

Michell, Jo

Book Review

Book review: Mitchell, William, L. Randall Wray and Martin Watts (2019): *Macroeconomics*, London, UK (573 pages, Red Globe Press, softcover, ISBN 978-1-137-61066-9)

European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Michell, Jo (2019) : Book review: Mitchell, William, L. Randall Wray and Martin Watts (2019): *Macroeconomics*, London, UK (573 pages, Red Globe Press, softcover, ISBN 978-1-137-61066-9), *European Journal of Economics and Economic Policies: Intervention (EJEEP)*, ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 16, Iss. 3, pp. 431-435, <https://doi.org/10.4337/ejeep.2019.03.11>

This Version is available at:

<https://hdl.handle.net/10419/277462>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Book review

Mitchell, William, L. Randall Wray and Martin Watts (2019):
Macroeconomics, London, UK (573 pages, Red Globe Press, softcover,
ISBN 978-1-137-61066-9)

Jo Michell
University of the West of England, Bristol, UK

This new volume by three leading scholars of Modern Monetary Theory (MMT) is something of a rarity: an eagerly anticipated economics textbook. Already, Bloomberg reports, the book is into its second print run, selling out only two months after publication. This enthusiasm is a result of the growing popularity of MMT: the ideas developed since the 1990s by authors at institutions such as UMKC in Missouri, the University of Newcastle in Australia and the Levy Institute in the state of New York. These authors have had notable success in popularising their ideas among a wider section of the non-academic public than usually takes an interest in the dry topics of inflation and fiscal policy, not least through the use of blogs and social media.

The volume's cover promises that

this compelling argument contrasts the MMT emphasis on the spending and job creation powers of currency-issuing governments, with the mainstream insistence that government must curb spending.

The table of contents lists a range of topics from methodology, history of economic thought and economic history to national accounting, money and banking, and contemporary debates. The opening chapter contrasts Lionel Robbins's famous definition of economics with the authors' 'heterodox definition of economics: the study of social creation and social distribution of society's resources' (Mitchell et al. 2019: 7), and explains that 'because [MMT] places an emphasis on monetary arrangements ... it adds new insights that were not previously available within the heterodox tradition' (ibid.: 13).

These new insights are briefly enumerated, and will be familiar to anyone who has followed discussions of MMT: a country with a floating exchange rate that issues its own currency can never become technically insolvent; spending logically precedes taxation and/or borrowing for a sovereign government; and the government 'can always afford to purchase anything that is available for sale in its own currency' (ibid.: 16). The chapter closes with a short discussion of the policy implications of these insights, concluding in favour of the implementation of a job guarantee programme to respond to unemployment and as an inflation control mechanism. The remainder of the introductory section includes a chapter on scope and method, some brief notes on Marx's modes of production, a pair of chapters on basic national accounting and labour market indicators, and chapters on sectoral balances, basic algebra and the 'use of framing and language in macroeconomics' (ibid.: 118).

This eclectic approach to both the choice and sequencing of topics continues throughout the book. The material covered includes some history of economic thought (Keynes vs 'the Classics', Keynesians and Monetarists); mainstream macro (New Classical and New

Keynesian economics, the New Consensus); a selection of topics in heterodox macroeconomics (more Keynes, Godley, Minsky and Kalecki); and the core MMT topics of neo-Chartalism, functional finance and the job guarantee.

The exposition of Keynes and the Classics, plus antecedents such as Marx, is nicely done, although brevity results in simplification. The presentation of Keynes's (1936) *General Theory* is clear and accessible for the most part (although, given the range of interpretations of *The General Theory*, it will inevitably not satisfy all readers). The inclusion of post-Keynesian macro topics is welcome in an introductory text of this type. The book makes good use of simple diagrams while algebraic exposition is kept as simple as possible. The chapter explaining the algebraic rules needed to understand the book is a nice touch, and is representative of the lack of elitism displayed throughout: an effort has clearly been made to make the book accessible to a wide audience. But, despite these positives, there are reasons to be cautious about what students may take away from studying this volume.

Taken collectively, Minsky's financial instability hypothesis (FIH) and two-price theory, Keynes's AS–AD model and theory of liquidity preference, Kalecki's profit equations, and horizontalist and Chartalist monetary theory have some well-known areas of tension. Some are noted – for example in a discussion on whether Keynes should have accepted the Classical labour demand curve so lightly – but, overall, little support is given to the student first confronted by the big picture. Such a student, upon looking up 'aggregate supply' in the index, will find herself moving from a diagram of Keynes's upward-curving Z function to an L-shaped aggregate supply function based on mark-up pricing, without much assistance on how to fit the jigsaw pieces together, or how to reconcile these with the AS–AD analysis found in standard textbooks.

The potential for confusion is heightened by the sequencing of the material. The introductory chapters listed above are followed by a pair of chapters covering sovereign money and private bank money respectively, before moving on to an exposition of Keynes's *General Theory* and discussions of AS–AD analysis, inflation and the merits of the job guarantee. These are followed by a section titled 'Economic policy in an open economy', in which the first four chapters present an exposition of closed economy 'functional finance', while only the fifth and final chapter briefly introduces open-economy topics such as the balance of payments and exchange rates. The next section, 'Economic instability', contains two chapters that, in the space of fewer than 50 pages, cover the multiplier–accelerator model, cash flow discounting, Keynes's marginal efficiency of capital, Minsky's two-price model, Kalecki's profit equations, Marx's crisis theory, the 'monopoly capital' and stagnationist ideas of Baran, Sweezy and Steindl, and Minsky's FIH. The next section, 'History of macroeconomic thought', contains a generic Heilbroner-style history of economic thought, IS–LM, a brief summary of New Classical and New Keynesian macro, and a section on 'modern heterodox economics' that takes in Joan Robinson, Pasinetti, Sraffa, Clower and Paul Davidson.

This selection and weighting of topics reflects the broader MMT project. The ideas that comprise MMT are in large part a synthesis: Lerner's functional finance, Godley's sectoral balances and Minsky's FIH are core components. The novel theoretical contribution of MMT lies in the neo-Chartalist analysis of Mosler (1994) and Wray (1998; 2012), which illuminates the accounting relationships between the treasury, the central bank and the private banking system (see Lavoie 2019). To this mix, another element is added in the form of advocacy for the implementation of national job guarantee (JG) programmes; to the outside observer this might seem an odd component of monetary macro analysis, but MMT authors are clear:

The reality is that the JG is a central aspect of MMT because it is much more than a job creation program. It is an essential aspect of the MMT framework for full employment and price stability. (Mitchell 2011)

The eclecticism of this mix, in conjunction with a campaigning tendency among both MMT authors and their followers, makes it difficult to characterise MMT: is it a school of economic thought, a group of authors or a political project?

This is where deeper concerns about the book begin to surface: the reader has the sense that, rather than providing students with the tools they need to understand key debates about macroeconomics, the aim is instead to convince the reader of MMT's theoretical and policy conclusions. Exposition of these topics is placed prominently and covered at length, while much of the 'standard' heterodox theory is relegated to a pair of chapters towards the end of the book. A reader with some knowledge of the debates surrounding MMT will note an apparent unwillingness to acknowledge unresolved issues. On the neo-Chartalist claim that 'taxes drive money', for example, the reader finds that:

We can conclude that taxes drive money. The government first creates a money of account (such as the dollar), and then imposes tax obligations in that national money of account. *In all modern nations this is sufficient* to ensure that most debts, assets and prices, will be denominated in the national money of account. (Mitchell et al. 2019: 137, emphasis added)

Specific examples are provided: 'Currency-issuing nations ... such as Turkey, and Argentina after it abandoned the currency board, ... created a currency for domestic use' (ibid.: 325); but the inconvenient truth is that both the Argentine real-estate market and a substantial proportion of Turkish private-sector debt are denominated in dollars. Moreover, the claim that 'taxes drive money' is not uncontroversial: critics have noted that the relationship between the money-issuing private banking system and the state is more complex than the 'parable' above suggests (for example Mehrling 2000: 398; Parguez/Seccareccia 2000). This is not just a point of theoretical diversion: Mehrling has argued that 'the fact that the modern state has the power to tax does not mean that it faces no budget constraint' (Mehrling 2000: 401). Yet students find themselves faced with a textbook claiming, '[t]hese statements are not controversial. They are matters of fact' (Mitchell et al. 2019: 318)

Controversy does arise, however, from the reliance of important MMT propositions on the practice of consolidating the treasury and central bank into a single institutional entity. This practice, Lavoie (2013: 23) argues, 'does not describe reality and it twists standard terminology'. MMT scholars argue that consolidation is an appropriate expositional device for a general audience, while more institutionally accurate descriptions are to be found in scholarly works. *Macroeconomics* takes the approach of presenting separate balance sheets for the treasury and central bank, while stating that

for simplicity and to reflect the notion of the treasury and central bank being consolidated into one entity, we assume that the central bank can purchase treasury debt on the primary market. (Mitchell et al. 2019: 321)

In focusing on the immediate balance-sheet implications of money-financed government spending activity, MMT downplays the implications of subsequent factors such as funding through taxation or bond issuance, and other constraints such as exchange-rate movements or foreign-exchange shortages. This approach is reflected in the structure and content of *Macroeconomics*; as a result, readers are likely to come away with an uneven view of the potential trade-offs and constraints associated with the use of fiscal policy.

If space permitted, similar doubts could be raised about other issues including the job guarantee proposal (which is not without its heterodox critics, see for example King 2001; Sawyer 2003), the limited and selective treatment of open-economy issues, and the presentation of mainstream economics. The last of these is a complex issue: a case can be made that standard New Keynesian macroeconomics bears at least partial responsibility

for austerity (Mason/Jayadev 2013; Michell 2016) – but this view is contested by Simon Wren-Lewis, one of the most articulate critics of post-crisis austerity in the UK (Wren-Lewis 2012; 2016). *Macroeconomics* paints a picture of a clear dichotomy between the mainstream (austerity, shrinking the state, fiscal consolidation) and MMT (economic expansion, full employment, fiscal stimulus); readers with an understanding of these debates may question whether students encountering them for the first time would benefit from a more nuanced discussion.

What is indisputable is that macroeconomics is in turmoil: a decade of stagnant aggregate demand has laid bare the deficiencies of the pre-crisis conventional wisdom. Standard textbooks reflect these deficiencies. There is a clear need for an accessible textbook account of heterodox macroeconomics, suitable for undergraduate study. Does *Macroeconomics* fill this gap?

The exposition of core post-Keynesian theory and the ideas of foundational heterodox figures, and the inclusion of detailed national and sectoral accounting are positives. Against these must be weighed the problematic sequencing and selection of material, and the prominence given to controversial MMT claims, relative to other heterodox topics. How this balance is judged by academics considering adopting *Macroeconomics* as a course text will likely be determined by their pre-existing disposition towards MMT. Adherents will be enthusiastic; others may be more cautious, and will perhaps consider the use of selected sections alongside other sources (such as Snowden/Vane 2005; Harvey 2015; Dullien et al. 2018). Whatever one's inclination, given that MMT is now undoubtedly 'part of the conversation' (Fulwiler et al. 2019), a reference text by key scholars is a useful addition to the academic library.

REFERENCES

- Dullien, S., Goodwin, N., Harris, J.M., Nelson, J.A., Roach, B., Torras, M. (2018): *Macroeconomics in Context: A European Perspective*, London: Routledge.
- Fulwiler, S., Grey, R., Tankus, N. (2019): An MMT response on what causes inflation, FT Alphaville blog, URL: <https://ftalphaville.ft.com/2019/03/01/1551434402000/An-MMT-response-on-what-causes-inflation/>.
- Harvey, J.T. (2015): *Contending Perspectives in Economics: A Guide to Contemporary Schools of Thought*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
- Keynes, J.M. (1936): *The General Theory of Employment, Interest and Money*, London: Macmillan.
- King, J.E. (2001): The last resort? Some critical reflections on ELR, in: *Journal of Economic and Social Policy*, 5(2), 72–76.
- Lavoie, M. (2013): The monetary and fiscal nexus of neo-chartalism: a friendly critique, in: *Journal of Economic Issues*, 47(1), 1–32.
- Lavoie, M. (2019): Advances in the post-Keynesian analysis of money and finance, in: Arestis, P., Sawyer, M. (eds), *Frontiers of Heterodox Macroeconomics*, London: Palgrave Macmillan, forthcoming.
- Mason, J.W., Jayadev, A. (2013): Strange defeat: how the New Consensus in macroeconomics let austerity lose all the intellectual battles and still win the war, in: *Economic and Political Weekly*, xlvi(32), 102–111.
- Mehrling, P. (2000): Modern money: fiat or credit?, in: *Journal of Post Keynesian Economics*, 22(3), 397–406.
- Michell, J. (2016): Economics, ideology and Trump, Blog, URL: <https://criticalfinance.org/2016/11/15/economics-ideology-and-trump/>.
- Mitchell, W. (2011): MMT is biased towards anti-crony, Blog, URL: <http://bilbo.economicoutlook.net/blog/?p=17528>.
- Mitchell, W., Wray, L.R., Watts, M. (2019): *Macroeconomics*, London: Red Globe Press.

- Mosler, W. (1994): *Soft currency economics*, West Palm Beach, Florida: Finance III, URL: <https://econpapers.repec.org/paper/wpawuwpm/9502007.htm>.
- Parguez, A., Seccareccia, M. (2000): The credit theory of money: the monetary circuit approach, in: Smithin, J. (ed.), *What is Money?*, London and New York: Routledge, 101–123.
- Sawyer, M. (2003): Employer of last resort: could it deliver full employment and price stability?, in: *Journal of Economic Issues*, 37(4), 881–907.
- Snowdon, B., Vane, H.R. (2005): *Modern Macroeconomics: Its Origins, Development and Current State*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
- Wray, L.R. (1998): *Understanding Modern Money: The Key to Full Employment and Price Stability*, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
- Wray, L.R. (2012): A meme for money, Working Paper 736, Levy Economics Institute of Bard College.
- Wren-Lewis, S. (2012): Mistakes and ideology in macroeconomics, Blog, URL: <https://mainlymacro.blogspot.com/2012/01/mistakes-and-ideology-in-macroeconomics.html>.
- Wren-Lewis, S. (2016): Economics and ideology, Blog, URL: <https://mainlymacro.blogspot.com/2016/11/macroeconomics-and-ideology.html>.