

Fisking the Portes / Wren-Lewis fiscal credibility rule

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I tried to engage with Simon Wren-Lewis and Jonathan Portes on twitter yesterday with regard to the [questions I had raised on Simon's tweets to me](#), made earlier in the day.

In fairness, Jonathan's contribution was short:

Before becoming patronising:

I say that is not true, because this issue really is complicated, whatever Jonathan might like to suggest. In that case Jonathan's intervention, which was in effect to repeat that MMT is nonsense, only a little more loudly, was not helpful. The 'Englishman abroad' approach to argument rarely works.

I persevered with Simon, although he too was not above abuse, saying at one point:

And then this:

I found that more than a little perplexing when I had actually [gone to the bother of asking some serious questions requiring serious answers](#). To describe the above as unflattering to Simon is to be kind, I think. He's taught for long enough to know that if someone does not understand you have to try something different.

I did not give up. And there were some useful admissions:

This could be taken at face value, of course. And should be. The framing of the rule is

crass, and he knows it.

But it is deeper than that. What this says is that the political economy of this is not the same as the economics. And that matters. But I think Simon and Jonathan dismiss that. They should not.

I continued to pose questions. And eventually (I say that, with feeling) I appreciated what Jonathan and Simon do not understand and why therefore they do not understand what I am saying. The critical tweets were these:

To which I replied:

I did so thinking Simon believed he was stating my position.

But actually, it was his that he was presenting:

To which can be added this:

And this:

And at last it dawned on me why we were talking at cross purposes. I offer the following explanation, which I hope is fair representation.

I asked these questions, for the record:

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 Simon said in direct response was:

Or, in other words, he assumed my question away, saying that for the last decade it did not matter as we should simply have done fiscal policy. Unlimited fiscal policy, in fact. Enough fiscal policy, in fact, to ensure that monetary policy could be restored to use, because that, as Jonathan and he see it, is the right ordering of economics ([see the earlier blog on this theme for evidence of that](#)).

But what that means is three things. First, in Simon and Jonathan's view economic policy is being run for the sake of economic policy. Its aim is to restore monetary policy. Second, that means the aim is to put bankers back at the heart of economic policy, and not people. And third, the aim is to restore finance as the constraint on activity instead of that limit being the available resources within the economy i.e. the goal of establishing full employment.

The objectives I pursue and those that Portes / Wren-Lewis pursue are then fundamentally different. I am seeking a stable, sustainable economy with full employment. They are seeking the restoration of the model of central bank monetarism that existed from 1999 to 2008 in the UK, with well-known consequences.

In the process, the Portes / Wren-Lewis model would deliberately stoke inflation to the point that interest rates would have to rise, even though there is little doubt whatsoever that this would be harmful to the economy and would precipitate a banking and credit crisis, reduce employment and push many households into bankruptcy and homelessness.

And the consequent monetary policy would also, of course, be used to limit spending and so constrain necessary government action i.e. it would have to be linked to austerity because a deliberate boom and bust cycle is the objective of the Portes / Wren-Lewis model. This is the only way I can read what has been said. This has horrible overtones of all that used to be said about Old Labour.

Worse, though, Portes and Wren-Lewis both imply there is no difference between this and MMT since, I now realise, Portes really does think MMT is just an excuse for the same fiscal policy that he would promote. And that is emphatically not true.

MMT would never seek to push up the inflation rate to the point that interest rates have to rise. It seeks low inflation and low or no interest rates as a matter of policy. And it would avoid the boom and bust the Portes / Wren-Lewis model seeks to stimulate by noticing the real constraints in the economy and preventing over-heating before it happens. That is the MMT goal. But the Portes / Wren-Lewis model wants to overheat, by choice. They could not be more different.

No wonder I did not understand. Because, I confess, I did not. I had no idea someone could be putting forward such a plan as Portes and Wren-Lewis are doing as if it was a serious economic policy for Labour.

For the avoidance of doubt, let me summarise that plan. First, write a plan as if monetary policy works even though it has not for a decade. Second, plan to overheat the economy with unlimited fiscal expansion until there is inflation in the system. Then restore power to bankers to power to prove you needed a plan where they were in charge, after all. Then let them increase interest rates. Let them crush the economy again. And in the process do reignite austerity at untold cost. Whilst doing that ignore the fact that people will suffer badly on the way and a banking crisis may be ignited as debt burdens become unmanageable. Ignore too the environmental impact of this policy.

That's the Portes / Wren-Lewis plan. All wrapped up in the story of the maxed out credit card.

At least I understand now. I admit, I did not beforehand.

Simon concluded with this tweet when I said I was giving up for the night:

There may be remarkably little else.