

The left needs a better quality of economic debate

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It wasn't my intention to create quite the fuss I have [when commenting](#) on James Meadway's own comment on modern monetary theory on Carol Wilcox's Facebook page. As it is, the comment has been picked up widely in the UK, including by Meadway and others in the Labour team, as well as in Australia and the USA. And Simon Wren-Lewis seemed to spend much of his day yesterday addressing follow on comments on Twitter.

Jo Michell, an economist who might be considered to be in the same camp as Jonathan Portes and Simon Wren-Lewis commented for that camp in a blog post written yesterday. [He said](#):

Labour's economic policy is not neoliberal

Politely, who cares about the semantics? The answer is that these people do.

He continued:

I think the fiscal rule has enough flexibility to allow a Labour government to maintain sensible levels of aggregate demand. In any recession in the foreseeable medium-term future it is hard to imagine that interest rates will not be cut to near zero. In this case the rule will be suspended and fiscal policy can be used "with all means necessary". Second, the rule doesn't preclude significant increases in government investment spending — a central part of the Labour policy programme. Government investment spending is likely to have strong multiplier effects and should help to rebalance demand in the UK's consumption-driven economy. Finally, the rolling five year window allows for adapting the pace of current spending to negative economic shocks.

In other words, the rule is just a sham because everyone really knows it will not be used. He admits it:

I can also see good political reasons for the rule. It provides an immediate rebuttal to those who try to perpetuate the deeply dishonest but highly successful Tory strategy of depicting Labour as the party of fiscal irresponsibility.

And adds:

As I understand it, the rule was formulated by Simon Wren-Lewis and Jonathan Portes, two highly credible progressive economists. Simon has been one of the most consistent and articulate critics of Tory austerity. To accuse them, as Richard is doing, of “delivering neoliberal thinking” is ludicrous.

And I disagree: to promote standard neoclassical, monetary based, independent central bank thinking at this moment as if it is what Labour would do is absurd. Not only is that thinking bankrupt for reasons I have already explained, it is contextually irrelevant, as Michell has agreed. So it is doubly wrong.

And it is also wrong to dismiss what I have said because, Michell argues, Labour will also deliver an as yet unspecified ‘supply side reform’ of the economy that, he adds, will ‘not [be] of the sort pushed by the IMF’. Please tell me how that will work Jo, and how it will be financed? I guess it will require suspension of the fiscal rule?

But what will that imply? Jo says:

I have more sympathy with MMT than James. I see it essentially as a US-focused political campaign based around a single policy: the job guarantee.

At this point I did not know whether to laugh or cry. Personally, I think the JG a logical policy consequence of MMT, and not core to it. MMT is about how the money / tax cycle and so the fiscal balance works in the economy, in my opinion. And he must know that. As he says:

Stephanie Kelton has done an excellent job of debunking simple deficit scaremongering. But to claim, as Richard is doing, that rejecting MMT means accepting wholesale neoliberal orthodoxy is silly — as are several of the views that Richard attributes, without justification, to James.

He concludes

The left deserves a better standard of economics debate.

It does. Jo Michell needs to do some reading then. And learn what MMT is. And he and those he thinks are his allies need to stop doing three things.

One is to pretend that there is any future for monetary policy in the timescale Labour now need to be concerned about. There isn’t. Carney says he can see three interest rate rises in the next three years. I would call that optimistic. But at best that means rates will reach 1.5% before, inevitably, crashing to zero again. In other words, any policy (including putting the central bank at the core of economic policy) based on neoclassical thinking which, as Michell confirms, puts monetary concerns at its core is

simply irrelevant.

The second is to stop pretending we will ‘normalise’. There are enormous political reasons for stopping doing so. That’s because this assumes that the Tory policy will work. And it assumes that austerity does deliver. It then assumes that Labour should perpetuate it (as I say the so-called fiscal rule does). But worst of all, it then provides no reason to vote Labour because it says that, after all, the Tories are the party of economic competence when it is glaringly obviously true that they are not.

And third, because no one (Jo Michell very obviously included) thinks the fiscal policy will be used it is very obviously bad economics and bad politics to promote it. Making bad assumptions is one thing, and the fiscal rule does that. Acting on them is worse.

It’s true that we do need a better quality of economic debate. But to spend time discussing something that is as hopelessly inappropriate as the so-called fiscal rule is not the place to start.

And, for the record, it’s not stupid to say so.

Nor is it inappropriate to point out the folly of Labour’s ways.

And come to that, to suggest that Jo Michell and James Meadway need to stop falsely representing what MMT is, or at least have the decency to learn what they’re talking about, is also appropriate, and very far from stupid.