

I don't care what label you put on Labour's Fiscal Cred...

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Simon Wren-Lewis [has written a response](#) to criticism of [Labour's Fiscal Credibility Rule \(FCR\)](#) in the New Statesman. Simon co-authored this rule with Jonathan Portes. He has as a result, 'skin in the game'. And what, it seems, he most objects to is that the rule is called neoliberal by its opponents in the modern monetary theory (MMT) community. He names Bill Mitchell as his prime opponent, but I suspect I am on the list. Simon says:

But why do many MMTers, as they are known, call Labour's rule neoliberal? To understand this, you have to understand that MMT is far from just another school of macroeconomics.

MMT is also a political movement of the left. Mitchell himself supports Brexit. This movement is therefore indignant that a Corbyn-led Labour Party has adopted a rule that is derived from mainstream economics, rather than MMT. Their aim is to win a political as well as an economic battle. Pretty much anything is fair game in this political battle, including describing those like myself who defend Labour's fiscal rule as neoliberal.

I will not quote at length as to why Simon has this view. Instead I will argue that I think Simon is really missing the point in what he says, which is entirely framed within a neoclassical economic framework. Let's leave the apparently inflammatory 'neoliberal' term aside. The issue can as easily be addressed using the word neoclassical instead. Saying that, let me explain why Simon is still wrong.

The reason is that many on the left do not accept the assumptions of neoclassical economics. We do not think growth is what economics is all about. The climate crisis guarantees it cannot be. Nor do we think that economics is all about balancing equations. It glaringly obviously isn't, but for neoclassical economics that is the almost entire focus of attention. And what that implies is that the confidence that Simon thinks we should place in a system that out-sources economic policy to a committee that thinks life can be reduced to a series of formulas is misplaced: most of us would rather such people were not in charge.

There is in this another issue of importance to the left that Simon really does not

appear to appreciate. This is that many of the left do not trust bankers. There is ample evidence for not doing so, from the 2008 financial crisis to the fact that bankers do undoubtedly have a different set of priorities to most in society. Again, in that case to expect people to have confidence in a system that presumes bankers, who alongside neoclassical economists are the other half of the Monetary Policy Committee, will exercise best judgement on behalf of society is pushing credibility beyond a limit that many on the left could not accept.

Add in to this a third concern, which is that it is not unelected committees but elected politicians who should be exercising judgement on issues as vital as economic policy and Simon's assumption that we should accept that economists know best is on decidedly shaky ground. It really is time he recognised this.

I also do think he needs to drop another claim, which is that modern monetary theory (MMT) promotes solutions that are the same as standard macro theory when it is assumed that fiscal policy is in use. That is not true, but regrettably Simon is blind as to the reason why so I need to explain them.

Simon argues that because MMT says deficits can be run in a downturn and so does his fiscal rule that they would produce the same outcome. But that is not true. They would not. That is because the assumptions are fundamentally different. Neoclassical economics assumes that raising tax precedes spend in the economy. And it assumes that the constraint on what can be achieved within the economy is the availability of money. MMT does not see the world that way. It assumes spend precedes tax, and shows why. And it assumes that the constraint on what can be achieved is not money - because a country like the UK with its own currency and central bank has no theoretical constraint on the amount of money available to its government - and that real physical constraints, of which full employment is currently thought to be the most significant - are what really define the limits to what can be achieved within an economy. That such wildly different assumptions might provide the same outcomes is very unlikely.

Simon suggests otherwise, and I think (I genuinely have to surmise) that this is because he thinks that because MMT and neoclassical economics are, in his opinion, based on the same set of economic accounting identities (we're back to formulas, again) running them in forward or reverse - which is about as much difference as he sees between the two systems - will produce the same outcomes, some specific occasions that he notes being excepted.

I strongly disagree. And the evidence is really not hard to find. Simon's FCR was published by Labour [in a document that included this claim to justify its use](#):

While there are exceptional times when shocks from the private sector mean that government has to step in to help, everybody knows that if you're putting the rent on the credit card month after month, things needs "to change.

There is no way on earth that MMT could ever be framed in that way. And that is not a minor issue: it's seismic. Simon claims that his rule is effectively apolitical by suggesting that MMT is, in contrast, deeply political. Leaving aside the fact that all economics is political, by definition, since all decisions on the allocation of resources are, Simon's apparent inability to recognise that his rule is being used to support Labour's use of the same neoliberal narrative that David Cameron popularised is worrying, because that is what is happening. Labour's fiscal credibility rule is simply being sold as a way of achieving the neoliberal objective of constraint government. That blows Simon's claim apart.

And this does matter. And that is precisely because no fiscal rule ever written has been complied with. Events always overcome them. But the mindset that they encourage does make a massive difference. Simon's rule says bankers, money and the conventional focus of neoclassical economics - which has the intention of keeping wealth owners happy - should be the focus of economics. And the wording of Labour's framing of that rule confirms that to be the case. MMT would have an entirely different focus. The aim would be full employment, the creation of gainful employment and maintaining moderate inflation within these constraints. That is a completely different framing for economic policy.

So what in that case if Simon thinks there are some similarities in the formulation of the theory of each model? The point is that those formulas imply the adoption of very different policy outcomes. I am sorry if Simon cannot see that. But the fact that many neoclassical economists (for which read the vast majority of economists) can also not see that difference also indicates why the economics they espouse - however it is labelled - is not an appropriate basis for the economics of a left of centre government in the UK. And I would suggest that the mindset of MMT does provide a suitable basis for the economic policy of such a government. And that is why I think Simon is wrong, and so is Labour to use his Rule, which is going to seriously constrain what it can do for the people of this country.