REVIEW OF: FULL EMPLOYMENT ABANDONED: Shifting Sands and Policy Failures, by William Mitchell and Joan Muysken
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This thought-provoking book lays the blame for pervasive, persistent, and growing unemployment around the globe on policy makers and their coterie of apologetic theorists who explain away errors. Indeed, it is worse than that, for the fashionably modern approach to economics insists that what we observe is neither a mistake nor involuntary unemployment, but rather an optimal outcome achieved by rational agents doing the best they can given endowments and other constraints. Hence, orthodoxy only calls for policy to help relax the constraints: greater market flexibility, less government intrusion, more individual responsibility, and—perhaps—a small role for positive action by government to promote education, training, and innovation.

Mitchell and Muysken (henceforth, M&M) insist that it wasn’t always like this. During the Great Depression and the military build-up of World War II (and, following that, of the “Cold War”), many governments sought, and learned how to achieve, an approximation to full employment—the best way to fight Bolshevikism through rising living standards and falling poverty rates that are virtually guaranteed to follow on from maintenance of a full employment economy. One of the great contributions of this book is the carefully drawn distinction between the “full employment” model that dominated policy-formation from WWII until the early 1970s, 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 basis of the economic pillar is a commitment to full employment; the redistributive pillar attempts to ameliorate market outcomes; and the collective pillar recognizes and supports the intrinsic rights of citizenship. By contrast, the full employability model is based on belief in the primacy of the market; hence both the 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 to the extent that policy can do anything, it focuses on supply side measures to improve and reform worker characteristics to enhance “curb appeal” for drive-by employers.

M&M provide an 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 effectively 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 causes deviations of aggregate activity below equilibrium. Thus, mainstream economics now insists that the best way to keep the economy at full employment with stable growth is to target inflation. One of the great things about this book is that it demonstrates that neither
empirical evidence nor rigorous theory can be used to support what amounts to nothing more than a theologically-infused consensus about the benefits of low inflation and of the possibility of using monetary policy to get there. Even orthodox economists refer to the supposed relation between low inflation and optimal economic performance as “divine coincidence”, about as convincing to non-believers as theories of Immaculate Conception.

And what passes for macroeconomic theory 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 thereby finances investment that fuels growth. However, by identity this means that the nongovernment sector must have a deficit of equal magnitude—exactly wiping out that contribution to national saving. Any reasonable approach would have to conclude that it makes more sense for the sovereign government to deficit spend so that 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 of composition 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. As M&M insist, when the number of unemployed exceeds the number of job vacancies (which they do by a wide margin in all countries today), 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 that the cause of unemployment cannot be found in the labor market.

M&M attribute involuntary unemployment to insufficient demand, which is caused by a nongovernment desire to net save that is higher than the government’s planned fiscal stance. A tight fiscal stance means that the government’s provision of currency and interest-paying debt is insufficient so that nongovernment planned saving in the form of government liabilities is excessive, opening up a demand gap and causing unemployment. This “modern money” view might at first glance appear a bit strange but it is actually quite consistent with Keynes’s argument that unemployment results only in monetary economies, in which chronically insufficient demand becomes possible due to excessive preference for a special asset, money. As M&M explain, the modern money view agrees that the problem lies in money, but emphasizes the role of the sovereign state as the monopoly issuer. The 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, the modern money approach highlights the desire to net save, in the highly liquid form of the sovereign’s own 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 on aggregate demand, but also satisfies the desire to hoard liquid, sovereign, liabilities.
The problem is that the state’s 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, should not be seen as some 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” (JG, or employer of last resort) approach to eliminating 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 the national government and offering a job at a fixed, basic wage would ensure an available job for all without causing inflation. Space constraints do not permit a detailed explication here, but M&M show how such a program would work and why it would actually stabilize 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 nations. The evidence presented to make the case 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 economistic claims of “value-free” theory, an oxymoron if ever there was one.