

Why the left and Labour really do need to adopt the cor...

Published: January 13, 2026, 5:38 am

I read [Jonathan Portes' attack on modern monetary theory in Prospect](#) with some bemusement. Firstly that is because many in the UK modern monetary theory community will be quite surprised to know that I am, as Portes suggests, its main proponent. I have in fact for some time been quite critical of some of its leading exponents. Second, I was surprised that if Portes did not understand any of my comments, as he suggested, that he had not get in touch to check them. I am not hard to find. And third, the article did in fact seem rather more a defence of Jonathan Portes than it was an attack on MMT. But nonetheless, I would like to set the record straight.

That's largely because Portes presents a series of straw man arguments that he must know to be false representation of what MMT says in his article. The reality of its position is easy to explain, and entirely clear. Portes should not be denying it.

In the first instance MMT says all money is created by either government central banks or other banks acting under state licence.

Second it says that money only has value because the government promises to back it.

Third, it suggests that this backing is evidenced: the requirement that tax be paid in government created money guarantees state created currency a value in exchange, most especially if there is no other currency in circulation in an economy.

And fourth, this necessarily means government spending must come before tax is raised in our macroeconomy or there would be no money created to settle the tax bill. This cannot be issued as semantics: it is fundamental to understanding the role and nature of deficits.

Which fifthly means government deficits are a necessary and good thing because without them the means to make settlement would not exist in our economy. This is especially true since a government cannot default on its debt denominated in its own currency but escalating private debt suggests private debt default is a real risk at present. The choice between how to create credit in the economy is not, then, neutral.

And sixth, and most important of all, knowing this liberates us to think entirely afresh about fiscal policy, which Portes rightly says is prioritised by MMT over monetary policy, which I would happen to argue is now largely redundant anyway because in a world of low interest rates monetary policy is wholly ineffective, and I believe low interest rates are here to stay.

The resulting approach to fiscal policy emphasises three areas. Essentially, MMT says the primary task of any government is to deliver full employment, for social, economic and sustainability reasons (because labour wasted is a non-renewable resource). Second, it says it is the job of government to ensure that there is sufficient money (or credit) in the economy to meet the needs of a modern economy and when banks will not provide this then government must do so by spending it into existence, in contrast to private banks lending it into existence. This means governments are spenders of last resort, which is the necessary corollary of MMT's suggestion of the government's third role in this fiscal policy area, which is to be borrower of last resort, which may be critical, sometime soon.

As a result MMT suggests that a government can and should run deficits until effective full employment is achieved. But what, crucially, it says when claiming this is that this capacity is not constrained by the level of private sector activity. GDP is in this sense just a number, rather like the willingness of banks to lend to government is just a numerical indicator of no real consequence. Instead, the constraint on government activity is the physical capacity of the economy. Falling GDP or a lack of willingness to lend to the government is not then to be seen as a constraint on government action, but is instead an indication that there is a need for action, in the first instance, and a need for government money creation (or deficit funding) in the second.

Saying this, thereafter it is an obligation of any government to tax enough to withdraw from circulation sufficient of the currency it has created to control inflation. This is done by taxing, and gives tax its primary purpose, which is not then revenue raising but inflation control within a fiscal policy framework.

It so happens that viewing tax in this way also liberates tax to be a tool for the effective tackling of inequality, market failure and the delivery of those incentives really required to create long term sustainable well-being, all within a framework managed to deliver full employment and stable, low inflation.

Now, of course there will be external shocks to the system. And no government using this policy may overspend beyond the capacity limit of its economy or inflation will arise and a threat to the value of its currency might result. But those are real risks in any economic management framework and are not peculiar to MMT. But to suggest this means MMT undesirable, or wishful thinking, appears bizarre. It also shows a lack of understanding of what inflation can be controlled with which mechanisms by suggesting all types are the same, when plainly they are not.

There is a consequence of this thinking, however. It does expose the flaws in the Portes / Wren-Lewis written Labour fiscal credibility rule.

Now let me say straightaway that this rule is anything but what it claims to be. It is largely a game of political theatre seeking to appease the right by pretending that the conventions of monetary policy are respected when I think neither author believes that they will really apply. I think Labour believes that a price worth paying. I disagree.

That's partly because this concedes power to the right and suggests that the left accepts it must play by their rules. If this is the manifestation of the political economy of power at play then the clearest indication given is that the left knows it is not in control. That, for me, is a mistake. As is the language of the maxed out credit card that the rule uses, which I hope Portes and Wren-Lewis did not write. In terms of political framing this is to accept that economic debate will take place on the right's terms before the game even commences.

To move on from this failing, I also have considerable difficulty with the planned promised balanced budgets, albeit over a five year rolling period, when these have always been the excuse for austerity. Now I accept, once again, that opt outs are included in the plan. The question I have to ask in that case is why? This can only, once again, be to appease the right and make pretence to the electorate of something that is not true.

If Labour wants to secure power on the basis of misleading people as to the true nature of its plans then the Portes / Wren-Lewis rule is excellent. Because it is in effect a giant political con-trick. I suspect no one in Labour really believes it will be used as superficially read. Instead there will always be conditions requiring it be abandoned, assuming (rather bizarrely) that the Bank of England would give an elected government the power to do so, which clause is itself another unnecessary concession to neoliberal thinking.

But my question is, again, simple. James Meadway has said the fault in MMT is that it has no theory of power. My response is to ask whether this plan is Labour's manifestation of what it sees as post-Keynesian power relationships? If it is I am worried because in it all power is conceded to the right and the left is claiming none for itself, its ideas and, most importantly, for a state that is, as a matter of fact, able to intervene in a faltering or misdirected economy using the power it alone really possesses to create money at will, subject to the real physical and potential inflation risks I have already noted. If this is the post-Keynesian theory of power to which it subscribes then, I suggest, Labour needs to rethink, rapidly.

To spell out why (and I think this necessary) that's because the Portes / Wren-Lewis plan suggests fiscal policy within a bank imposed financing constraint. To put this another way, it suggests that it is the willingness of those banks to lend to the government that at least to some degree, and maybe always, limits government

capacity to act. I find it hard to see how it can be argued otherwise.

MMT, on the other hand, suggests fiscal policy that recognises that the constraint on government capacity to act is available spare resources, coupled with investment driven potential productivity growth within the economy, with the government having the capacity to create necessary funding until such time as this limit is reached without the need to borrow (although it might) or fearing inflation or exchange rate risk for this reason.

I happen to think a fiscal policy based in belief in the power of the people in an economy to work to best effect is substantially more left wing and likely to lead to fundamentally different outcomes to a policy based on fear of the City and bankers and which accepts the fundamental austerity constraints of a wholly unnecessarily balanced budget, which, excepting investment spending, is the long term goal of the Portes /Wren-Lewis plan.

For Portes to suggest MMT has nothing new to offer, or different to say is, in that case, fundamentally misleading. The understanding it offers is fundamentally different from that he presents. And the price of the deception he offers would, I suggest, be paid by those left out of work or suffering the impact of continuing cuts because his policy prescription was followed. That's a price I hope many, including Labour in due course, might think is not worth paying when there's a better alternative is available. That, as I have outlined, is what the core elements of MMT offers.

And, incidentally, this policy could help fund the Green New Deal, and i think that absolutely fundamental to the left's future.

So can I make three please?

The first is let's debate the issues. There is too much rancour around MMT, fuelled in part by some within it and Bill Mitchell in particular. Let's leave that aside and debate the issues. When the left has been bereft of ideas I think I we have a duty to do that.

Second, let's also leave aside the policy prescriptions that some say flow from MMT, like the job guarantee. I suggest that they are not core to the argument even if Mosler and others suggest that they are. No one who creates an economic idea has the sole right to say how it might then be interpreted for policy use, and those who say they have are simply wrong.

Third, let's get this done soon. We have no more time to conceded economic ground to neoliberal thinking.