

# From Gold to the Real Standard: An Anchoring Compass for Modern Money Creation

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## Abstract

*This article introduces the Real Standard as an anchoring compass for understanding modern money creation. It proposes that money should not be created from thin air but must always be anchored in something real: property, human capital, or fiscal capacity. The Real Standard reframes money creation as a process of transformation rather than ex nihilo creation, guiding policymakers and executives toward a balanced approach that combines flexibility with discipline. Using Federal Reserve<sup>10</sup> and recent BIS<sup>15</sup> and IMF<sup>17</sup> data, the paper demonstrates that over 95% of purchasing power in the U.S. originates from credit creation, not printed base money. The framework also reinterprets the Federal Reserve's role as an "anchor manager," responsible for safeguarding the integrity of these three anchors that underpin economic stability.*

## Introduction

When you take out a mortgage, you're not just buying a house, you're helping create money. This simple observation reveals a **compass point** for understanding how the modern economy transforms real value into liquidity. Money creation is not the exclusive domain of central banks; it's a networked process involving commercial banks, mortgage lenders, and governments. Each contributes to the monetary system's expansion, guided by three interrelated anchors: **property, human capital, and fiscal capacity** that provide both direction and discipline.

Historically, money was tied to gold, a scarce and inert commodity. The gold standard failed not merely for technical reasons it was conceptually

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flawed. By fixing liquidity to a static stock of metal, it imposed rigidity on economies that were increasingly dynamic and productive. The **Real Standard**, by contrast, is adaptive: it grows with the real economy because its anchors expand as nations develop. It functions as an *anchoring compass* stabilizing value while allowing the monetary system to navigate economic change.

Unlike the gold standard's fixed peg, the Real Standard allows credit to expand in proportion to the growth of its underlying anchors, maintaining both flexibility and discipline in modern monetary systems. Later, textbooks emphasized the deposit multiplier, suggesting that banks merely recycled savings into loans. More recent central bank research clarified that loans themselves create deposits, expanding the money supply.<sup>2</sup> Drechsler, Savov, and Schnabl describe this as "funding liquidity creation."<sup>1</sup> Yet a fundamental point must be emphasized: money should not and in practice, is not created from thin air. Each act of money creation must be **anchored** in something real that underwrites its value and ensures sustainability. It must always rest on property, people, or the fiscal capacity of the state. This framing the **Real Standard** provides a disciplined, navigational framework for understanding how money creation shapes inflation, stability, and growth. To illustrate the practical mechanics underlying this principle, Table 1 summarizes the fundamental ledger symmetry of money creation. Every deposit or loan recorded by banks carries an equal and opposite entry; together they form the accounting foundation upon which the Real Standard later builds its concept of real anchors.

**Table 1.** Mechanical balance-sheet symmetry

Step	Bank Asset	Bank Liability	Explanation
Deposit of cash	+ Reserves	+ Customer Deposit	Transformation, no new money
Loan issuance	+ Loan	+ Deposit	Credit creation, new money
Loan repayment	- Loan	- Deposit	Money destruction

Table 1 illustrates the mechanical balance-sheet symmetry that underlies modern money creation. Yet this symmetry, while arithmetically precise, is economically incomplete: it records every financial asset and liability but omits the real anchors: property, human capital, and fiscal capacity that determine the true quality of those entries.

While Table 1 describes the numerical symmetry of conventional banking, it does not reveal the deeper economic foundation that sustains those entries. Table 2 extends the framework by comparing traditional balance-sheet logic

with the Real Standard’s anchored interpretation, showing how solvency must be evaluated not only by what balances, but by what is real.

**Table 2.** Traditional View vs. Real Standard View

Level	Traditional View	Real Standard View
<b>Accounting Ledger</b>	Must balance assets and liabilities.	Must balance assets, liabilities, <b>and underlying anchors.</b>
<b>Solvency Basis</b>	Financial capital adequacy (capital ratios, reserves).	<b>Real solvency</b> anchored in property, human capital, and fiscal capacity.
<b>Quality Criterion</b>	Consistency and accuracy of entries.	Integrity of what those entries represent the “realness” of collateral, skills, and fiscal base.

Table 2 extends the discussion from arithmetic balance to anchored integrity. While traditional accounting ensures that every entry is matched, the Real Standard insists that each entry must also be **grounded in something real** property, human capital, or fiscal capacity. This shift from numerical symmetry to economic substance redefines solvency: a ledger’s quality depends not only on how well it balances, but on the durability of the anchors beneath it. The stronger those anchors, the more resilient the monetary system becomes.

### The Real Standard in Context

The Real Standard extends earlier paradigms of monetary anchoring from the metallic and commodity standards of the nineteenth century to the managed fiat systems of the twentieth. It aligns conceptually with the “endogenous money” tradition<sup>13</sup> and the “elastic currency” principle in the Federal Reserve Act yet goes further by identifying real economic anchors that evolve with productive capacity.

#### Anchor 1: Property (Secured Lending)

Mortgages and secured loans illustrate how money creation is anchored in property. When a bank approves a mortgage, money is not yet created. The decisive moment comes at closing, when the promissory note is signed. The bank records a loan as an asset and simultaneously credits the borrower’s account with a deposit as a liability. This deposit is new money in the economy, anchored by the property pledged as collateral.

The Bank of England acknowledges this mechanism: “Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower’s bank account, thereby creating new money.”<sup>2</sup> Mortgage securitization

transformed property from static capital into a circulating medium of exchange. Each mortgage-backed security multiplied the liquidity of property wealth evidence that property rights remain the first and most powerful anchor of modern money creation.

Alan Greenspan<sup>3</sup> emphasized that property rights are the cornerstone of capitalism and the ultimate driver of economic growth. Hernando de Soto<sup>4</sup> argued that property rights transform “dead capital” into “live capital.” When property can be collateralized, it becomes the foundation for new credit and new money, unlocking productivity and liquidity. Historical data confirm that property-backed lending has been the dominant driver of credit expansion and cyclical money growth.<sup>11</sup>

### **Anchor 2: Human Capital (Unsecured Lending)**

Not all lending is secured by property. Credit cards, personal loans, and student loans create money anchored in human capital the borrower’s promise to pay, backed by income and creditworthiness. The sustainability of this form of money creation depends on underwriting standards, especially debt-to-income (DTI) ratios. Weak standards lead to instability, while strong ones tie money creation to the productive capacity of households.

The IMF<sup>8</sup> stresses that DTI serves as a systemic safeguard, constraining excessive household credit growth. Richard Werner<sup>6</sup> provides empirical evidence that banks create money individually “out of nothing.” Yet this is not truly nothing; unsecured credit is anchored in the borrower’s income and repayment ability. Thus, human capital serves as a vital anchor of money creation, though one that can weaken if underwriting erodes.

Recent evidence from the BIS Quarterly Review<sup>16</sup> (2025) shows that private credit growth remains one of the fastest-rising sources of global liquidity, driven by unsecured and non-bank credit markets. The report notes that “private credit now accounts for an expanding share of total financial intermediation, increasing both access and systemic vulnerability.” This aligns with the Real Standard’s human-capital anchor: the quality of household underwriting is now a defining determinant of monetary stability.

The FICO revolution institutionalized this anchor. By quantifying human reliability, FICO has turned personal reputation into measurable collateral, enabling unsecured credit and money creation at scale. While the Human-Capital anchor explains the basis of unsecured lending, its monetary role extends further. Even short-term or revolving credit often dismissed as transitory temporarily enlarges the money supply and increases the system’s velocity. The following discussion clarifies how this process operates within the Real Standard framework.

### Human-Capital Anchors and the Temporary Expansion of Money

Unsecured credit cards, personal loans, and other short-term instruments transform future income into present liquidity. Although balances are repaid quickly, they still expand effective purchasing power through two linked mechanisms: (A) a velocity effect, and (B) an independent ledger entry.

#### (A) Velocity Effect.

When a household purchases goods on credit, the merchant's deposit is credited instantly even though the borrower has not yet paid. For the billing period, this additional spending power raises the economy's transaction speed without increasing base money creating what the Real Standard views as *temporary velocity*.

#### (B) Independent Ledger Entry.

Every such transaction generates a matching receivable (asset) and deposit (liability). Until repayment, that deposit operates as real money. Hence, unsecured lending represents **human-capital-anchored liquidity**, grounded in the borrower's earning power.

**Table 3.** Ledger Illustration — Unsecured Credit Creation

Bank Asset	Bank Liability
+ Credit Card Receivable	+ Merchant Deposit
– Receivable (upon repayment)	– Deposit (settlement)

Sources: Synthesized from Bank of England;<sup>2</sup> BIS;<sup>15</sup> Werner;<sup>6</sup> Schularick & Taylor.<sup>11</sup>

It shows how unsecured credit creates short-lived yet genuine liquidity. By converting expected income into current exchange power, human capital itself functions as a temporary monetary anchor.

While human-capital anchors expand liquidity from future income, property anchors extend it from tangible wealth. The next section traces how mortgage turnover rotates credit within the banking system, showing that property values not only secure loans but also regulate the pace of money creation across the cycle.

### Property Anchors and Mortgage Rotation

Mortgage turnover shows how credit dynamics either preserve or expand aggregate money creation within the system. When a buyer's new mortgage closes, the seller's loan may be repaid, but credit is not eliminated it is transferred between banks or redeposited as cash. The system's total credit stock remains stable or rises depending on the cycle.

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During expansions, rising property values support larger loans and equity withdrawals, increasing credit and deposits. In downturns, shrinking valuations reduce collateral and loan origination, leading to credit contraction and money destruction. Housing credit therefore acts as a cyclical amplifier of monetary conditions.

**Table 4.** Mortgage Turnover and Systemic Credit Dynamics

Scenario	Bank A (Buyer's Bank)	Bank B (Seller's Bank)	Systemic Effect
Mortgage for existing debt	+ Loan Created	– Loan Repaid	Credit transferred, net-neutral
Mortgage for debt-free seller	+ Loan Created	+ Deposit Created	Net money creation
Rising property prices	Larger loan + Credit expansion	+ Deposits increase	Amplifies monetary growth
Falling property prices	Smaller loan + Credit contraction	+ Deposits decline	Money destruction via deleveraging

Sources: Synthesized from Schularick & Taylor;<sup>11</sup> Borio;<sup>18</sup> Jordà et al.;<sup>19</sup> Werner;<sup>6</sup> BIS.<sup>15</sup>

This table illustrates how property-backed credit rotates within the financial system. When one mortgage is repaid and another is issued, total credit may remain constant, expand, or contract depending on housing-market conditions. Rising property values amplify money creation, while falling prices accelerate credit contraction.

Mortgage rotation thus acts as an anchor-exchange mechanism. When property values rise, the system creates net new money; when they fall, money is extinguished. This demonstrates that the stability of modern credit systems depends on the integrity of their property anchors as well as their monetary mechanics.

### Anchor 3: Fiscal Capacity (Sovereign Money Creation)

Governments also create money through debt issuance and central bank operations. This form of money is anchored in fiscal capacity the ability to raise revenue through taxation. John Cochrane argues that fiat money's value depends on the present value of expected future primary surpluses.<sup>7</sup> The IMF formalizes this by using debt-to-GDP and surplus-to-GDP ratios as fiscal anchors.<sup>8</sup> Reinhart and Rogoff show that when governments exceed fiscal anchors, inflation and default risks rise.<sup>9</sup>

The IMF Global Financial Stability Report<sup>17</sup> warns that rising sovereign debt and tightening global financing conditions “heighten vulnerabilities in

both advanced and emerging markets, with fiscal capacity acting as a critical anchor of confidence.” This underscores the Real Standard’s third pillar: sustainable fiscal anchors are prerequisites for stable money creation.

We extend this by proposing a **Debt-to-Income-Taxation (DTI-T)** ratio as the sovereign equivalent of the household DTI. Just as banks assess whether borrowers can sustain new debt, governments should ensure borrowing is underwritten by credible taxation capacity and long-term growth. *Fiscal spending, therefore, should be evaluated as an act of value creation similar to how firms raise capital to finance productive investments that expand future cash flows, not merely to sustain current consumption.* In this framework, public borrowing remains sustainable only when it enhances the productive base that anchors future taxation

Automatic tax withholding, introduced during World War II, converted uncertain tax collection into predictable fiscal capacity. Combined with sovereign credit ratings, this innovation anchored governments’ ability to borrow with credibility.

### Empirical Validation of the Real Standard

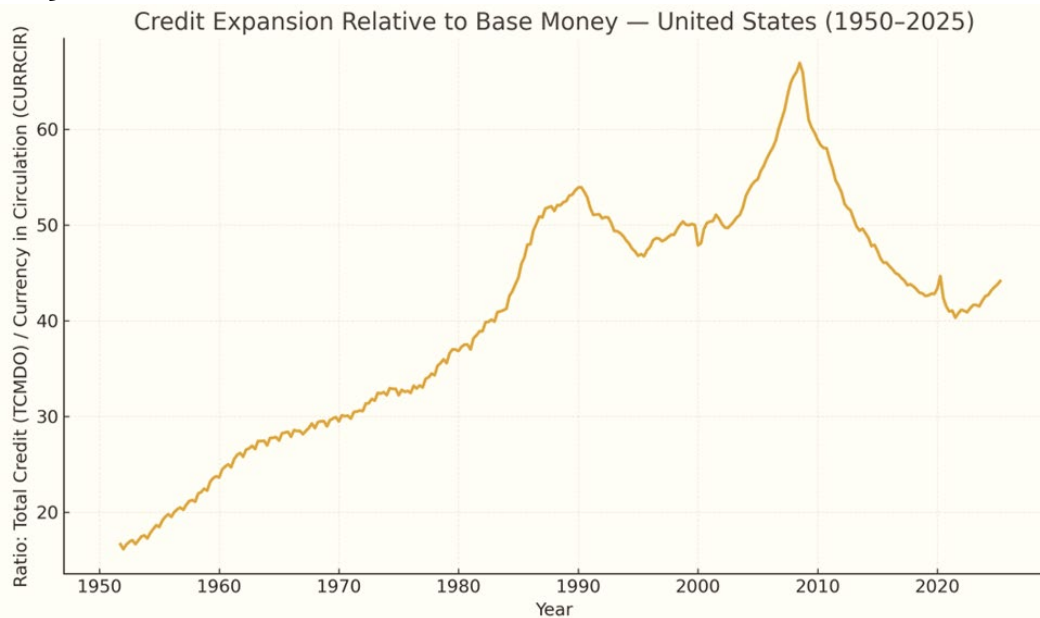
Federal Reserve<sup>10</sup> and BIS<sup>15</sup> data reinforce the Real Standard’s premise that modern money creation is overwhelmingly credit-based rather than printed. As of September 2025, currency in circulation (CURRCIR) totals roughly \$2.4 trillion, while total debt liabilities of all U.S. sectors (TCMDO) exceed \$104 trillion, and private non-financial credit (CRDQUSAPABIS) stands near \$73 trillion.<sup>10</sup> These magnitudes reveal that base money represents barely 2–3 percent of the nation’s total credit stock. Over 95 percent of purchasing power circulating in the economy therefore originates from the credit system banks, households, and capital markets not from central-bank printing presses.

**Table 5.** Ratio of Credit to Base Money, U.S. (September 2025)

Metric	Approximate Value	Ratio to Base Money
Currency in Circulation (CURRCIR) in Trillions	\$2.4 T	1.0×
Private Non-Financial Credit (CRDQ) in Trillions	\$73 T	30×
Total Credit (TCMDO) in Trillions	\$104 T	43×

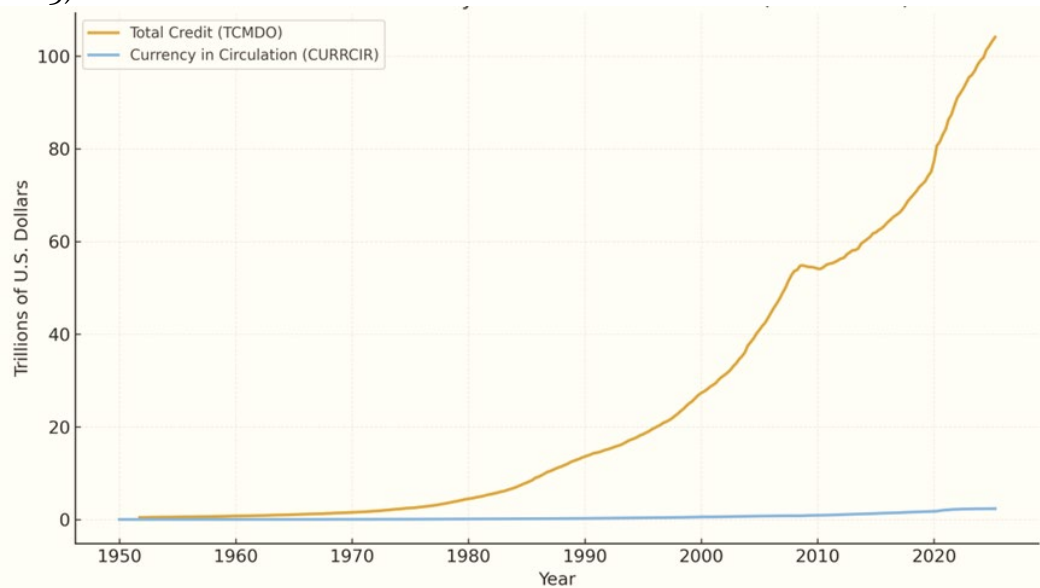


**Figure 1.** Credit Expansion Relative to Base Money — United States (1950–2025)



Empirical figure generated from FRED data from 1950 to 2025 using All Sectors; Debt Securities and Loans and CURRCIR, Currency in Circulation, to compute the ratio over time.

**Figure 1a.** Total Credit and Currency in Circulation — United States (1950–2025)

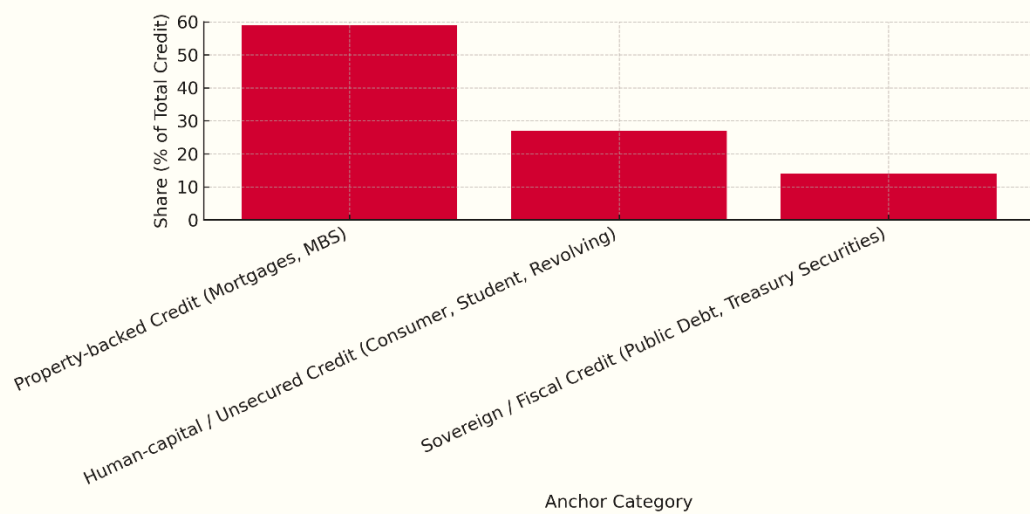


Empirical figure uses FRED TCMDO and CURRCIR with CURRCIR averaged to a quarterly frequency. Source: Federal Reserve Bank of St. Louis, FRED Series TCMDO and CURRCIR; author's calculations.



According to BIS (2024, *Annual Economic Report*),<sup>15</sup> the global ratio of private credit to GDP has reached historic highs, reinforcing the finding that base money represents only a fraction of overall purchasing power. Over 95% of liquidity circulating in the economy therefore originates from the credit system—banks, households, and capital markets, not from central-bank printing presses.

**Figure 2.** Composition of Credit Anchors — 2025 Snapshot



Compiled estimates from Federal Reserve Flow of Funds Z.1 for September 2025 and BIS Credit Statistics<sup>15</sup> to quantify property-backed, unsecured or human-capital, and sovereign or fiscal credit shares. Clarifying Note: The sovereign and fiscal credit category includes federal, state, and local debt held by the public, approximately \$15 trillion, which is about 14 percent of total U.S. credit in 2025. This measure excludes inter-governmental and Federal Reserve holdings to capture only market-circulating public debt, the portion that functions as an active monetary anchor within the Real Standard framework. All shares are derived from official aggregates, including FRED series TCMDO and Z.1 Tables L.1 and L.106–L.223; rounding differences may occur.

**Interpretive note.** Figure 1 illustrates how the credit-to-base-money ratio has expanded since 1950, confirming that the Real Standard is not a conjecture but an observable structural reality. The long-term persistence of credit dominance suggests that monetary elasticity now depends primarily on the **quality of anchors** rather than the nominal size of central-bank balance sheets.

For context, the United States’ national debt now stands at roughly seven to eight times annual federal tax revenues a debt-to-income ratio no private borrower could sustain. This comparison underscores why fiscal capacity must be treated as an anchor, not an afterthought, in sovereign money creation. This empirical pattern reinforces earlier findings that global

liquidity cycles are driven primarily by credit creation rather than base money expansion.<sup>12</sup>

Monetary stability depends not merely on the existence of anchors but on their transmission elasticity, the speed and integrity with which real values translate into credit confidence. When property valuations, income expectations, or fiscal credibility fluctuate, the monetary base itself becomes volatile, even if nominal reserves remain constant.

### **Real Standard in Modern Shadow Money Systems**

#### **1. Repo Markets and the Fiscal Anchor<sup>20,21</sup>**

Repo liabilities function as near-money backed by Treasury collateral. Gorton and Metrick<sup>20</sup> document repo as a primary engine of private money creation, while Pozsar<sup>21</sup> shows how collateral chains expand liquidity. Despite complexity, acceptability is grounded in the fiscal capacity of the sovereign.

#### **2. Securitization and the Human-Capital Anchor<sup>15,16</sup>**

CLOs, corporate ABS, and consumer credit pools derive solvency from future income streams, placing them firmly within the Human-Capital Anchor. Shadow-bank liquidity amplifies this anchor rather than bypassing it.

#### **3. Derivatives, Synthetic Leverage, and Collateral Anchors<sup>22</sup>**

Even though derivatives obtain their price from an underlying financial asset, the economic foundation of that value is ultimately one of the system's real anchors: property, human-capital income, or fiscal capacity. Margin requirements ensure that synthetic leverage cannot float freely; it must be backed by collateral whose value and stability depend on those anchors. Adrian and Shin<sup>22</sup> show that leverage cycles hinge on balance-sheet capacity, reinforcing how derivatives indirectly rest on real economic anchors.

#### **4. Digital Money: Stablecoins and Tokenized Treasuries<sup>23</sup>**

Stablecoins backed by Treasury bills represent digitized fiscal anchors. Tokenization converts Treasuries into programmable high-velocity collateral. Stablecoins backed by commercial credit rely on human-capital-anchored cash flows.

#### **5. Shadow Money as a High-Velocity Layer**

Shadow-bank instruments multiply liquidity and increase velocity but do not redefine value. They operate as higher-order layers built atop the Real Standard's three anchors. This reinforces the central thesis: even in complex

financial ecosystems, money creation remains anchored in real economic foundations. As BIS<sup>24</sup> emphasizes, shadow-bank liabilities function as high-velocity monetary instruments whose acceptability depends on the strength of underlying collateral and the fiscal anchor.

### The Federal Reserve as Anchor Manager

The Real Standard also reframes the Federal Reserve's dual mandate. Beyond targeting inflation and employment, the Fed's deeper function is to preserve the integrity of the economy's three anchors. Through its influence on collateral values, labor markets, and sovereign debt costs, the Fed continually manages the balance among the property, human capital, and fiscal anchors. Monetary policy thus operates less by controlling the quantity of money than by maintaining the quality of its foundations. When viewed this way, the central bank's true mandate is to manage the anchors of money creation to ensure that credit expansion remains supported by real assets, real incomes, and credible fiscal capacity.

As financial innovation accelerates from decentralized finance to AI-driven credit modeling the Fed's role as anchor manager will increasingly depend on how well it supervises the quality of collateral data and digital credit systems. The next frontier of monetary policy will not be setting rates but safeguarding the informational integrity of the anchors themselves.<sup>14</sup>

**Table 6.** Federal Reserve Anchor Management Framework

Anchor	Fed's Role (Direct or Indirect)	Policy Levers
Property Anchor	Influences collateral values via interest rates, mortgage markets, and liquidity conditions	Monetary policy, MBS purchases, capital regulation
Human Capital Anchor	Affects employment, wages, and household creditworthiness	Employment mandate, credit conditions, lending standards
Fiscal Capacity Anchor	Coordinates with Treasury and ensures confidence in public debt markets	Interest on reserves, QE, yield curve management

### Policy Implications

Recent BIS<sup>16</sup> and IMF<sup>17</sup> analyses converge on a warning: excessive credit growth without anchor discipline can amplify asset bubbles and fiscal fragility. These insights affirm the Real Standard's call for policymakers to

treat anchors as leading indicators of stability rather than trailing indicators of crisis.

- Watch the anchors. Property, credit, and fiscal structures define liquidity far more than reserve balances.
- Assess anchor strength before long-term bets. Weak property rights, fragile credit scoring, or eroding tax bases warn of monetary fragility.
- Innovate responsibly. Each new financial instrument draws on these anchors; poor design, as seen in subprime securitization, can destabilize the system.
- Strengthen property rights and mortgage market regulation to ensure property-backed money creation remains stable.
- Apply robust debt-to-income standards in unsecured credit markets to align money creation with household capacity.
- Hold governments accountable to Debt-to-Income-Taxation (DITI) ratios, underwriting public borrowing to ensure long-term fiscal sustainability.

### Managerial Takeaway

The stability of modern economies depends less on the quantity of reserves and more on the quality of anchors. Executives and policymakers should monitor the strength of property, human, and fiscal anchors to gauge true monetary health.

### Limitations and Future Research

The Real Standard operates primarily within domestic credit systems; future research may extend it to global liquidity transmission and cross-border anchor dynamics.

### Conclusion

In the modern economy, money should not be created from thin air. It must be grounded in real foundations: property, human capital, and fiscal capacity. Mortgages convert real assets into liquidity anchored by property rights; unsecured credit transforms future earnings into present purchasing power anchored by credit-assessment systems; and government borrowing rests on the taxation power that anchors public credit. These anchors do more than stabilize the monetary system they expand the economy's real capacity by enabling investment in productive property, human capital, and fiscal institutions. Such investments increase future output, collateral, and taxable income, reinforcing the foundations on which credit and money creation depend.

The sustainability of money creation, and its potential to fuel inflation or asset bubbles, depends on the strength and discipline of the underwriting that anchors it. Seen through this lens, money creation is not an act of alchemy but a process of transformation. Because more than 95% of purchasing power in the modern economy originates through private and public credit channels rather than base money,<sup>10,15</sup> central banks must focus not only on the quantity of reserves but on the quality of the credit anchors themselves. The Federal Reserve's role as an "anchor manager" therefore demands proactive oversight of property, human-capital, and fiscal anchors to preserve stability before imbalances require reactive intervention.

### Statement of Timeliness and Relevance

This paper incorporates the most recent insights from the Bank for International Settlements from 2024 to 2025 and from the International Monetary Fund in 2025.<sup>15,16,17</sup> These additions ensure empirical and policy relevance by aligning the Real Standard framework with current global liquidity and fiscal stability analyses. This integration highlights the continued evolution of credit-based money creation and the systemic importance of property, human capital, and fiscal anchors in contemporary monetary management.

### Data Methodology

All figures are based on official datasets from the Federal Reserve Flow of Funds (Z.1, September 2025), FRED (TCMDO, CURRCIR), and BIS Credit Statistics for 2025. The methodology involves calculating the ratio of total U.S. credit (TCMDO) to base money (CURRCIR) using quarterly data from 1950 to 2025. To verify robustness, BIS credit-to-GDP data are cross-referenced with FRED aggregates.

**Replication Instructions:** Researchers can reproduce the figures by downloading:

- FRED Series: *TCMDO* (All Sectors; Debt Securities and Loans; Liability, Level)
- FRED Series: *CURRCIR* (Currency in Circulation)
- BIS Table: *Credit to Non-Financial Sector* (Total Credit, United States)
- IMF: *Global Financial Stability Report* (April 2025), fiscal anchor data.

**Clarifying Note:** The sovereign/fiscal category includes public debt held by the market (~\$15T, ~14%) and excludes intra-governmental holdings. Calculations follow the Real Standard definition of active monetary anchors.

### Author

Dr. Ahmed Albrolisy is the Director of Finance Education and Educational Partnerships at Rutgers Business School, where he teaches finance across undergraduate, MBA, and Executive MBA programs in Newark, New Brunswick, and international cohorts. His teaching integrates rigorous financial theory with real-world application, drawing on over two decades of experience as an entrepreneur, banker, developer, and analyst of credit markets. Before entering academia, he founded and led MoneyMae Lending Group, a major regional mortgage lender that originated billions in residential and commercial loans, and later established MoneyDoo LLC, a real-estate investment firm specializing in distressed assets. His research examines mortgages, housing, derivatives, valuation, and macro-financial dynamics, with a focus on how credit creation, money flows, and institutional incentives shape economic outcomes. His work contributes to emerging conversations on money creation, productivity, and systemic credit behavior. Dr. Albrolisy holds an Executive MBA and a Doctorate in Finance from Rutgers University, and a bachelor's degree from Mansoura University in Egypt.  
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*Author's Note: My understanding of money creation began not in theory, but in practice. As CEO of a lending institution, I eventually realized that every loan we issued created new money transforming a house, a promise, or a tax base into liquidity. This realization became the foundation for the Real Standard framework developed in this paper.*

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