

The Daily Dish

Close Encounters of a Green New Deal Kind

DOUGLAS HOLTZ-EAKIN | OCTOBER 22, 2019

Eakinomics: Close Encounters of a Green New Deal Kind

I spent yesterday appearing at this Columbia University event regarding the Green New Deal (GND). I was especially interested in the event because I was to appear along with Stephanie Kelton, one of the leading proponents of Modern Monetary Theory (MMT). Eakinomics had previously thought through MMT, but I was eager to see if I could better understand what my training, analysis, and experience said could not be.

Recall that the GND, if taken at face value, will involve a lot (technical term) of federal spending, but that proponents of the GND (and other initiatives) say there is nothing to worry about because (according to Wikipedia): "MMT's main tenets are that a government that issues its own money:

- Can pay for goods, services, and financial assets without a need to collect money in the form of taxes or debt issuance in advance of such purchases;
- Cannot be forced to default on debt denominated in its own currency;"

(and there are more). In this regard, Dr. Kelton was all in. When asked if she was worried about the current, unsustainable budgetary outlook ("no"), or the seemingly high price tag of Medicare for All ("no") or the GND ("no"), she emphasized that this was all accounting and that the only threat was inflation. Indeed, there was no reason, ever, to worry about debt, per se. Let's walk through this.

When the government runs a deficit (outlays exceed receipts), it does so either (a) to buy goods and services, or (b) to give somebody a federal check that will allow them to buy goods and services. So the whole idea is to engender the purchase of goods and services. In the MMT world, the debt created by the deficit would automatically be equivalent to having

more money to buy goods and services. We can think of this as the Fed automatically buying up federal debt by printing money. So my first piece of understanding is that there is no independent monetary policy in the MMT world. In the world I understand, in contrast, the Fed could not purchase the debt, capital markets would sort out who would buy the debt, and there would be less of a guarantee of additional purchases of goods and services.

But suppose the Fed does buy the debt and transfer the liability from the federal government (a bond) to the Fed (reserves or currency). Then the desire for goods and services will be abated only by the ability of the private sector to supply those goods and services. So, if there are large deficits and a finite supply of workers (the unemployment rate is currently 3.5 percent), then there is the threat of inflation.

Here, I think, is where the MMT crowd and conventional economics talk past each other. The conventional economics crowd sees rising and high inflation as a real, costly threat because of the 1970s and 1980s wars to contain it — and the real fallout from that battle. MMT views it as a benign indicator of where to stop. Since any (MMT or other) economic science is highly imperfect, one will not know with any great precision how much inflation is being engendered. Within that concern, Dr. Kelton used a lot of language that suggested the federal government could assess the workers, engineers, plants, and other physical assets needed to complete, say, a GND. It could then, somehow, use them for that purpose and cut off other demands. No inflation. That is very much the language of central planning.

In the end, MMT looks like an extreme version of conventional economics in which there is no independent monetary policy and there are a lot of unused resources. But when resources get tight, the reflex is command and control central planning.