The EU's inappropriate response to the coming economic …

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The Financial Times has reported that EU officials are urging governments to prevent member states from offering support to households and businesses in response to the latest energy shock stemming from the US/ Israeli assault on Iran. The concern, it is said, is that excessive intervention might trigger a “fiscal crisis”.

That claim needs to be challenged. It is wrong in theory, dangerous in practice, and revealing in intent.

First, the idea that governments face a binding fiscal constraint in a crisis is simply untrue. Modern Monetary Theory (MMT) explains what should by now be obvious: governments that issue their own currency cannot run out of money. Their real constraint is inflation, not an arbitrary financial limit. The EU’s persistent claim that there is “limited fiscal room for manoeuvre” is not an economic fact. It is a political choice.

Second, history tells us exactly how governments behave when they understand this reality. During the Second World War, governments across Europe, including the UK, did not ask whether they had “fiscal space” before mobilising resources. They spent what was necessary to survive. As John Maynard Keynes made clear at the time, the question was not “can we afford it?” but “do we have the real resources required, and how do we organise them?” Finance followed function.

Third, what is being proposed by the European Commission is, in effect, the opposite of that logic. They are saying that even in the face of a major geopolitical shock, with energy prices rising by around 60 per cent and real risks to living standards and industrial production, governments should hold back. Support must be “temporary, targeted and tailored”. It must fit within pre-existing fiscal rules. In other words, people must adjust to the crisis; the state must not fully respond to it. The policy choice is to disable government and pass on shock, which is government deliberately abandoning its role in society.

Fourth, this argument is not neutral. It has real distributional consequences. If governments limit their intervention, then households will bear the cost through higher bills and reduced consumption, and the poorest will, inevitably, pay the most proportionately. Workers will also bear it through wage restraint or job losses. Meanwhile, energy companies, already benefiting from price spikes, will continue to extract extraordinary profits. The reluctance to act decisively is, in practice, a choice to preserve existing hierarchies of corporate power intact when they are very clearly part of the structural problem that has created this situation.

Fifth, the language used, inclduing the demand for “co-ordination and caution”, the consideration of “fiscal implications”, and the “limited room for manoeuvre”, is all designed to sound responsible when, in reality, it is a mechanism of control used to narrow the range of acceptable policy choices. It excludes the possibility that governments might act at scale to protect their populations, reshape energy markets, or challenge profiteering, which is their job now. The language is, then, neoliberal to its core.

Sixth, the irony is that even within the article, there are glimpses of a different logic. There is a discussion of windfall taxes on energy companies. There is an acknowledgement that, in crisis, governments sometimes have to subsidise activities they would otherwise avoid. There is recognition that failure to act means “people will freeze or production will close down”. These are admissions that the state has both the capacity and the responsibility to intervene. But they are immediately constrained by the insistence that such action must be limited.

So what are the consequences of this approach?

To begin with, it risks repeating past mistakes. The interventionist approaches required will deliver what fiscal policy should do by controlling inflation and delivering policies aimed at full employment. The alternative is chosen austerity, and that has always led to social, political, and economic crises. The plan is to repeat that mistake while letting inflation rip. An MMT approach of the type I advocate would eliminate that risk.

In addition, the EU plan will almost certainly exacerbate inequality. Those with the least capacity to absorb higher energy costs will be hit hardest. Businesses operating on thin margins will fail. Meanwhile, those able to pass on costs or benefit from price volatility will do very well.

Most importantly, there is a moral failure embedded in this position. Governments exist to protect their populations. If they choose not to use the tools at their disposal in a moment of crisis, then they are failing in that most basic duty.

So what should be done instead?

To be clear, the answer is not indiscriminate spending. The risk of inflation is real, and policy must take it into account. But that does not justify inaction; it requires intelligent intervention.

First, governments should guarantee that households can afford essential energy. That is a basic condition of a civilised society.

Second, they should act to stabilise prices, including through direct intervention in energy markets where necessary. The idea that these markets must remain untouched, even in crisis, is ideological, not economic.

Third, windfall taxes on excess profits and on wealth or income and gains derived from it should not be an afterthought but a central part of the policy response, as Keynes made clear in the 1940s. If companies benefit from geopolitical shocks, those gains should be redistributed, and if additional tax is required to control inflation, the wealthy must pay.

Fourth, investment in the energy transition must be accelerated, not delayed. If reliance on volatile fossil fuel markets is the source of repeated crises, then reducing that dependence is the only sustainable solution.

Finally, and most fundamentally, we need to abandon the fiction of fiscal constraint. Governments are not households. They do not need to “find the money” before they can act. They need to decide what is necessary and then ensure that the real resources are mobilised to deliver it.

The real question is not whether governments can afford to act. It is whether they are willing to use their power in the interests of the many rather than the few. At present, the European Commission appears to have made its choice. It is the wrong one.