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Modern Monetary Theory and the Moral Equivalent of War

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In a recent article on [“How to Pay for the Green New Deal”](#), professors Yeva Nersisyan and Randall Wray mimic Keynes’ 1940 “How to Pay for the War” in order to explain how the State theory of money, nowadays known as “Modern Monetary Theory,” or MMT, would pay for the interventionist proposals advanced under the pretense of environmental concerns that have come to be called the “Green New Deal” (GND).

Professors Nersisyan and Wray are to be commended for their scholarship and intellectual integrity. Dispelling previous equivocations about the capacity of their fiscal and monetary proposal to “pay for itself,” which triggered criticism that MMT disregards real resource constraints, they present with this article in a clear way what their scheme amounts to, and for a start, its internal logic is unassailable. Yet, I disagree with their

factual premises about the impending environmental doom and their understanding of how the market economy works by creating incentives to individuals to engage in productive activities.

However, if their premises about the environment and human psychology were correct, and governments had the capacity to coerce people as they think they have, indeed, the GND could be financed by using the fiscal and monetary tools they are suggesting. That would represent an immense transfer of real wealth from all Americans, depriving people of resources now used for their own ends, such as paying for their homes or the education of their children, and the authors are candid about that. I assume that their argument will not in any way please the politicians who are using their research to advance their political agenda, and would much rather prefer to hide from voters the real consequences of their proposals.

The cornerstone of our authors' argument is the concept of "Moral Equivalent of War" first proposed by [William James in 1906](#) and made famous by [President Jimmy Carter's 1977 speech on energy](#). Their reasoning is that if climate change is as much an existential threat as were the fascist regimes of the Axis powers during World War II, the United States may recur to the same tools used during the war to harness society and extract from individuals the necessary resources.

For our authors, it would be morally acceptable to deprive individuals of the real resources they currently are using in their daily lives and divert them to fight climate change, if that is a real and present danger as the Axis powers were. Heavy taxation and greater public indebtedness that MMT advocates would impose on the public, and take away their purchasing power, would then be invested in the retrofitting of the American economy along the scale proposed by the GND.

Americans accepted a drastic reduction in their consumption, and not only continued to produce but increased what they were producing during WWII, making available to the government the resources necessary to wage war. Why would they not do the same if convinced that

climate change poses a similar, or even greater risk than our enemies in that war? My disagreement with their analysis begins here.

First, and foremost, I disagree that “climate change” is a danger in the same sense that Nazi Germany or Imperial Japan were. Even if we accept for the sake of the argument that the climate is changing, and that human activity has something to do with that, it does not follow that the policies proposed with the GND of eliminating quickly and radically the use of fossil fuels are technologically feasible without a drastic reduction in the standard of living of Americans. The authors accept without questioning those policy prescriptions, and move instead to discuss how to pay for them. That is the focus also of these comments, but it is worth mentioning that other initiatives, such as nuclear power and the development of technologies for carbon capture, just to give two examples, once the proper incentives are in place, could actually reduce net carbon emissions faster and cheaper than the crippling proposals of the GND.

Second, our authors ignore that there is a strong relation between the distribution of income and the level of production in society. They believe that people will continue to produce whatever they are producing even if their earnings have been reduced by taxation, or forced savings. In a market society, both input and output prices are what guide people to continue to do, to do more of, or to stop doing whatever economic activity they are engaged at any given moment; it is as simple as that when there is no one coercing people to act against their best interest.

It is one thing to say that in case of an emergency, people would accept temporary sacrifices; it's another thing to say that, in a spirit of “permanent mobilization,” people will continue, for life, to be productive, even if no allowance is made, for instance, for depreciation and other costs of production. That is a second limitation imposed by the reality of scarce resources that MMT needs to face. You can consume the existing stock of capital in an emergency, but you should not expect that that stock will be maintained or expanded if no resources are used to pay for depreciation or new investments.

The reason is simple: in an open society, the existence of profitable opportunities is what drives investments, and taxes are a cost on that. When you tax people, you are making some investments unprofitable, and you should not expect that people would continue to make those investments. As disincentives caused by taking income away from people grow, production will plunge, like nowadays in Venezuela. To be clear, even if the economic agents are convinced that they need to consume all their capital in order to continue to produce at a loss, eventually, they will run out of capital and will need to stop. As Herbert Stein propounded in 1976, “If something cannot go on forever, it will stop.”

It is demeaning for Americans to be told not to eat red meat or drink sugary sodas (because these things are not good for them), and that since the state is paying for their health care, self-righteous politicians are entitled to command them as they see fit. The problem, however, is not that the alternative to free markets is paternalism, or less subtle forms of bondage such as slavery or servitude. The problem is that, unless you move to a totalitarian regime, the absence of profitable opportunities for investment will reduce investments and production. The limits are real and it is impossible to know better than each economic agent his or her conditions (as pointed out by Hayek), as the information about the most economically efficient uses of assets is not even possessed by the economic agents *ex ante*, but is generated by their interactions when they are free to interact.

Even if people are convinced that man-made climate change is a real and present danger, and that eliminating the use of fossil fuels is the correct policy to follow, if there were no ways to make a profit in their economic activities under current levels of technology, production will be disrupted.

The authors explained well the sacrifices in the standard of living necessary to pay for the GND radical environmental policies, and that MMT’s fiscal and monetary tools will not create wealth out of nothing, but are only a way to extract from society the real resources necessary. However, their straight talk does not reveal all the gloom and doom that implementing the GND would entail, because they fail to acknowledge

that people are not pawns on a chessboard, but rather autonomous agents with their own motivations.

A government, like the British and the American governments during WWII, if the public believes in them, may count on the valor of their citizenry to commit all the necessary sacrifices in life, limb, and treasure they did in order to overcome the Axis powers. That still would be limited to what is possible to do with a profit or, *in extremis*, for some time, consuming existing wealth.

It may be acceptable in theory to equate morally the dangers faced by the Greatest Generation to the GND, but still, it is a political gamble. It is preposterous to expect that people will accept similar sacrifices under the pretense of an impending environmental tragedy about which the public is not convinced, and in any case, whose preferred solution would not be the one proposed. Leftist politicians are risking discrediting themselves for that. And the failure of the Carter administration to regiment the American people behind its misguided energy policies should give them pause.

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