Not all money is made equal: a big step forward in mod...

Published: January 12, 2026, 11:20 pm

I am grateful to Helen Schofield for drawing my attention to an incredibly important article on the excellent US based Naked Capitalism web site, published last week under the following heading:

The Use and Abuse of MMT

By Michael Hudson, with Dirk Bezemer, Steve Keen and T.Sabri Ã–ncÃ¼

Michael Hudson is a research professor of Economics at University of Missouri, Kansas City, and a research associate at the Levy Economics Institute of Bard College. His latest book is "and forgive them their debts": Lending, Foreclosure and Redemption from Bronze Age Finance to the Jubilee Year

Dirk Bezemer is a Professor of Economics at the University of Groningen in The Netherlands..

Steve Keen is a Professor and Distinguished Research Fellow at the Institute for Strategy, Resilience and Security of University College London (www.isrs.org.uk). He blogs at www.patreon.com/profstevekeen

T. Sabri Ã–ncÃ¼ (sabri.oncu@gmail.com) is an economist based in Ä°stanbul, Turkey

Summary

After being attacked by monetarists and others for many decades, MMT and the idea that running government budget deficit is stabilizing instead of destabilizing are suddenly gaining applause from the parts of the political spectrum that long opposed MMT: the banking and financial sector, especially the Republicans. But what is applauded is in many ways something quite different than the leading MMT advocates have long supported.

Modern Monetary Theory (MMT) was developed to explain the logic of running government budget deficits to increase demand in the economy's consumption and capital investment sectors so as to maintain full employment. But the enormous U.S. federal budget deficits from the Obama bank bailout after the 2008 crash through the Trump tax cuts and Coronavirus financial bailout have not pumped money into the economy to finance new direct investment, employment, rising wages and living standards. Instead, government money creation and Quantitative Easing have been directed to the finance, insurance and real estate (FIRE) sectors. The result is a travesty of MMT, not its original aim.

By subsidizing the financial sector and its debt overhead, this policy is deflationary instead of supporting the "real" economy. The effect has been to empower the banking sector, whose product is credit and debt creation that has taken an unproductive and indeed extractive form.

This can clearly be seen by dividing the private sector into two parts: The "real" economy of production and consumption is wrapped in a financial web of debt and rent extraction — real estate rent, monopoly rent and financial debt creation. Recognizing this breakdown is essential to distinguish between positive government deficit spending that helps maintain employment and rising living standards, as compared to "captured" government spending to subsidize the FIRE sector's extraction and debt deflation leading to chronic austerity

The rest of the piece is ***here.***

In my opinion this adds an important distinction to MMT. It is that not all debt is equal.

It follows that not all money is equal.

And that not all QE is equal either.

The latter I have known for a long time. It was the whole basis for my argument for People's (or Green) QE back in 2010. The point I made then was that the behavioural, social and economic consequence of injecting money into the economy via banks was always going to be very different to apparently undertaking the same process through a state investment bank that invested in the real or productive economy. Hudson et al have now explained this in most convincing fashion.

I like their summary:

The commercial banking system's "endogenous" money creation takes the form of *credit at interest. The volume of this interest-bearing debt grows exponentially, absorbing and extracting more and more income from industry and labor. The effect on the overall economy is debt deflation.*

It may be epitomized as

Give a man a fish, and you feed him for a day;

Teach him how to fish, and you lose a customer.

But give him a loan to buy a boat and net to fish, and he will end up paying you all the fish he catches. You have a debt servant.

This article explains this logic, perfectly.

It is a big step forward, I think.

I strongly recommend reading it.