

*Full Employment Abandoned: Shifting Sands and Policy Failures*, by William Mitchell and Joan Muysken. Cheltenham, UK, Northampton, MA: Edward Elgar. 2008. Hardcover: ISBN 978 1 85898 507 7, \$130. x, 298 pages.

This thought-provoking book lays the blame for growing global unemployment on policy makers. Indeed, the fashionably modern approach to economics insists that what we observe is not a mistake, but rather is optimal. Hence, orthodoxy only calls for greater market flexibility, less government intrusion, more individual responsibility, and – perhaps – a small role for positive action to promote education, training, and innovation.

Mitchell and Muysken (henceforth, M&M) insist it wasn't always so. This book carefully distinguishes between the "full employment" model that dominated policy-formation after WWII, and the "full employability" approach taken by most governments in the past three or four decades. Each relies on three pillars: economic, redistributive, and collective. In the full employment model, the economic pillar is a commitment to full employment; the redistributive pillar attempts to ameliorate market outcomes; and the collective pillar recognizes and supports intrinsic rights of citizenship. By contrast, the full employability model promotes primacy of the market; hence both economic and redistributive pillars stress and encourage market outcomes. Further, any notion of collective interest is rejected, as full employability stresses individual responsibility, privatized and fee-for-service government, and stakeholders over citizens. Unemployment is due to individual choices given shortcomings, so policy focuses on supply side measures to improve worker characteristics, enhancing "curb appeal" for drive-by employers.

M&M provide insightful analysis of the evolution of the Phillips Curve – from a loosely grounded empirical relation, to a medium run policy menu trading off higher inflation for less unemployment, and to supposed short run deviations from the natural rate due to errors of perception – whether adaptive or rational. M&M argue that Friedman's insertion of expectations overturned the textbook variety of Keynesianism, returning macroeconomics to its neoclassical, pre-Depression, roots. What could be added is that Friedman cleverly reversed causality, from the Keynesian view that excess demand causes inflation to the now dominant claim that inflation reduces aggregate activity below equilibrium. This book demonstrates that neither empirical evidence nor rigorous theory supports the theologically-infused consensus about benefits of low inflation and of the possibility of using monetary policy to get there. Even orthodoxy refers to the supposed relation between low inflation and optimal economic performance as "divine coincidence," about as convincing to non-believers as Immaculate Conception.

And what passes for macroeconomics based on good neoclassical foundations amounts to little more than a string of fallacies of composition. As M&M argue, the government budget stance preferred by orthodoxy is a surplus, which supposedly adds to national saving and finances investment that fuels growth. However, by identity the nongovernment sector must have a deficit of equal magnitude – exactly wiping out that contribution to national saving. Thus it makes more sense for the sovereign government to deficit spend so the nongovernment sector can accumulate net financial assets (claims on government). Actually, that is just about inevitable because the budget stance is largely endogenously determined by economic performance – a tight fiscal stance generates recession, causing the budget deficit to grow. Another closely related fallacy is the claim that if one only tries harder, she will be able to find a job, hence, if all try harder, all will find jobs. When the number of unemployed exceeds the number of job vacancies (which they typically do by a wide margin), then like the ten dogs sent out to find nine hidden bones, at least one will come back empty-handed (or empty-mouthed, as the case may be). The unemployed cannot find jobs that aren't there. This is why Keynes (and M&M) insisted the cause of unemployment cannot be found in labor markets.

M&M attribute involuntary unemployment to insufficient demand, caused by a nongovernment desire to net save exceeding the government's deficit – creating a demand gap and unemployment. This “modern money” view might appear strange but it is actually quite consistent with Keynes's argument that unemployment results only in monetary economies, where chronically insufficient demand results from excessive preference for a special asset, money. The modern money view agrees the problem lies in money, but emphasizes the role of the sovereign state as monopoly issuer. Demand for this currency is driven by the tax obligation imposed, payable in the state's own currency. Unemployment results when the state does not fully satisfy the nongovernment sector's demand, from inception derived from the necessity of paying taxes but also from the desire to net hoard claims on government. Thus, rather than emphasizing liquidity preference and uncertainty, modern money highlights the desire to net save, in the highly liquid form of the sovereign's debt. The conclusion is the same: the key to resolving unemployment is to expand the state's provision of “money,” mostly through increased spending that not only has a multiplier effect, but also satisfies the desire to hoard liquid, sovereign, liabilities.

State currency is ultimately valuable only if it is not made too easily available. Friedman's helicopter money, as well as money that “grows on trees” would be worth only the effort required to gather it. Keynes's argument that if government could not formulate a better scheme, unemployment could be eliminated by paying workers to bury money, with others employing themselves by digging it up, isn't a silly remark. The key is to ensure that effort is required to obtain the state's currency to maintain its value. This is why M&M advocate the “job guarantee” to eliminate unemployment. While helicopter drops, welfare, or even “pump-priming” are likely to generate inflation long before full employment is achieved, a universal job creation program funded by national government and offering a job at a fixed, basic wage would ensure an available job for all without causing inflation. M&M show how this would work and why it stabilizes wages and prices even with full employment.

In short, this is a great book. What is particularly useful is the frequent recourse to data analysis and careful study of real world labor “markets” across OECD (Organization for Economic Co-operation and Development) nations. The evidence presented against orthodox theory and policy is well-chosen and clearly presented. The discussion of alternative theory based on the modern money approach is enhanced by refutation of the justifications for full employability pursued in most nations. Finally, the ethical stance taken in favor of human rights, many of which cannot be protected without a full employment economy, is a refreshing antidote to the usual economic claims of “value-free” theory, an oxymoron if ever there was one.

L. Randall Wray  
University of Missouri – Kansas City

*Income and Wealth*, by Alan Reynolds. Westport, Connecticut: Greenwood Press. 2006. Hardcover: ISBN 0313336881, \$55.00. 231 pages.

During recent election years one of the hotter issues has been that of the distribution of income. The mantras of “the rich are getting richer” and “the gap between poor and rich is widening” are repeated frequently and with rising intensity. Proposals are offered and debated regarding the inequality of income's distribution. Reynolds' book is a challenge to the integrity of both sides participating in these sometimes rancorous debates. Written in the spirit of Darrell Huff's classic *How to Lie with Statistics*, Reynolds does well in making clear that all too