

Does MMT apply to the Euro?

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I [was asked this question](#) yesterday:

One point that I find difficult, is how does MMT apply to the Euro? If the Euro is produced by the ECB, how is it distributed through the Euro user nations? Does Tax and Spend apply to Euro user nations, ie do they have to gather the funds for their spending through tax or is there a mechanism whereby they can instruct the ECB to issue payments on their behalf?

This is my answer, which I admit is short because of the 400-word limit on replies on this blog, which I also impose on myself, but I think it is a good starter for ten on this issue:

This is an important question, because MMT applies to the eurozone, but the conclusion is different because euro-using states are not currency issuers. They are, in effect, currency users.

The euro is issued by the European Central Bank (ECB) and the national central banks (collectively called the Eurosystem). But the key point is that EU member states do not have complete control over the issue of their currency. Italy, Spain, Greece, Ireland, and so on, cannot, as such, instruct their own central bank to create euros to fund government spending in the way the UK Treasury can instruct payments in sterling.

So, euro governments do still “tax and spend” in the operational sense: they collect taxes, they issue bonds, and they use those resources to finance spending. They spend by instructing payments through their national central bank and commercial banking system, but they cannot create new euros at will. The ECB ultimately controls the conditions under which liquidity and reserves are provided to them.

We saw the consequence in 2008. Eurozone countries were in positions more akin to those of UK local authorities, or US states, than that of the UK government. Technically,

they can bust, or at the very least, they face genuine solvency risk, as Greece proved, and markets can price their debt like private debt.

So the question is, can they instruct the ECB to pay on their behalf? No, not directly as a matter of democratic control. The ECB can support member state bond markets (as has happened), but it does so on its own terms and with conditions, and it has often used that power politically.

This is the heart of the critique: the euro created a currency without a unified fiscal authority, leaving states responsible for social welfare without monetary sovereignty. As a result, austerity has been imposed, often selectively, not because resources were unavailable, but because currency control had been ceded.

So, MMT still describes what money is and how it works, but it also shows why eurozone states face much harsher constraints than the UK.