Book Review

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Making Money Work for Us
by: R. Wray
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In an earlier book edited by Fullbrook and Morgan (2020), Wray offered a primer on MMT, stating that a currency-issuing government faces real resource constraints but not financing constraints, that spending is not dependent on taxes and borrowing, and that budget deficits crowd-in private investment. He mentioned that MMT does not justify deficit monetisation and that excessive spending can cause inflation.

Nevertheless, the volume contained several critiques of MMT: Bonizzi, Kaltenbrunner, and Michell stated that MMT prescriptions for monetary sovereignty do not apply to developing countries, as did Lavoie and Rochon in their articles. For the Eurozone, Andresen found MMT's prescription of reverting to national currencies insufficient. Mayhew criticised MMT's simplistic solutions and its downplaying of debt. Similarly, Colander critiqued MMT for downplaying the rules on budget balancing and the limits on debt. Sawyer found MMT's prescription of job guarantee programs problematic. Finally, Murphy criticised MMT for not deeming taxes necessary for redistribution, and Palley critiqued MMT for debt monetisation.

Notwithstanding these important critiques, Wray (2022) has returned with a book that is situated between a primer and an academic text, intended for readers already familiar with the 'basics of MMT' (p.9). This complements Kelton's (2020) arguments that the economy faces real, not financial constraints, and that taxes and borrowing are not needed for a currency-issuing government. She challenged the crowding-out story, upheld MMT's prescription of a federal job guarantee, and generally shifted the focus away from deficits. In my own teaching, I have assigned Kelton (2020) for a book review project,[1] and I intend to add Wray (2022). In this regard, I highlight the salient points made by Wray.

In the introduction, Wray emphasises that MMT challenges the orthodox views by highlighting that a monetary sovereign government cannot be insolvent, that taxes and borrowing are not required for government spending, that real constraints pertain to resources and inflation, and that when unemployed and under-utilised resources are available, finances can be readily found to employ them (pp.2–5). In Chapter 1, he highlights that money, whether issued by the state or by banks, is the liability of the issuer (p.13). He reiterates in the next chapter that currency holders are creditors, with the currency-issuing government as the debtor (p.32). Thus, he adds that when taxes are paid, both taxpayers and governments are redeemed, as the former no longer owes taxes and the government is no longer the debtor (p.18, p.32). Overall, he highlights that the government is not financially constrained even facing real resource constraints, and that currency is the debt of the issuer, which is redeemed when taxes are paid.

In Chapter 2, Wray notes that whereas a central bank creates reserves and currency as money, private banks create deposits as money through the 'loan making process' (p.33, p.47); and that government spending precedes taxes, as taxpayers cannot pay taxes until the government spends currency (p.32). Moreover, the central bank does not need tax revenues, as it simply uses keystrokes to credit reserve accounts (p.39). Similarly, private banks do not need deposits to issue loans, as they simply credit the accounts of borrowers (p.49). Finally, he states that the functional impact of monetary policy (when the central bank sells treasury bonds) and fiscal policy (when the treasury sells bonds) is the same, as both 'drain reserves from banks' (p.54). He reiterates that banks must have reserves before they can pay for bonds, that the government must issue reserves before it can sell bonds, and that therefore, the government 'does not need to borrow at all' (pp.54–55). Overall, like Kelton (2020), he emphasises that taxes, borrowing, and deposits do not precede the creation of state and bank money, as they are simply brought into existence through keystrokes.

In Chapter 3, Wray highlights that government spending is not determined by the government but by the sellers of resources to the government when they decide how much currency to demand to pay for taxes, to use as medium of exchange, and for a store of value (p.61). Thus, he states that the purpose of taxes is to 'move resources to the public sector' and that the size of the budget deficit is determined by the private sector demand for currency (pp.62–64). He adds that even when government spending is greater than tax obligations, prices will not increase and the currency will not lose value if the price paid by the government for the real resources is fixed (p.62). On the other hand, even when government spending is less than tax obligations, inflation and depreciation will ensue if the government increases the price paid for the real resources (p.63). Finally, he cautions about 'too much money creation' by the private sector, as it incentivises risky debt for speculative purposes and therefore leads to a financial crisis (p.69). Overall, Wray argues that the purpose of taxes is not to provide revenues but to shift resources to the public sector, that inflation does not arise from government spending unless the government bids higher prices to take resources from the private sector, and that the issue of excessive money creation is not inflation but a financial crisis, as the private sector uses the created money to engage in speculation activities.

In Chapter 4, Wray discusses the Soddy principle whereby debt grows faster than economic growth, so that interest rates greater than growth rates increase the concentration of wealth (p.80). Thus, from Babylonia to Rome, the balance of power was restored via debt cancellation (p.80, p.86). He expresses concern that in the absence of debt cancellation, this balance of power is skewed in contemporary times when 'global financial elites' amass too much power (p.86). In this context, he adds that pegged exchange rates serve the interests of elite groups, as the nation becomes a colony when it loses control of fiscal and monetary policy and becomes susceptible to exchange rate crises and bankruptcy (p.89, p.90). Moreover, such nations are pressured to maintain sufficient net exports (by lowering domestic wages, imports, and via austerity measures) just to maintain the exchange rate and to service foreign debt (p.90, p.151). Finally, he is critical of both the financialisation of the economy that stokes asset bubbles and austerity measures that reduce government spending (p.92, p.93).

In Chapter 5, Wray critiques several ideas that have been encapsulated in the principles of economics courses. For instance, he argues that choices are influenced less by rationality and more by evolution and that greater choice inhibits decision making (p.97). He mentions the fallacy of composition that extrapolating from individual behaviour to the aggregate leads to erroneous conclusions (pp.98–99). In this context, he states that while individual spending is constrained by income, spending at the aggregate level determines income (p.98). Based on this understanding, he critiques the idea of trade-offs, stating that instead of creating a binary choice between two options, we can spend on both at the aggregate level (p.99). Thus, he challenges the ECON 101 lesson on the crowding out effect that 'more government spending means less private spending' by underscoring the erroneous underlying assumption that the private sector would operate at full employment in the absence of government spending (pp.99–100). Moreover, he states that instead of increasing interest rates, deficits decreased them when government spending is undertaken without selling bonds (p.109). This runs counter to the ECON 101 idea on higher interest rates via the crowding-out effect. Indeed, he mentions earlier in the book that the Bank of Japan has kept overnight interest rates close to zero despite the 250 percent government debt to GDP ratio and the 'biggest sustained budget deficits in the world' (p.45). Later in the book, he points out the recession of 2009, where despite the increase in debt, both inflation and interest rates remained low (p.143). Additionally, he emphasises that interest rates are not determined by markets but by central bank policy (p.148), which further provides support against the crowding out story.

Wray challenges that government spending is inefficient by highlighting the government's role in providing infrastructure, education, healthcare, and regulation, in mobilising unemployed resources, and in addressing pandemics and climate change (p.100, p.101). Among other ECON 101 lessons, he critiques that resources are scarce, wants are unlimited, and that there is 'no such thing as a free lunch' (p.104). He argues that human labour based on 'imagination and innovation' is not scarce and that such human capability can be expanded through education and training (p.108). He continues that wants are manufactured by private advertising and that many wants are for public goods that cannot be provided by private markets (pp.108–109). Moreover, he states that hiring unemployed resources to build capacity provides a free lunch, which allows more employment, income, and output both today and in the future (p.111, p.112). He adds that such capacity building must be led by the public sector, as private firms are disincentivised to invest in 'labour productivity enhancing capital' in times of slower growth and higher unemployment (p.113).

Wray objects that government spending to combat unemployment will cause inflation or alternatively that a pool of unemployed workers is required to prevent wages and prices from rising (p.113, p.115). He notes that since the financial crisis of 2008, many economists have found the Phillips Curve not supported by the data (p.115). However, he adds that high aggregate demand, whether from government or private spending, can lead to inflation but that this depends on various factors including competition from cheap labour abroad, 'strength of labour unions', and 'collusion among producers' (p.115, p.117). Finally, he criticises the ECON 101 lesson that inflation is a monetary phenomenon or that it is due to 'high aggregate demand' by alluding to supply side factors including oil price shocks manufactured by OPEC and the disruption of supply chains with the COVID pandemic (pp.116–117). Thus, he rejects austerity measures to fight 'supply-side induced inflation' (p.116).

In Chapter 6, he states that an alternative framework is required that does not rest on markets, individual choice, and utility maximisation, and is instead based on public interest and the positive role of the government (pp.120–121). Based on this framework, he builds a narrative of MMT in a way that engages moral issues akin to the strategy adopted by the orthodoxy (pp.122–123). Thus, he frames taxes as reducing the competition between government and private use of resources and therefore as instrumental to combat inflation (p.124). He also frames taxes as preventing excessive inter-generational wealth concentration through unearned inheritances (p.125). He adds that progressive taxes combat inflation by stemming discretionary spending on conspicuous consumption and curbing the influence of the rich, which in turn can threaten democracy (pp.128–129). Moreover, through capital controls and capital gains taxes, the value of the currency can be maintained, and speculation can be discouraged (p.129).

Wray frames government deficits as private saving, government debt as financial wealth, and austerity measures as destroying that wealth (pp.130–132). Earlier in the book, he graphically illustrates that the government sector deficit is paralleled by the non-government sector surplus, so that private saving requires a government deficit (pp.82–83). Finally, he highlights that happiness is based on relative income and that excessive inequality leads to 'hoarding money' instead of production and employment (pp.135–136). Overall, he projects the MMT narrative by framing taxes as combating inflation, maintaining currency value in face of the rich pulling out of domestic currency, countering the threat to democracy, and the government deficit and debt as private saving and financial wealth.

In Chapter 7, he notes that while MMT was initially panned in the media, it was embraced by governments as they dealt with the COVID pandemic (p.8, p.138). He also reiterates that instead of focusing on budget deficits, the focus should be on the 'demand for resources that might cause inflation', and on building capacity along 'environmentally sustainable paths' (p.141). He shifts the focus from financial to political constraints, stating that the latter is always relaxed when it comes to tax cuts, corporate subsidies, and the military budget (p.145, p.148). Additionally, he reiterates that spending cuts today do not facilitate more future spending, as production capacity based on unemployed resources is foregone (p.145). On the billionaire wealth tax, he notes that the proposed rates are too low to change the 'consumption patterns' of the rich (p.146). Thus, he argues that the top 1% should be taxed much higher than the amount required to spend on targeting low-income households (p.146). Additionally, he is critical of tax cuts that redistribute income to the wealthy and rejects the idea that tax cuts pay for themselves through 'trickle-down economics' (pp.148–149).

Wray notes that the billionaire wealth tax or the Green New Deal do not directly emerge from MMT, which instead directly offers three policies: floating exchange rates, interest rate targeting, and job guarantee programs (p.148, p.149). On interest rate targeting, MMT proposes (and following Keynes) near zero overnight interest rates to eliminate interest for the rentier class and to benefit borrowers with low income, and to facilitate infrastructure projects (p.152). MMT also proposes eliminating government bonds since it provides income to the wealthy, and to dispel the myth that borrowing is required to finance spending (pp.152–153). While this ostensibly contravenes the idea that government debt is private financial wealth, Wray states that bond ownership should be allowed for pension funds and college savings to serve the 'public interest' (p.153). On the job guarantee program, he states that the government can act as the 'employer of last resort', establish an 'effective minimum wage' and working conditions that would set the standard for all employers (p.154, p.155). Finally, he critiques "putting simple ideas into mathematically complex models" in economics as 'intentional obfuscation' and highlights that 'stories win the debates, not math' (p.159).

To recapitulate, Wray presents a comprehensive exposition of MMT but does not directly engage in addressing its criticisms. This is perhaps because he believes that a strategy that uses the orthodox worldview as a frame of reference for engagement and argument is bound to fail (p.120). It seems that he applies this orientation towards post-Keynesian critics of MMT as well. Thus, his focus remains on delineating the salient points of MMT, e.g., that the government is not financially constrained, and that taxes and borrowing are not required for government spending. He adds that the government cannot run out of keystroke credits to support spending although it faces real resource constraints. Therefore, taxes are imposed to shift resources to the public sector and to contain inflationary pressures.

Finally, Wray raises several critiques of the principles and lessons of ECON 101, which echo Komlos (2019): choices are not rational; choice inhibits decision making; wants are manufactured by advertising; government spending does not crowd out private spending; free lunches exist when unemployed resources are hired to build capacity; unemployment is not required to combat inflation; the government plays a positive role in providing infrastructure, education, and healthcare, and in addressing pandemics and climate change; high wealth taxes are justified, and that excessive use of mathematics in economics obfuscates. Overall, even though the book does not engage with post-Keynesian critiques of MMT, it can be used to broach MMT ideas on money and policy. The main MMT ideas encapsulated in both Kelton (2020) and Wray (2022) are the same, through the presentation is different. While Kelton (2020) structures her book on dispelling six myths around deficits and their supposed impact, Wray (2022) focuses considerably more on the nature of money before delving into policy issues. This focus on issues pertaining to money was missing in Kelton (2020). Thus, Wray (2022) is an excellent complement to Kelton (2020) to introduce students to MMT, as it adds a grounding on issues pertaining to money to complement the dispelling of deficit myths.

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Notes

1 I designed a new course at my university titled humanistic economics where I use Komlos (2019) as the primary textbook because it gels best with standard ECON 101 textbooks as a critical commentary on what students have been exposed to. However, in a bid to introduce students to pluralism in economics, I assigned eight books for book review projects. Each student group picked one book. Moreover, instead of asking them to write a report where they could have drawn from online sources, I asked them to do a ten-minute class presentation where I gauged their understanding of the books they had read. I was pleasantly surprised that the students got quite involved in the books in contrast to their usual response to standard textbook theory. It was as if they had been waiting for such perspectives in economics. These books included Kelton (2020), Krugman (2020), Blanchard and Rodrik (2021), Piketty (2021), Raworth (2017), Osberg (2018), Yueh (2018) and Fischer et al. (2018).