

## The Green New Deal and Modern Monetary Theory

America has challenges which are arguably more complex and impactful than anything we've seen at least since World War II. It's time to end extreme partisanship and learn to work together.

### The frog in a pot syndrome

Like the proverbial frog in a pot where the frog does not react as the heat turns up until it's too late, the risk to our nation's wellbeing is growing and Washington can get almost nothing done. While our economy is growing in aggregate measures like the GDP, there are significant dangers:

- The planet is warming. With inadequate attention to human causes and scientific analysis, our health and security is increasingly at risk (even the Defense Department considers global warming a national security threat).
- Despite having the highest healthcare costs by far in the developed world, access and quality is inadequate or nonexistent for about 27 million Americans, including almost 4 million children.
- Despite ranking first or second in per student spending, the U.S. ranks 31<sup>st</sup> in math, science and reading scores according to The Program for International Student Assessment.
- According to Inequality.org, U.S. wealth inequality is the most extreme compared to 26 countries in the OECD (Organization for Economic Co-operation and Development) and getting worse.
- Government statistics indicate nearly full employment with the popularly referred to unemployment rate, currently at 3.6%, indicating about 5.9 million people unemployed. However, if we include those who would prefer full-time work or who have stopped looking, the number of un- and underemployed increases to somewhere between 12 and 96 million people.

### The Green New Deal

The Green New Deal (GND) is a pair of matching resolutions (not a proposed law) introduced in the House of Representatives by Alexandria Ocasio-Cortez (D-NY) and in the Senate by Ed Markey (D-MA) to address the above issues and more.

GND goals include achievement of meeting 100% of the nation's power demands with renewable, zero greenhouse gas (GhG) emission energy sources, repairing and upgrading infrastructure, providing training and "higher education to all people," guaranteeing a job with a "family-sustaining wage," and providing "all people" with high quality health care, affordable and safe housing, and economic security.

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The Green New Deal wants to tackle these and related problems though does not specify any specific program, such as Medicare for All, to do so.

### Is the Green New Deal a Good Deal?

Some people from both the left and the right don't think so. Their objections generally fall into one of two categories: political or economic. The political objections are varied but many feel the GND leads to too much government control and central planning, some (incorrectly) calling it socialism.

I disagree. First, the GND is clear that many projects and strategies are to be community-defined and run. Second, we already have significant control at the federal level, such as energy policy and Medicare, and no substantive change is being suggested.

The cost for the GND is also a matter of concern. Estimates range from no cost (believing it would pay for itself) to \$93 trillion (assuming the most aggressive programs and no offsets whatsoever). In fact, the cost cannot be known since specific programs are undefined at this stage.

Cost may also run up against the Budget Control Act and PAYGO rules which require Congressional action (increases in the debt ceiling, taxation, and/or offsets) to undertake significant new expenditures. However, the BCA and PAYGO rules can be changed or suspended as happened, for example, to support the president's 2017 tax cuts. This is where Modern Monetary Theory comes in.

### Modern Monetary Theory

Modern Monetary Theory, or MMT, describes the mechanics of how our financial system actually works. To get to the heart of the matter, MMTers, as supporters are called, are as sensitive to debt and inflation as traditional economists. It's complicated but, in the context of paying for the GND, MMT tells us:

- Expenditures that are focused on underutilized resources, like the unemployed, do not lead to inflation. MMT's Job Guarantee recommendation, a federally-funded, locally designed and administered, employment and job training program, would be an example.
- Technically, government does not, and does not need to, issue debt to finance deficit spending, though there can be legitimate reasons for doing so.

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- If deficit spending results in faster economic growth and social wellbeing, it can pay for itself.
- Federal debt IS NOT like household debt. It need never be repaid though there can be legitimate reasons to periodically run a government surplus (reducing the debt) to slow an overheating economy. In fact, elimination of the debt would cause a severe recession.
- MMT and traditional economic thinking share the same goals, namely, managed inflation and full employment. However, MMT calls for coordination between fiscal policy (taxation, spending and government borrowing) by Congress, the Treasury and the Administration, and monetary policy (managing interest rates and the money supply) by the Fed.

So, how should the GND be paid for? A number of solutions have been offered, generally reflecting traditional approaches for increased taxation and/or reduced spending elsewhere. While there's room for more than one approach at the same time, MMT provides a way to "pay for" certain projects without causing inflation or necessarily needing new debt or taxation.

### Next Steps

First, national priorities need to be set. The Green New Deal provides a place to begin as it has captured the thinking of supporters and detractors alike by shining a light on the most serious problems facing Americans.

Second, Congress and public advocacy groups should develop and debate alternatives for achieving national priorities without demagoguery. The GND explicitly acknowledges the need for technical feasibility and collaborative program development.

Third, given concerns about provoking inflation, we should adopt a different approach for determining the implications of government expenditures. Since inflation and full employment are the primary concerns, Congress and government agencies should focus on those issues rather than the dollar amount or potential inflationary impact of any new debt or deficit. MMT gives us an approach to do that.

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