How Banks Create Money for the Few: Uncovering the Hidden Truth

Keystroke Capitalism: How Banks Create Money for the Few by Aaron Sahr

4.8 out of 5

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In the world of finance, the process of money creation is often shrouded in mystery and complexity. Banks are often portrayed as mere intermediaries that facilitate the flow of money between individuals and businesses. However, the truth is much more nuanced and reveals a hidden system that has profound implications for the distribution of wealth and economic prosperity.

The ability of banks to create money is rooted in a concept known as fractional reserve banking. Under this system, banks are only required to hold a fraction of the deposits they receive in reserve. For example, if a bank has $100 million in deposits and is required to hold a 10% reserve ratio, it can lend out $90 million while keeping $10 million in reserve.

When a bank makes a loan, it does not simply transfer existing money from its reserves. Instead, it creates new money by crediting the borrower's account with an amount equal to the loan amount. This newly created money is then deposited into another bank, which in turn can lend out a portion of it under the same fractional reserve requirement. This process can continue indefinitely, leading to a significant expansion of the money supply.

The Consequences of Fractional Reserve Banking

The practice of fractional reserve banking has a number of consequences, both positive and negative.

Positive Consequences:

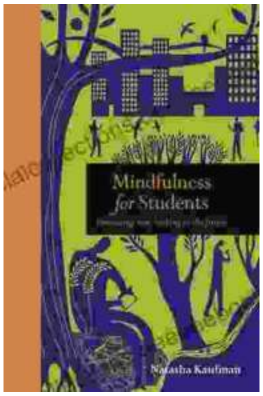
- **Increased liquidity:** Fractional reserve banking increases the amount of money available in the economy, which can promote economic growth and investment.
- **Reduced transaction costs:** By creating new money, banks reduce the need for physical cash transactions, resulting in lower transaction costs.
- **Financial innovation:** Fractional reserve banking allows banks to offer a wider range of financial products and services, which can benefit consumers and businesses.

Negative Consequences:

- **Inflation:** If banks create too much money, it can lead to inflation, which erodes the purchasing power of money.

- **Financial instability:** Fractional reserve banking can increase the risk of financial instability, especially if banks become overly leveraged and are unable to meet their reserve requirements.
- **Economic inequality:** The practice of fractional reserve banking has contributed to a concentration of wealth among a select few. Banks often lend more money to wealthy individuals and corporations, which exacerbates income disparities.

The Hidden Truth: Money Creation for the Privileged



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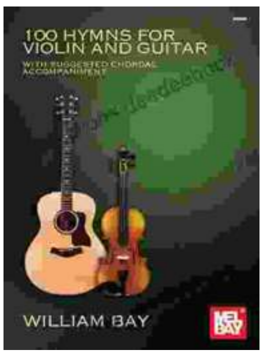

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