

Government v bank money

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This quote comes from Prof Jamie Galbraith's March 2010 article 'In defence of deficits'. [The original is here.](#) I learned of it via [William Thomson's Substack.](#)

To put things crudely, there are two ways to get the increase in total spending that we call "economic growth." One way is for government to spend. The other is for banks to lend. Leaving aside short-term adjustments like increased net exports or financial innovation, that's basically all there is. Governments and banks are the two entities with the power to create something from nothing. If total spending power is to grow, one or the other of these two great financial motors--public deficits or private loans--has to be in action.

For ordinary people, public budget deficits, despite their bad reputation, are much better than private loans. Deficits put money in private pockets. Private households get more cash. They own that cash free and clear, and they can spend it as they like. If they wish, they can also convert it into interest-earning government bonds or they can repay their debts. This is called an increase in "net financial wealth." Ordinary people benefit, but there is nothing in it for banks.

And this, in the simplest terms, explains the deficit phobia of Wall Street, the corporate media and the right-wing economists. Bankers don't like budget deficits because they compete with bank loans as a source of growth. When a bank makes a loan, cash balances in private hands also go up. But now the cash is not owned free and clear. There is a contractual obligation to pay interest and to repay principal. If the enterprise defaults, there may be an asset left over - a house or factory or company - that will then become the property of the bank. It's easy to see why bankers love private credit but hate public deficits.

William credited [Stephanie Kelton](#) with linking Jame Galbraith.

She did so in response to a tweet by Steve Keen in which he said, on Wednesday:

Two types of money. One comes with a chain. One does not.

When a bank gives you a mortgage, it creates money. But every dollar comes with decades of repayment. That is money with a chain. You spend carefully. You save defensively. You slow down.

When the government runs a deficit, it also creates money. But that money lands in private bank accounts with no debt attached. That is money without a chain. You spend freely. Commerce picks up.

In the 1950s and 60s, private debt was low. Government spending put debt-free money into the economy. People spent. Growth was real.

Then economists told politicians to slash deficits and let the private sector fill the gap. The private sector filled it. With debt. Household borrowing exploded. The economy ran on money that people were terrified to spend.

That is how you build a subprime bubble.

That is how you get 2008.

The economy does not just need money. It needs money people are free to use. Economists spent 50 years trying to eliminate exactly that. So for a more comprehensive understanding, [refer to the full video presentation.](#)

A few of my friends, getting money right, just like that.

Thanks, everyone for pointing out we are in an economic mess by choice: banker's choice, backed by a captured economics profession.