

John Reynolds MP is protesting way too much about MMT

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Labour clearly is very worried about the threat that modern monetary theory (MMT) poses to it. No sooner has [James Meadway popped up in Tribune](#) to attack a policy that could deliver full employment at a living wage for all, plus the investment we need to deliver a fairer and sustainable economy, then along comes Shadow Treasury Minister Jonathan Reynolds on [Labour List](#) with an even more bizarre attack on MMT.

James Meadway had the good grace to grudgingly agree MMT was right in his piece, albeit he gets much else thereafter wrong, as I have already pointed out. But Jonathan Reynolds goes nowhere near such compromise. Nor, come to that does he go very near the truth. He claims:

It is widely understood [that MMT] holds that countries with a sovereign currency (such as our Pound Sterling) can print as much money as they like to meet spending commitments, without any adverse consequences occurring, because the central bank can always print more money.

This is complete nonsense. No one who seriously promotes MMT (in other words, who understands what it really is) says any such thing. In fact they'd say the exact opposite. First they'd say, first of all, that central banks do not print money, the rather limited exception of notes apart. Instead they'd say that they create it. And that's very different, indeed.

And second, they would most certainly not say there are no consequences of printing money, and that you can do it forever without issues arising. The reality is that there is always a consequence of creating money. Very often, of course, that is favourable, lest anyone forget this obvious point. But MMT always recognises that sometimes money creation can create inflation (although so, too, can other things as well) and has a very precise mechanism for both pre-empting and addressing the issue. So, very politely, Reynolds either has not a clue what he is talking about or is not telling the truth. Neither is encouraging from a Shadow minister.

Having got MMT fundamentally wrong Reynolds then claims:

[I]n my view, MMT is both deeply flawed and a dangerous distraction for people on the left.

And why is that? After reeling off a pile of pointless rhetoric he says:

Claiming John McDonnell, Jeremy Corbyn or anyone else in the Labour Party are closet neoliberals is, with respect, absurd.

I wish that were true. I would believe it if it were true, but it is not. Reynold's says:

All of Labour's plans are underpinned by our fiscal credibility rule, an overarching economic policy drawn up in conjunction with Nobel Prize-winning economists including some who have spent much time attacking neoliberalism.

I have addressed the neoliberal foundations of that rule, its Swiss cheese opt-out clauses, and the deceptions inherent in them, far too often to repeat it all again here. [Try this instead](#). I will instead simply ask Reynold's to name who the Nobel Laureate who endorsed Labour's fiscal rule was, because I confess to be struggling on this one and am really not sure any has.

Then let me ask another question, which is about this claim:

Most importantly, unlike the Conservatives, we recognise the importance of suspending these targets in the case of an economic shock that stops monetary policy dealing with the problem.

I presume Reynolds realises that the rule he's espousing would not have applied at any time in the last decade? And I presume no one can imagine when it might? That's because it does not apparently apply when interest rates are at the so-called zero bound, or are effectively nothing, as official rates are, in effect. And that's where they're also likely to stay for a long time to come. So my question to Reynolds is why is he hanging his hat on a policy he knows cannot be used? What is this fiction of an economic policy for? And why not instead adopt a policy that might work? Or at least be relevant? Which for a start would mean abandoning this pretence of using neoliberal monetary policy and to instead use the only viable policy to control those forms of inflation over which government might have any control, which is fiscal policy.

Of the latter Reynolds says:

Advocates of MMT instead claim governments with sovereign currencies like the UK can simply spend whatever they like, and taxes only exist to deliver other public policy goals, like controlling inflation or reducing inequality.

I've already dismissed the first, obviously incorrect claim. And the second claim, that tax has other purposes if it does not fund spending (as James Meadway has conceded)

has to be true. Those include the rather useful functions of controlling inflation and tackling inequality. And addressing market failure to, come to that? What I'd like Reynolds to explain is why he has problems with those aspects of tax? Since when did Labour not like such things?

Reynolds does not, unfortunately, address such questions, instead claiming MMT is inherently inflationary and so undermines the value of the currency. I will not spend much time addressing these points. When his fiscal rule has no anti-inflation mechanism in it in current circumstances I will simply note the claim he makes is fairly absurd when MMT clearly has such a mechanism.

And since Reynold's version of the claim that MMT will devalue sterling is also based on his claim that MMT says money can be issued without limit, which it does not do, I'll dismiss that as well as the nonsense it is in the form that he makes it. Just as his claim that QE differs from MMT is also bogus.

Which finally brings us to the politics (which is a relief when Reynold's has almost everything else wrong). The trouble is he gets this wrong too, claiming:

It should also be noted that there is nothing inherently left-wing about MMT — it supporters include members of the Tea Party and Trump supporters in the US.

I'd be very grateful if he would say who these people are. Because I know no one on the right who prioritises full employment over inflation control and state spending to create wage growth as a greater priority than austerity. Frankly, this is the left / right divide and MMT falls on the left of it, always. So yet again, Reynolds is wrong. As he is when making this comment:

Rather, MMT is a glib, "silver bullet" solution to the major economic problems we face. This accounts for some of its appeal, but in my view it is a direct barrier to winning the battle of ideas about transforming the economy and taking on the establishment with higher taxation.

So, then, higher tax matters more than full employment, does it? And tax for the sake of it matters more than having a fiscal plan to deliver investment, a Green New Deal, transformation in well-being and guaranteed opportunity for all? Is that what Reynolds really thinks? If so, why?

What I can say with certainty is Reynold's final comment is wrong:

Labour's current policies allow us to oppose austerity whilst credibly proposing an alternative, giving the Labour movement the confidence that we can deliver a better future for the UK. MMT is a barrier to both.

Of course Reynold's version of MMT is an obstacle to any credible economic plan. But then, no one with any MMT sense recognises Reynold's version of MMT. And it is

certainly not the MMT anyone proposes. Reynold's is, then, fighting something that does not exist. And as far as I can see that's because he wants to use a fiscal rule that could not have worked in the last decade and is highly unlikely to do so for a very long time to come, and because he wants to mindlessly impose tax on the rich without knowing why he's doing so in an overall, co-ordinated policy framework that both justifies this and suggests the balancing consequential policy this necessitates, as MMT does.

It's deeply embarrassing for the left that Reynold's has written something so economically absurd. But I struggle to think of any other description for it. And I am genuinely sorry to say that.