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The flaws in left-wing economists' thinking

13 November 2026

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Anti-fascist economic policy, abolishing market-determined prices, enlisting central banks to finance government spending, nationalization, the entrepreneurial state – left-wing economists are increasingly vocal of late. But these supposedly new doctrines rest on questionable assumptions.

This analysis is based on my opinion piece published in *Die Welt* newspaper.

The doctrines of left-wing economists ...

Isabella Weber and her book on so-called anti-fascist economics are attracting considerable attention. She advocates government-set prices for necessities. But the spectrum of what is known as heterodox economics is much broader. For several years, U.S. economists such as Stephanie Kelton have been promoting Modern Monetary Theory. They want to end central bank independence and enlist central banks to finance government spending. Finance ministers would then use this funding for economic stimulus programs, calibrating government spending to achieve full employment with low inflation. Another proponent of heterodox economics is Italian-American economist Mariana Mazzucato, who advocates an entrepreneurial state. In her view, it is primarily the government, rather than businesses, that drives new technologies. Other economists call for substantially higher taxes to redistribute income and wealth toward poorer segments of the population.

... rest on questionable assumptions

These economists and social scientists, often aligned with the left wing of the U.S. Democratic Party, start from problematic assumptions.

1. Overestimating the capabilities of government actors

First, they place considerable faith in capabilities of the government and its representatives. Proponents of Modern Monetary Theory, for example, suggest that politicians and public officials can manage the economy to achieve full employment. But an economy is a complex social system, not a machine that the government can control precisely. Attempts at economic fine-tuning failed spectacularly in the 1970s, ultimately leaving behind high government debt and inflation.

Mariana Mazzucato's vision of an "entrepreneurial state" is another example of how left-wing economists overestimate the government's capabilities. It is true that the U.S. military helped get the internet off the ground. But economic history is full of

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examples of politicians backing technologies that later proved to be failures. Consider Germany's fast breeder reactor or its magnetic levitation train. This is hardly surprising, since no one can reliably predict the future. Nobel laureate Friedrich August von Hayek instead recommended competition as a discovery procedure. Many companies test new technologies, and the best ultimately prevail through competition.

2. Underestimating politicians' short-term focus

Second, proponents of heterodox economics tend to assume that the government and its representatives have only noble motives. But even if public officials possessed exceptional abilities, it is doubtful whether they would pursue socially desirable outcomes at all.

In practice, many politicians primarily pursue short-term goals because they want to be reelected. They therefore often press central banks to cut interest rates ahead of elections to stimulate the economy and improve their reelection prospects. Recordings of then-U.S. President Richard Nixon document how he put intense pressure on Federal Reserve Chairman Arthur Burns to ease monetary policy. This contributed significantly to the high inflation of the 1970s. Nobel laureates Finn Kydland and Edward Prescott studied this mechanism, laying the groundwork for many central banks to become independent later on. Many left-wing economists ignore these findings when they seek to put central banks back under finance ministers' control.

Calls by economists such as Isabella Weber for government-set prices likewise reveal a naive view of politicians, too. Especially ahead of elections, politicians would likely set prices for basic necessities too low on a regular basis to win favor with voters. Demand for these goods would consequently be very high, while excessively low prices would reduce incentives to produce them. The result would be shortages and queues of the kind that were widespread in the countries of the former Communist Bloc.

3. Overestimating private investors' tolerance

Third, left-wing economists assume that private investors will tolerate high taxes, government-set prices, or financing government spending by printing money. In reality, these policies would deter private capital – with disastrous consequences for prosperity.

Proponents of the Modern Monetary Theory, in particular, underestimate private investors' reactions. A government can indeed always service its bonds if it instructs its central bank to print the money its finance minister needs. In practice, however, this eventually leads to inflation and rapid currency depreciation. International investors sell their government bonds, potentially triggering a currency crisis. This has happened frequently in developing countries without independent central banks.

Even if a government used capital controls to prevent funds from being moved abroad, serious problems would arise. After all, private investors are under no obligation to invest. The mere prospect of bringing Berlin's housing companies into public ownership is likely to make private investors reluctant to finance new housing construction. Expropriation and high taxes on income and wealth, as frequently demanded by proponents of heterodox doctrines, undermine incentives to invest. Investors become rentiers who spend down their wealth. Ultimately, left-wing economists neglect the economy's supply side: attractive conditions for businesses, without which there can be no prosperity.

Conclusion: These doctrines will ultimately fail

The left-wing economics that has emerged in recent years overestimates the capabilities of government actors, underestimates their often short-term focus, and overestimates private capital's tolerance of constant government interventions. These new doctrines

rest on questionable premises. They will ultimately fail and make people poorer. Instead, the task is to clearly articulate and vigorously defend the historically demonstrated advantages of the social market economy – as was done before the fall of the Berlin Wall, when socialism in the Eastern Bloc offered a competing model.

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This report was completed 13/11/2026 11:21 CET and disseminated 13/11/2026 11:21 CET.

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