Book Review

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A Great Leap Forward – Heterodox Economic Policy for the 21st Century
by: Randall Wray
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A Great Leap Forward is a foundational building stone for a non-neoclassical economics. It addresses academics and students, as well as policy makers looking for foundations to build economic policy. The book's four parts are suffused with macroeconomic foundations, power, the monetary system, microeconomics, and the problems of the economy. Wray turns the neoclassical approach, with its microeconomic foundations of macroeconomics, on its head. The result is a very readable summary (mostly) of Wray's academic work over the last three decades.

Part one deals with financialisation. Wray recognises that "Wall Street has fully regained control of the economy" (p.2). He is sure that another crash is inevitable. In order not to waste the next crash he sets out to explain what's wrong with the economic system. At the core lies free-market ideology, with its idea that markets are self-regulating. In the US, this was integral to George W. Bush's envisioned 'ownership society'. Property, writes Wray, is the origin of society and the reason for government. The government promotes the interests of owners, who presumably allocate their resources efficiently. It would also protect them from non-owners' political demands. In the end, the 30-year mortgage with government guarantees "morphed into a speculation-fueling, debt-pushing casino that buried homeowners in a mountain of liabilities" (p.10).

Mainstream economists never saw it coming, but others did. The key was an understanding of firms that were led by selfish individuals aiming at personal enrichment rather than generating long-term returns. Lender fraud was rampant, with the FBI already warning about it in 2004. When the real estate bubble burst, the bail-out of Wall Street displaced fiscal policy. Instead of stabilising incomes of citizens, the US Government stabilised asset prices and the banking system. It thus validated the bad decisions that were taken by banks whereas millions of US citizens were punished by unemployment. This led to millions of evictions down the road and the further polarisation of society. Wray discusses the role played by managed money, investment banks, deregulation, and the rise of fraud prior to the Global Financial Crisis. He notes that Wall Street uses workers' pension funds to bid up the price of gasoline and bread. The logical conclusion would be to downsize finance after the next crash. After that, a permanent job guarantee

(JG) would help create full employment. The government must also bring about decent wages since the private sector would always engage in a race to the bottom.

Part two is about the road to social progress, and discusses aging, social security, pensions, and the provision of health care. Wray stresses that in order to afford adequate pensions we need to produce "more real stuff in the future" (p.45). There would be no problem with funding; as a federal government program, we can always afford it financially. The key issue is whether the goods and services exist to stabilise prices. With respect to health care, Wray favours educating the public about food, banning smoking in public, regulating tobacco more heavily, and promoting more exercise. He explains why a single payer health care system would be better than Obamacare.

Part three is titled 'Tackling poverty and inequality. The road to full employment and price stability'. Wray admits that we all love Robin Hood but the idea to link welfare and other policies that benefit the 99% to tax hikes means that they will not happen. He reminds us that Wall Street bail-outs are not financed by tax hikes; rather, the federal government and the Fed create new money, with an increase in public debt if the Treasury spends it. Wray argues that we should democratise work by making use of worker's co-ops and a JG. This would do more to help the 99% than higher taxes on the rich to use as 'pay fors'. Wray criticises universal basic income at some length, stating that work should not be a fetish but something people actually like to do. He then discusses how to provide jobs for all at living wages. If that leads to excess inflation, the government would have at its disposal all the usual policy tools: higher taxes, lower spending, and tighter monetary policy. It could also use wage and price controls, rationing of key resources, and postponed consumption (higher pensions instead of higher salaries). Wray then discusses the critiques of the JG. He thinks that creating 15 million JG jobs at $15 per hour would be enough to create full employment (in the pre-pandemic US), crowding in some 4 million private sector jobs. The public deficit would rise by 1.5%, to give some idea of the size of the JG program. Wray reminds us that "a JG program cannot be expected to solve all social and economic problems."

The last part is 'Money and the public purpose' and contains a discussion of modern monetary theory (MMT) and how to use it to provide solutions to our problems. Wray argues that the financial sector should be downsized because it is too unproductive, while taking approximately 40% of corporate profits due to its power. We should prop up the real economy and let the financial sector adjust instead of doing the opposite: bailing out the banks and letting people suffer unemployment, with the resulting additional lack of demand resulting in business failures. 'Finance should always serve the economy', Wray states. He points out that the federal government can always spend money if it wants to. Framing the economy as a monetary circuit, Wray discusses bank money creation using Schumpeter's 'ephor' ('one who oversees') frame. Bankers create money when they lend to suitable creditors. So, finding sufficient finance would not be a problem, "we can keystroke our way to full employment and raising living standards". That does not mean that there won't be any problems, like funding more projects than we have resources for or providing finance for the wrong projects.

Wray then discusses the sovereign currency issuer, i.e., a government using a non-convertible currency with no link to other currencies or gold or such. According to MMT, government first imposes tax liabilities to create demand for its currency, then spends, and then takes back its own money when it receives it in payment of taxes. The government uses its currency to purchase resources pursuing the public purpose. Until it hits resource constraints, it can always spend more without increasing taxes. Wray then explains the sectoral balance approach which highlights that in the world economy public deficits are private surpluses. He discusses the right size of government and introduces the Wray curve, which is U-shaped: public deficits are high when the rate of growth is average whereas at very high or low rates of growth a public surplus results. Discussions of external constraints and secular stagnation close the chapter. The latter section contains a very fruitful discussion of the Domar Problem. If government spending as a share of the economy stops rising, the economy would run into demand problems. Stagnation results. Why? In Wray's words, "the problem is that investment is just too darned productive". The supply-side effect of increasing capacity would far outweigh the demand-side effect. So, a demand gap is rather normal for a modern economy. Wray suggests plenty of things for the government to do, like a green new deal (GND). He closes his book with a discussion of how much his version of a GND would cost and notes that it is rather small compared to the size of government during the world wars.

The book is a tour de force. It draws on a lot of academic work, mostly by MMT scholars. It sets out a vision of the policies needed to bring back full employment and price stability to the US economy, together with a sustainable use of resources as envisioned by the GND. The book is short, but not dense. Wray does a good job explaining in plain English how we have arrived where we are, why we need to change course and where we need to go. His style is engaging, although at times overly so. Nevertheless, the book delivers as Wray promised: It provides a heterodox (though mostly MMT-based) microeconomic 'story' with macro-foundations. I can therefore recommend the book to students, academics and policymakers. It creates a highly relevant alternative narrative for America's economic, social and environmental problems and how to solve them. Scholars from other countries can learn from the book as well, even though institutions in the US differ from those elsewhere. Obviously, developing resources that can be employed to provide health care, infrastructure and other policies geared toward the public purpose might be harder in other countries, but that is a question of degree. If the political will is there, governments can address the deficits of their societies through active policy. The technical limit ultimately lies in the available resources and the political limit in the distribution of power, but that should not be a surprise.