

## **The Green New Deal: The Modern Monetary Theory Perspective**

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Let's cut to the chase: How will we pay for the Green New Deal?

The answer is: The Federal government will electronically credit the bank accounts of the people and organizations from whom it is purchasing labor and other resources needed to implement the transition to a post-fossil-fuel economy.

That is how we will pay for the Green New Deal.

"Well," you may ask, "where is the federal government going to get the money to make those payments? Is it going to create that money out of thin air?"

"Yes," I reply, "that's precisely what the Federal government will do. That's how the Federal government makes all its payments." The Federal government is a sovereign, currency-issuing level of government that spends money into existence. The constraints upon the Federal government — whether for the Green New Deal or anything else — are not financial. What they actually are ... we'll come back to in a few minutes.

While you're pondering that, let's back up a minute and talk about the rationale and programmatic content of the Green New Deal.

For the purpose of discussion tonight, I'm going to take the following five items as given:

1. Severe climate change is being caused by human activity, namely, the release of methane and carbon dioxide into the atmosphere at levels vastly greater than in the pre-industrial era.
2. Significant climate change has already arrived in many parts of the world and is disrupting human societies.

3. Human societies have a limited time left to reduce emission of greenhouse gasses so as to avoid catastrophic levels of climate change. Global heating is an existential threat.
4. The actions that individuals, organizations and governments have taken so far have, at least in the United States, been insufficient to address the first three points.
5. Because those actions have been insufficient, and because the threat posed to the United States is nation-wide, in the U.S. action will be needed primarily (though not exclusively) at the Federal government level.

As I said, I'm going to take these points as given. You may not, but if you do not, I'm not going to expend any effort at convincing you otherwise — and what are you doing at this meeting tonight?

So let's proceed to those ideas which we won't taken as given in advance. What I hope to cover are these concepts:

1. What are the main aspects of the Green New Deal as I understand it, and why is it structured in the way it is?
2. Do we have precedents that can guide us in planning and implementing the Green New Deal?
3. How are we going to pay for it?

For the purpose of tonight's discussion, I'll take the Green New Deal to be the political program described in H. Res. 109 introduced by Representative Ocasio-Cortez and Senator Markey in February of last year (<https://www.congress.gov/116/bills/hres109/BILLS-116hres109ih.pdf>). I don't agree with everything in that resolution, but as a framework for forward movement, it's good enough. It starts

from the scientific findings of the Intergovernmental Panel on Climate Change which lead to the call for global reductions in greenhouse gas emissions of 40 to 60 percent from 2010 levels by 2030 and net-zero global emissions by 2050.

The resolution goes on to name several other crises in the U.S.: rising income inequality; declining real wages; the impact of climate change, pollution, and environmental destruction on existing racial, regional, social, environmental, and economic injustices; and so forth. The resolution calls for a 10-year national mobilization on a scale not seen since World War II. So this way of structuring the Green New Deal includes a number of social justice goals as well as goals to deal directly with the causes and consequences of global heating.

I should note that while H. Res. 109 calls for "high-quality health care", it does not specifically call for a single-payer health insurance system (the so-called "Medicare for All") — though I argue that it should. More on that later.

Two things the resolution does call for — and which deserve our attention — are (1) a guarantee of "wage and benefit parity for workers affected by the transition"; and (2) "guaranteeing a job with a family-sustaining wage, adequate family and medical leave, paid vacations, and retirement security to all people of the United States" — what Modern Monetary Theory calls the Job Guarantee.

So you're probably wondering, why do Green New Deal advocates structure the proposal to address much more than energy production and consumption? As an article on the Politico website last February expressed it:

*"The most glaring problem with the Green New Deal is that it doesn't just make that case for all-out emergency climate action; it calls for a whole basket of new progressive policies. It treats all of America's problems — wage stagnation, unaffordable housing, anti-competitive business practices, the decline of labor unions —*

as if they were just as urgent as the climate crisis. And its proposed solutions are just as expansive." (<https://www.politico.com/magazine/story/2019/02/07/green-new-deal-224928>)

The best response to this came from Lambert Strether, a contributor to the Naked Capitalism blog. He wrote:

*"The Green New Deal is a DEAL. All agree that the entire society [must] be mobilized for the GND to succeed (and though few say it, the dreaded lifestyle and consumption changes will have to be part of that). The deal for the working class is if they participate in GND mobilization, they are restored to a life of dignity: Real work for real money, the chance to take care of their families ..., medical care, the rentiers['] boot off their neck, and clean air and water. In other words, universal concrete material benefits. That is the deal. That is a new deal, a deal that hasn't been offered for most of my lifetime, and never for young people. That is the green new deal. ... And all deals have (at least) two sides: This one has the "climate" side, and it has the "justice" side. One for the other. That's how and why the Green New Deal will work as a deal. You might even call it a covenant, if you're religiously inclined."*

(<https://www.nakedcapitalism.com/2019/02/aoc-ed-markey-introduce-green-new-deal-resolution-lets-remember-its-deal.html>)

Let's now turn to the question of whether we have precedents that can guide us in planning and implementing the Green New Deal.

Your first instinct is probably to ask, "What about **the** New Deal: the first two terms of Franklin Roosevelt's presidency? Are their precedents there?" The first New Deal certainly **implemented** many programs to address the Great Depression and to lay the basis for many decades of

economic growth: Social Security; reform of the banking system; legalizing collective bargaining; rural electrification; and so forth.

But note that we're looking for guidance in **planning** the Green New Deal as well as implementing it. In its first years in office, the Roosevelt administration's response to the Great Depression was highly improvisatory: Put together a program; see if it works and is politically palatable; if not, get rid of it and try something else. The Roosevelt administration did not come into office in 1933 with an overall plan on the scale of the Green New Deal as found in H. Res. 109.

If, however, we come forward seven years from 1933 to 1940 we see that it is possible for a nation which is in the midst of an existential crisis to **plan** how to deal with that crisis. We have to cross the Atlantic to do this. We have to go to Great Britain, which in early 1940 had been at war with Nazi Germany for six months. The air raids of the Battle of Britain and the British evacuation from Dunkirk were still in the future, but it was already clear that defeating the Nazis would require a total mobilization of British society.

It was at this point that the most eminent political economist of the twentieth century, John Maynard Keynes, published a pamphlet entitled, *How to Pay for the War*. Keynes recognized that the war effort would require not just an increase in the real resources available to the British economy, but a diversion of some of those resources away from consumer goods to defense goods. People hired in the defense industries would have more money to spend on consumer goods but would have fewer consumer goods on which to spend that money. That's a recipe for inflation.

Keynes had seen this dynamic over two decades earlier when he worked in the British Treasury during World War I. Keynes saw that British workers had gotten shafted by inflation during World War I. He didn't want to see a repeat of that during World War II, not least because it would undermine

support for the war effort. But he also thought that wartime measures could be the basis for tempering income inequality in British capitalism.

So in *How to Pay for the War*, Keynes assessed the resources that would be needed for the war effort and the resources that were available for that effort. Massive amounts of purchasing power were being injected into the economy but purchases of consumer goods had to be restricted. That meant that the government had to find ways of draining some of that purchasing power from the economy. That would have to be accomplished by some combination of taxation, voluntary savings (such as war bonds sales) and involuntary savings (compensation deferred until after the war — something like a mandatory IRA account). Britain had not used involuntary savings during World War I. Keynes, looking back on that experience, felt that that was a mistake. So Keynes felt that involuntary savings should be part of the mix.

In the U.S. Treasury during World War II, people read *How to Pay for the War*, so they understood the problem Keynes was addressing. The war effort meant that government spending would divert existing real resources from the non-government sector. But that spending would, in turn, translate into bigger paychecks for workers. More people could buy Chevys — but Detroit was now producing Sherman tanks instead of Chevys. Consumer goods prices would have skyrocketed unless the government could drain some of that purchasing power out of the economy. The U.S. mainly relied on a combination of taxation and voluntary savings. In this, the U.S. was largely successful. Despite having to shift up to fifty percent of domestic production to the war effort, inflation was relatively mild in the U.S. during the Second World War.

Let's step back and view this a bit more abstractly. The nation faced an existential threat. The government, acting in pursuit of the public purpose, addressed this threat by redirecting real resources from the non-government sector to the public sector. This redirection was accomplished by the

government spending money to purchase goods and services from the non-government sector. The money the government spent did not come out of some vault. It did not come from already accumulated taxes. It did not previously exist. It was created by, and in the act of, government spending. Once spent, that money, if re-spent, would have driven up the prices of consumer goods. So the government drained part of that money back by a combination of taxation and other measures.

The real question was not: "How are we going to pay for the war?" The real question was: "How are we going to mobilize the real resources needed for the war and still have enough goods and services for people to support the war effort?"

Back to the present. Remember the five "givens" I mentioned at the beginning of this talk? They add up to: Global heating is an existential threat. Combatting it is going to require the redirection of real resources away from parts of the non-government sector — such as fossil-fuel production — toward the redefined public purpose.

So, how are we going to pay for it?

Here, I'd like to quote another contributor to the Naked Capitalism blog, Marshall Auerback, who writes:

*"We "pay" for [the] ... specific proposals [in the Green New Deal] much as we do with any government initiative: Congress appropriates the funds, and the government literally spends the money into existence. The key point here is that when a government issues a currency that is not backed by any metal or pegged to another currency ..., then there is no reason why it should be constrained in its ability to finance its spending by issuing currency in the way it was, say, under a gold standard .... By extension, taxes don't actually "fund" the government, so much as they constrain overall expenditures in the economy. In essence, government spending adds new money*

*to the economy, whereas the imposition of taxes takes some of that money out again."*

(<https://www.nakedcapitalism.com/2019/02/green-new-deal-just-focus-not-pay.html>)

Auerback goes on to state:

*"A [sovereign] government can create all of the currency it likes, but there are finite supplies of natural resources, labor, and other productive assets that form the backbone of an economy. Put another way, money is not scarce, but real resources can be. So if government spending does not add to the economy's productive capacity, then excessive expenditures will almost certainly become inflationary, and that does represent a legitimate constraint. That is why the main focus of the Green New Deal should be on how the money is spent, rather than how the program is to be funded."*

A more in-depth look at the real resources needed for the Green New Deal is the approach taken by modern monetary theorists Yeva Nersisyan and Randy Wray in their essay, *How to Pay for the Green New Deal*, published last year by the Levy Institute at Bard College ([http://www.levyinstitute.org/pubs/wp\\_931.pdf](http://www.levyinstitute.org/pubs/wp_931.pdf)). It's no accident that the name of this essay echoes that of Keynes' 1940 pamphlet. It's also no accident that they acknowledge that the title is something of a misnomer.

The real question is not: "How are we going to pay for the Green New Deal?" As I said at the outset, the answer to that question is: The Federal government will electronically credit the bank accounts of the people and organizations from whom it is purchasing labor and other resources needed to implement the transition to a post-fossil-fuel economy. As Nersisyan and Wray note,

*"Whatever the financial costs, we already have a financial system that can handle them. What is less certain is that we can mobilize the resources that will be*



*required. This will require a combination of putting excess capacity to work and shifting already employed resources away from existing production to GND projects."*

So the real question(s) are:

- \* What real resources do we need to make that transition?
- \* What portion of those real resources can be freed up from existing resources?
- \* How can we make the transition a **just** transition — and have it perceived as a just transition by people who might be adversely affected by aspects of that transition?

Nersisyan and Wray essentially draw up a spreadsheet for a just transition. They report that many of the scariest cost predictions are misleading because they only total up costs and ignore cost savings. Their finding is surprisingly optimistic: The Green New Deal will require redirection of about 10% of gross domestic product over a 10-year period. Compare that to the 50% of gross domestic product needed for war production during World War II.

Recall earlier that I said that H. Res. 109, while calling for quality health care for all, did not specifically call for a single-payer health insurance system — though I thought it should. Nersisyan and Wray (among many others) point out that we spend 18% of gross domestic product on health care — and get poorer results than countries that only spend 10% of their GDP on health care. If we could redirect 8% of GDP from a health care system predicated on private health insurance to the Green New Deal, we'd have most of the Green New Deal already paid for!

Nersisyan and Wray do not underestimate the scope of the challenge we face, but they argue:

*"The future of humanity lies in the balance. Half measures will not do. It might take all our available resources — and then some — to win this battle. The experts say*

*we have most of the technology we need. We have unused resources to put to use. We can shift others from destructive uses to be engaged in constructive endeavors. We can mobilize the population for greater effort with the promise of greater equality and a shared and sustainable prosperity. We can make a good effort. We might win."*

Thank you very much.