

Why is the left so hung up about modern monetary theor...

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I had this article in the most recent edition of [The Chartist](#) (no, I had not heard of it either). They commissioned in response to an article that criticised modern monetary theory. It as written before latest lockdowns and responses happened:

This autumn the UK faces an epic economic crisis. As relatively generous government support comes to an end it is likely that the UK economy is heading for collapse. The government now suggests there may be four million unemployed people when the current furlough scheme ends. The National Audit Office has suggested that up to 80% of the loans made to more than 1.3 million small businesses to help them through the crisis might not be repaid, suggesting that these businesses may, in turn, fail.

There are obvious consequences to a crisis of this scale. Tax revenues will collapse; the cost of universal credit and other benefits will increase; many households will be unable to meet their basic liabilities; the likelihood that homelessness will increase is high; mortgage and other loan defaults are very likely and could create a banking crisis; house prices are likely to fall; demand in the private sector is unlikely to return to anything near last year's level, whilst demand for public services will increase. Unless that demand is met there will be health, education, housing, justice, and other crises. Meanwhile, the environmental crisis is continuing, and Brexit creates significant risk of disruption in the economy, including to food supply chains, whilst creating the risk of inflation that would have a particularly serious impact on those on low incomes. To describe the economic outlook as torrid is to be kind.

I have, since 2007, been a member of the [Green New Deal](#) group, which suggested in 2008 that a programme of job creation, financial and tax reform, and a focus on green issues that would create jobs in every constituency of the UK, would deliver the recovery required at that time. I remain confident that we were right.

However, things are now very different from 2008. That crisis had an identifiable, and potentially correctable, source that was endogenous to the financial system. The risk that we now face is exogenous, out of control, and beyond correction within that financial system. The risk now is much higher, and after a further decade of

neoliberalism the public services are in a weaker state. On top of that, a decade of neoliberal thinking has led to a focus on the extraction of shareholder value from business rather than on investment in tangible assets and productivity increases, let alone adaptation to long term environmental demands [1](#). This has left much of the UK business sector ill-equipped to face an economic downturn, and exceptionally vulnerable to it. So a different response is required. I suggest that first the UK needs a New Deal before this can be transformed into a Green New Deal, the difference being a matter of focus. The Green New Deal focuses on longer term economic transformation to tackle the climate and biodiversity crises. A New Deal has the more basic objective of keeping the structures of the economy, the state and everyone in the country going until the immediate crisis is overcome.

To comprehend the scale of the issue, we should remember that the New Deal, flawed as it was, succeeded to the extent that it did because it was based upon a new understanding of economics. Roosevelt explicitly rejected the prevailing economic narratives dictated by the gold standard and the resulting philosophy of austerity. Before Keynes formalised the principle, Roosevelt accepted the need for deficit funding to get the USA back to work again. At the core of this transformation was a rejection of the prevailing narrative of monetary constraint on the actions available to government.

We are, of course, suffering the consequences of a similar narrative. Covid-19 cannot be blamed on neoliberalism, as far as I know. Our lack of preparedness for it can be. That philosophy has at its core a belief that inflation is the great curse. This narrative has been promoted to prevent deflation in the value of debt, in the interests of the wealthy who own that debt. In pursuit of low inflation, interest rates were allowed to float, creating crushing debt burdens. At the same time unemployment was considered the buffer stock for risk: if it rose as a consequence of the floating interest rates, so be it.

To reinforce this profoundly anti-working people narrative, independence was granted to central bankers, who were given the power to run the economy in the interests of capital, including the bond markets who, it was believed, could always constrain governments. Socialists and social democrats alike went along with this policy — including, to its discredit, the last Labour leadership team. So it is hardly surprising that the left has appeared irrelevant to economic debate.

The New Deal that we need must begin with a similar rejection of the prevailing monetary framework to that of Roosevelt to have a chance of addressing this crisis. The monetary system now is nothing like that of the 1930s. The gold standard was finally consigned to history in 1971, by the USA. Since then we have had only fiat money, backed solely by the government's promise to pay, which is in turn solely backed by its legal right to impose taxes, which is all that gives our money its value.

What is more, even the Bank of England has now recognised since 2014 [2](#) that all money is created by bank lending, and destroyed on loan repayment. What those

authors forgot to note was that this process extends to the loans that the Bank of England extends to its owner, HM Treasury, to fund the latter's activities: loans that can be made at will and are only cancelled by tax payment. So taxes do not actually fund government spending at all — they are simply a tool in fiscal policy, used to control inflation by constraining the money supply.

This has, of course, been proved by quantitative easing (QE) over the last decade. As the Bank of England has said, this is a money creation programme. It has not delivered inflation. It has, however, neutered the mythical power of bond markets: not only can they no longer influence interest rates, but if they try to do so the government can (and does) repurchase government debt to remove the threat.

Government debt is also cancelled in the QE process, though [the Office for National Statistics falsely claim otherwise](#). The debt is replaced by bank reserve accounts at the Bank of England maintained by UK High Street banks and building societies which they cannot effectively withdraw without another bank or building society immediately redepositing the withdrawn funds back with the Bank of England. In other words, the QE process replaces debt with money that keeps our banking system solvent.

*Yet many on the left still dismiss the reality of this process, which is described by modern monetary theory (MMT). MMT is best explained by Stephanie Kelton in her 2020 book, *The Deficit Myth*. Those on the left who criticise MMT seek to do three things: first, to maintain the power of independent central bankers; second, to maintain the myth of money market constraints on governments, including by the threat of interest rate rises; and third, they want unemployment to remain a mechanism for controlling the economy. Why they should want these things baffles me, but that's the consequence of what they say.*

Modern monetary theorists reject this. They do not argue for money creation, as such, despite what some claim. What MMT says is really quite simple. Firstly, using the logic already noted, it points out that governments cannot go broke because they can always create the money required to pay their debts. In turn this means that they can always control interest rates. Then MMT suggests that the proper role of money is to serve the economy, and not wealth, so full employment should be the objective of an economy; until this is reached inflation cannot be created within an economy, except as a result of political or external shock that economic policy cannot control. Spending should, therefore, always have this goal. That would, for example mean that the QE we have known to date would be replaced by what Colin Hines and I have called Green QE [3](#).

Finally, MMT suggests that because all government spending is created by debt, tax can take on a role in social as well as economic and fiscal policy to deliver wealth and income distribution, irrespective of so-called revenue costs. MMT is, then, the perfect economic tool to tackle the crisis that we face. What baffles me is why so many on the left are in denial on this issue, and remain wedded to neoliberal constructs. We will have hope when the left leaves its neoliberal past behind.

- * Leaver et al, 2020: [Against hollow firms: repurposing the corporation for a more resilient economy](#)
- * Macleay et al, 2014: [Money creation in the modern economy](#), Bank of England Quarterly Bulletin, 2014 Q1
- * Murphy and Hines 2010: [Green Quantitative Easing: Paying for the economy we need](#)