

## Making false claims about MMT is not useful

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James Meadway, the person who became John McDonnell's chief economics adviser when I declined the job because I would not support the austerity and fiscal rules analysis that John signed up to, has [written this in The Guardian](#):

*Supporters of modern monetary theory take this truth and use it to talk up the ability of the British government to issue money or ignore its debt. Monetary constraints, they argue, are ultimately not a real constraint on economic activity, and at least in principle, it is possible to imagine a world in which the UK agrees to renegotiate its various debts with everyone else and so reduces this overwhelming external exposure.*

I know only one person who is more obsessed with their hatred of modern monetary theory than James Meadway is, and that is Ann Pettifor. She thinks modern monetary theory is all about helicopter money and the Positive Money agenda, when neither claim is remotely true, and all she reveals is her lack of reading or comprehension. Unfortunately (and I wish this were otherwise), James is in the same place. Let me explain what he gets wrong:

### **1 - The significance of debt**

Firstly, he implies that MMT supporters argue that governments can simply ignore their debt. This is not an MMT argument. What MMT actually says is something quite different. It says:

\*

A government that issues its own sovereign currency (like the UK with sterling) cannot be forced into default on debt denominated in that currency.

\*

That is because the government can always ensure that the central bank creates the reserves needed to settle payments.

\*

Government bonds are therefore not operationally necessary to finance spending.

\* Debt is not then the issue others claim it to be, because this "debt" does in fact represent voluntary deposits with the government, on average, not repayable, in the UK's case, for more than 15 years.

But this does not mean debt can be ignored. Debt still matters because:

\*  
Interest payments affect income distribution.

\*  
Bond issuance influences monetary policy operations.

\*  
Debt levels may have political and inflationary implications.

So MMT does not say debt is irrelevant. It says default risk is different for currency-issuing governments. That is, as a matter of fact, true. An economist who does not understand that has really not mastered their subject.

## **2 - Money printing**

Secondly, James claims that MMT says governments can simply "issue money". This is implicit in his claim that supporters of MMT "talk up the ability of the British government to issue money." This wholly misrepresents MMT as advocating money printing as a policy tool. That is simply untrue, not least because MMT's core point is descriptive, not promotional. It says:

\*  
In modern monetary systems, government spending already creates money. That is factually correct.

\*  
When the Treasury spends, the Bank of England credits bank reserves.

So MMT is explaining how the system already works. It is not proposing a new mechanism. What it says is that spending precedes taxation and bond sales operationally. This is an accounting fact, not a political slogan. And as a matter of fact, no serious MMT economist "talks up the ability of the British government to issue money." Instead, they recognise reality, and that reality is that the UK government

creates every pound that it spends

### **3 - Monetary constraints**

Thirdly, James suggests that MMT denies constraints. He says MMT suggests that:

*Monetary constraints ... are ultimately not a real constraint on economic activity.*

This is a **major misrepresentation**.

MMT is explicit that constraints absolutely exist, but they are not financial. The real constraints are:

\*  
Real resources – labour, skills, materials, energy.

\*  
Productive capacity.

\*  
Inflation risk when spending exceeds capacity.

\* The need to protect the environment

MMT repeatedly emphasises that the real limits to government spending are these things **and** inflation, with which it is obsessed.

So MMT does not in any way say there are no constraints. Instead, it redefines them correctly, in economic reality, which is what matters.

### **4 - Renegotiating or cancelling external debt**

Fourth, James suggests that MMT leads to:

*imagining a world in which the UK renegotiates its debts with everyone else.*

This claim is simply unrelated to MMT. MMT does not require debt renegotiation, nor does it depend on it. At most, it says we need floating exchange rates. which is hardly contentious. It does so recognising two important issues:

\*  
Most UK government debt is sterling-denominated. That means the UK can always service it. In fact, it can never fail to do so, which makes it very hard to imagine why renegotiation might ever be needed.

\*

Foreign holdings of gilts are not external debts in foreign currency. They are still sterling liabilities. There is then no default risk in such holdings.

MMT, therefore, does not need debt restructuring to function. Instead, it recognises that the issue is never likely to exist, because it does not. This is economics rooted in reality, again.

The comment made confuses sovereign currency debt with foreign-currency debts, which are fundamentally different. That is a category error, and a very basic one.

## **5 - External exposure threatens the UK government's ability to spend**

Fifth, James suggests the UK government faces:

*overwhelming external exposure.*

This reflects another common misunderstanding. For a currency-issuing government like the UK:

\*

Foreign holders of gilts cannot force default, ever.

\*

Those foreigners hold sterling assets.

\*

The UK government creates sterling.

\* It follows that there is no external pressure.

The real issue with external balances is exchange rate pressure, not solvency. MMT acknowledges this. But again, that is a macroeconomic management issue, not a financial constraint in the household sense, as James wholly incorrectly implies.

## **6 - The deeper misunderstanding**

The fact is that James' comments all ultimately assume the household analogy or household budget myth is real. This suggests that a government must finance spending by borrowing from others. MMT's core challenge is that this is entirely inaccurate.

In reality:

\*

Governments spend first.

\*

Taxes withdraw the money the government creates with its spending from the economy.

\*

Bonds support interest rate policy and provide a safe asset despite facilities.

James' misunderstanding stems from his assumption of a pre-modern view of public finance.

## **7 - In summary**

James falsely attributes several positions to MMT:

\*

That governments can ignore their debt.

\*

That MMT advocates printing money freely.

\*

That MMT claims there are no constraints on spending.

\*

That MMT depends on renegotiating debt.

\*

That foreign holders of government debt create solvency risk.

None of these claims is to be found in MMT. MMT says they are all untrue. To that extent, I agree with James. He is arguing with a straw man.

MMT's actual argument is far simpler:

*A currency-issuing government cannot run out of its own money. The real constraint on spending is inflation caused by resource limits.*

If only James would stop pretending MMT says things it does not, we could then have a serious debate. I think that would be useful. Making false claims about MMT is not.