims for it to lose value every year — while the government borrows at interest whenever it spends more than it collects.

The question is not whether banks do useful work. They do. It is whether the way we create money gives households a stable foundation — and whether another design could do better without creating worse problems.

A better system would have to accomplish a few things at once: money that holds its value over a working lifetime; payment accounts that a bank's bad loans cannot take down; credit that is still available to families and businesses who need it; rules that the public can read and check; and a way to handle emergencies that does not hand anyone a blank check. Any honest proposal also has to face what it would cost: credit might be harder to get, some flexibility in a crisis might be lost, and changing a system this large carries risks of its own. The chapters ahead take each of those seriously.

Each of those features was put there by people. Each of them can be changed by people.

The next chapter looks at the institution at the center of it all — what the Federal Reserve actually is, how it came to be, and why its structure deserves far more scrutiny than it gets. Then we will look at what it would take to build something better.

Notes

1. Freddie Mac, Primary Mortgage Market Survey: 30-year fixed averaged 7.32% on October 22, 2026. freddiemac.com/pmms/archive (freddiemac.com/pmms/archive)
2. Standard amortization: $320,000, 30 years, 7.32% to $2,198/month, $791,344 total, $471,344 interest; principal and interest only. Calculated; reproduced in the Accounting Model.
3. McLeay, Radia and Thomas, "Money creation in the modern economy," *Bank of England Quarterly Bulletin* 2014 Q1. bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy
4. Federal Reserve, H.6 Money Stock Measures, release of October 27, 2026, Table 1: in September 2026 M2 was about $23.4 trillion and currency in circulation about $2.5 trillion; most of the rest of M2 is bank deposits (M2 also includes retail money-market fund shares). federalreserve.gov/releases/h6 (federalreserve.gov/releases/h6/current/default.htm)
5. Friedman & Schwartz, *The Great Contraction, 1929–33* (NBER), money stock fell "by over a third"; deposits fell over 42%. nber.org/chapters/c9273.pdf; Bank Failures chapter (nber.org/system/files/chapters/c9276/c9276.pdf)
6. Same source: "More than one-fifth of the commercial banks… suspended operations."
7. Same source, Bank Failures chapter: failures were "the mechanism through which the drastic decline in the stock of money was produced."
8. Richard Cantillon, *Essai sur la Nature du Commerce en Général* (written c. 1730, published 1755).
9. BLS CPI-U (all items, not seasonally adjusted), 1913 annual average 9.883; July 2026 333.918; ratio 33.8. Calculated from BLS data.
10. BLS CPI-U 12-month change peaked at 9.1% in June 2022 (bls.gov). The Federal Reserve's 2% target is measured with the PCE price index, not CPI. Fed target explanation (federalreserve.gov/faqs/economy_14400.htm)
11. Most federal and qualifying private education loans are dischargeable in bankruptcy only on showing "undue hardship," 11 U.S.C. § 523(a)(8); some private borrowing falls outside that standard. U.S. Trustee Program student loan guidance (justice.gov/ust/student-loan-guidance)
12. Federal Reserve, *Economic Well-Being of U.S. Households in 2025* (2026): 63% would cover a $400 expense with cash or its equivalent; 12% could not pay by any means. The survey records the method people would choose, not only

their constraints. federalreserve.gov/publications/2026-economic-well-being-of-us-households-in-2025-savings-investments.htm

13. Harvard Joint Center for Housing Studies: price-to-income ratio 5.0 in 2024, vs 3.2 typical of the 1990s. jchs.harvard.edu/blog/home-prices-surge-five-times-median-income-nearing-historic-highs
14. U.S. Treasury, Debt to the Penny: total public debt outstanding $40,528,358,939,415.85 on October 26, 2026. fiscaldata.treasury.gov (fiscaldata.treasury.gov/datasets/debt-to-the-penny)
15. Population about 342 million; $40.53T ÷ 342M ~ $118,500.
16. FY2025 net interest $970.4B; national defense $916.6B; Medicare $996.7B; Social Security $1,580.7B — Treasury, *Combined Statement* FY2025, outlays by function (fiscal.treasury.gov/files/reports-statements/combined-statement/cs2025/outlay.pdf); CBO confirms $970B (cbo.gov/publication/62286). Earlier reports of "over $1 trillion" used preliminary data and are superseded.
17. FY2025 revenue ~$5.2T, outlays ~$7.0T, deficit $1.8T — CBO Monthly Budget Review, FY2025 summary (cbo.gov/publication/61307). Interest share of revenue: $970B ÷ $5.235T ~ 18.5%, rounds to 19% (also stated by American Action Forum (americanactionforum.org/insight/sizing-up-interest-payments-on-the-national-debt)).