
Michel De Vroey's Essential Book, Part II

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This post continues last week's admiration of Michel De Vroey. He understands, and confidently champions, the EK emphasis on involuntary unemployment and, consequently, the analytic centrality assigned in stabilization-relevant macro theory to meaningful wage rigidity (MWR) and the discretionary management of aggregate demand.

De Vroey's essential 2016 book (*A History of Macroeconomics from Keynes to Lucas and Beyond*) chronicles the famous macro wars that began in the late 1960s when EK mainstream thinking was challenged by a new generation of theorists. The latter could not tolerate the absence of micro-coherence in Paul Samuelson's Neoclassical Synthesis. In particular, they objected to the EK failure to microfound their keystone assumption of short-term downward wage rigidity. As readers of this Blog know, MWR is defined by its capacity to suppress wage recontracting, uniquely enabling causality from nominal demand disturbances to involuntary job loss and evidence-consistent movement in employment, output, and income. The Early Keynesians, including Modigliani, Patinkin, Samuelson, Tobin, Klein, Solow, *et al.*, believed that the MWR assumption was necessary to provide stabilization relevance during the interim needed to ground wage rigidity in optimization and equilibrium, the fundamental tenets of economic theory.

I have been around long enough to have known the great Keynesians and believe, both then and now, that their short-cut to stabilization-relevance was justified. But the new neoclassical theorists simply weren't buying it. I also remember the take-no-prisoners fervor of that rejection. They insisted that macroeconomics be immediately microfounded, harshly attacking any modeling that relied on free parameters. As the war over the nature and use of nominal wage rigidity ground on, the MWR assumption increasingly isolated EK theorists.

The primary source of my admiration for De Vroey is that he never abandoned the centrality of MWR. In his fine book, he instructs modern theorists on what it means to be Keynesian: "The question to address is what explains that Keynes could introduce an involuntary unemployment (rationing) result in a model that was a mere extension of [the] Marshallian without resorting to the wage floor assumption. The answer to this question is that he actually resorted to this assumption." De Vroey's core message, asserted throughout his long career, is that stabilization-relevant macroeconomics is not possible absent meaningful wage rigidity. Readers of this Blog know that his fundamental message is aligned with the central premise of the GEM Project. The difference is that the latter goes on to microfound MWR while De Vroey continues the EK practice of assuming it.

The second source of my esteem is that De Vroey pulls off a trick I have never mastered. The modern macro academy, with its "settled" market-centric general-equilibrium theory that marginalizes meaningful wage rigidity, *loves* DeVroey's book. The blurbs on the paperback version bubble with affinity:

"Michel De Vroey does not simply record what he finds. He has a vision of the kind of macroeconomics he would like to see, perhaps one he developed gradually over the years he has worked on this book. What makes this book enjoyable is that he has high hopes for economics, he flatters us that we are important, and he praises the progress we have achieved. In the end he has the integrity not to hide his disappointments, his conviction that while there is no turning back, there is still a long way to go."

Robert E. Lucas, Jr, John Dewey Distinguished Service Professor in Economics, University of Chicago

"No branch of economics has witnessed as many revolutions and counter-revolutions as macroeconomics, starting from Keynes' *General Theory* eighty years ago. Michel De Vroey's book provides a thorough but highly readable account of the main developments in the field over that period. It conveys a sense of the excitement generated by the advent of every new paradigm, as well as of the growing tension between the requirements of theoretical purity and those of empirical and policy relevance that macroeconomists keep facing these days."

Jordi Galí, Research Centre for International Economics, Universitat Pompeu Fabra and Barcelona Graduate School of Economics

"Macroeconomics research has largely proceeded through 'revolutions'. One wishes for a more linear and evolutionary process, one where most new contributions would naturally fit and the common core become steadily stronger. But the immense complexity of modern economies, the difficult methodological choices, may

be such that ‘revolutions’ will keep happening, with their share of destruction, confusion, and eventual reconstruction. Understanding the nature of these revolutions is essential to understanding where we are today, and Michel De Vroey’s book does a masterful job of doing just that. A thoroughly illuminating and enjoyable read.”

Olivier J. Blanchard, Robert M. Solow Professor of Economics, Massachusetts Institute of Technology

One explanation for this praise is that De Vroey does not actually solve the problem of MWR microfoundations. He thereby avoids the academy’s Ptolemaic impulse to defend the mainstream model by not directly challenging comfortable market-centricity and making real the daunting prospect of accommodating a second venue of rational exchange.

That is probably part of the story, but I suspect there is more. Costas Azariadis’s review of *A History of Macroeconomics* in the *Journal of Economic Literature* (2018) offers a clue to how De Vroey pulls off widespread comity: “Michel De Vroey gives an excellent account of how the field evolved from the methods and agenda of Keynes in the 1930s to those of Lucas in the 1970s, and all the way back to the New Keynesians (NKs) in this century. The account is detailed, *respectful of the protagonists*, and as fair as one can hope from someone with strong Keynesian priors. Those priors include ambivalence about ‘classical’ assumptions like market clearing and rational expectations, and a strong attachment to the concept of involuntary unemployment.” (Italics mine.)

A large part of De Vroey’s success is that he really does forgive and forget the rancor and nastiness with which Early Keynesians were discarded, replaced by stabilization-irrelevant neoclassical thinking. And he is certainly respectful when arguing that today’s mainstream heavyweights are wrong, something that they know but are probably embarrassed to admit. I have been told many times that I should be nicer, more respectful of the transitory role played by neoclassical macroeconomics. I know that it is practical advice. But then I start thinking about all the bad mainstream stabilization advice I have witnessed, Bernanke’s bitter complaints about mainstream uselessness in 2008-09, the extraordinarily high stakes riding on getting stabilization policy right in 2008-09, the lack of meaningful adjustment by the academy to accommodate the lessons of the Great Recession, and I can’t help getting angry.

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