

## challenge to Simon Wren-Lewis on modern monetary theo.

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Simon Wren-Lewis made an interesting claim yesterday [in three tweets](#):

This is, of course, a response to the debate on MMT [and the Labour Party fiscal rule](#) which has so far been discussed [in the context of Jonathan Portes' claims](#) with regard to it and MMT, which latter idea Portes has described as '[nonsense](#)'.

Simon's claim is very different. He does, if I might interpret his comments, say:

- a) He and Portes have offered a standard neoclassical (which many might reasonably call neoliberal, given its political economic framing) model of a fiscal rule within the framework of the existence of an independent central bank, which for political economic reasons (such as a lack of democratic control of key economic policy) I fundamentally oppose;
- b) He and Portes recognise that such models cannot work now, given that the problem of low or no net interest rates exist (the zero bound he refers to), but they did anyway frame their plan on the presumption that monetary policy can work even though they recognise it will not;
- c) This apparently makes it a good rule, although why that is the case is very hard to understand when there is little or no chance that the conditions in which it might operate will be seen in the foreseeable future;
- d) This is apparently so because other countries also make the mistake of using such rules;
- e) But if, by chance, the real world experience of the past decade continues to prevail and low or no net interest rates continue then in practice the Portes / Wren-Lewis rule actually delivers MMT, even though Jonathan Portes thinks that 'nonsense' and no

explanation as to how this claim can be justified is provided; it is just stated that it is easy to show.

So my question is, I suppose, inevitable. What I would like Simon to do is show how he and Jonathan Portes have written, as he claims, a rule that delivers a real-world political economic solution (because that is what Labour's rule is, because it is not an academic paper) that is the same as modern monetary theory. And I want him to show this even though:

- i) The rule he has written works subject to financial constraints, and not the constraints of the physical economy, and
- ii) It does so even though it requires a balanced current expenditure budget and modern monetary theory quite specifically does not;
- iii) MMT does not set time limits for actions to resolve funding issues and the Portes / Wren-Lewis rule does.

What I would also like to see is Simon's own explanation of why MMT does work, since he accepts it does, and his explanation as to why Jonathan Portes is wrong in that case.

Of course, the explanation can be theoretical, but I should add that this is really about the political economy. This would not matter nearly so much if Labour had not adopted the Portes / Wren-Lewis rule. So the explanation has to work at that political economic level as well: i.e. the power relationships inherent in the two approaches also have to be the same for the challenge to be achieved as that is what political economy is concerned with.

I have enough respect for Simon to be sure he has made a claim in good faith that the outcomes are the same. I await to see how that is the case because I admit I cannot see how that might be true.