This is a most notable little book. As with “conventional wisdom,” Professor Galbraith’s term “innocent fraud” will be a powerful addition to the lexicon of critical thinking. This review first addresses a few of the innocent frauds exposed by Professor Galbraith and then continues with a discussion of other innocent frauds currently influencing public policy. Unlike Professor Galbraith’s previous writings, in this book the case is deliberately understated, thereby encouraging the reader to take the analysis further.

On page 4 Galbraith writes of “workers who suffered from their undoubted bargaining weakness.” What is called the “labor market” is clearly not a “fair game,” as any student of “game theory” will immediately confirm. When employees must “work to eat” and employers need employ only if returns on equity are acceptable, the theoretical results are obvious, as well as confirmed by sound empirical research. The game can only be made somewhat fairer by allowing universal labor organizing, which for all practical purposes can only come from the public sector. Yet somehow the innocent fraud that “increasing labor flexibility” is the answer prevails unquestioned in the public debate.

Likewise, the idea that GDP measures well being is without merit, and another example of an innocent fraud. What I’d add is the innocent fraud of “capacity utilization.” Today, industries such as software have zero marginal costs of production—the user simply downloads what he or she wants and is charged a fee. This shows up as GDP. Clearly there is no limit to this kind of GDP growth, nor are there any ill effects of such “growth”; GDP could grow 15 percent per year as software, music, and videos are downloaded, without driving up prices via competition for real resources, including labor. Yet the government (the Fed in particular) and mainstream economists proudly point to 5 percent GDP growth as “the best in 20 years” and worry about the economy hitting the “speed limit” even as the output gap continues to grow. Remarkably, they display innocent surprise when “productivity” grows by leaps and bounds as GDP rises without much increase of employment.

A third innocent fraud is that the highest pay goes to those who enjoy their work the most. This particular innocent fraud is tied to the widely held belief that this is a “natural” order of things, while the reality is that it is the result of institutional structure.
For example, the highest paid university employee would probably not be the football coach if the team wasn't allowed to accept funding from advertisers. It is institutional structure that permits these college students and other athletes to be highly paid "soap salesmen" for corporate America.

Galbraith next touches on welfare mothers, which reveals what could be called an epic and perhaps most costly of all innocent frauds—children are an expense, while the reality is that children are an investment. The entire institutional structure has put incentives in place to compel children to be dealt with as an expense at the micro level. If this was recognized it would not be a complex matter to put the incentives "right," followed by a drastic turnaround in social behavior at almost every level, and real macro gains would follow.

Monetary policy is an arena in which innocent fraud can be found in abundance. Galbraith goes through monetary history, which shows that interest rate policy has had little or no macro consequence, in spite of the tremendous mediatic attention focused on every interest rate decision made by the Fed. I couldn't agree more. For every "dollar borrowed" there is necessarily a "dollar saved." Even the "hot savings" of homeowners lower mortgage interest payments via refinancing at lower rates, for example, is matched by increased savings requirements of the likes of pension funds due to the same lower interest rates. At the macro level it's all a wash, except that government is a net payer of interest, so rising rates in fact add income to the non-government macro economy. The only case for the widely held belief that rising rates slow an economy is the difference in marginal propensities to consume between net creditors and net debtors. I've often asserted that Japan has it right with zero overnight rates, and we should do the same. Not only would some renters have to go back to work, but in addition multitudes of bond traders and interest rate speculators would be busy doing something useful, such as cure cancer. It's an innocent fraud that we need most of the financial services that exist to sustain real output. In reality, they exist only because institutional structure has fostered them.

A few more innocent frauds worthy of note:

1. We need a pool of savings to fund investment.
   Reality: "Homes create deposits": saving is the accumulating record of investment.

2. Budget deficits increase the risk of government insolvency.
   Reality: With a nonconvertible currency floating exchange rate, the government spends by crediting bank accounts, a process that is not operationally constrained. There is no revenue constraint on spending, and therefore no solvency issue.

3. Budget deficits reduce private savings.
   Reality: Budget deficits add to non-government savings.
4. Net exports are a benefit.
   Reality: exports are a cost, imports are a benefit.
5. The United States borrows abroad to fund its trade gap.
   Reality: Domestic loans create domestic deposits that wind up as foreign
   "savings" when foreigners net export to the United States. The U.S. consumer
   borrows domestically to fund foreign savings.
6. The government needs dollars from the private sector to finance its spending.
   Reality: The private sector needs government spending to provide the funds
   needed to pay taxes.

This book provides a concise introduction to the innocent frauds that stand in the
way of developing policy options that would support our expressed national goals of
growth, full employment, price stability, equity, and general well being. I recommend it
as required reading for academics and practitioners, as well as for classroom use and for
the general public.

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Contours of Descent: U.S. Economic Fractures and the Landscape of Global Anxieties, by Robert
pages.

Bob Pollin's Contours of Descent provides an incisive political-economic analysis of
neoliberal economics in the United States. The first part of the book (chapters 1-3)
describes the neoliberal economic strategy as exemplified in the "Washington consen-
sus," demonstrates that Clintonomics largely followed the neoliberal program, and then
evaluates Clintonomics and its performance (the "hollow boom"). Chapter 4 analyzes
Bush2's economic policy through early 2003; chapter 5 considers the effects of
neoliberalism in developing countries; and chapter 6 sets out Pollin's alternative strategy
for growth and development.

Pollin defines neoliberal economics as a commitment to unregulated capitalism,
small government (except for military spending), free trade and international capital
flows, and deregulation of markets, coupled with a lack of concern for inequality, low
real wages, and poverty. In the United States, neoliberalism appeared as the Washing-
ton Consensus in the 1990s; it was promoted as the only viable approach to economic
policy by most policy advisors, the IMF, and Alan Greenspan's Federal Reserve System.

Pollin accepts the argument that capitalist market economies are potentially a good
thing—they can lead to an increase in the wealth of nations and a rising standard of liv-