Top Billing

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The GEM Project insists that the top priority in modern macroeconomic research is unchanged from the Early Keynesians. It continues to be figuring out how to microfound meaningful wage rigidity, which by definition rationally suppresses labor-price recontracting. MWR is a necessary condition for causality from nominal demand disturbances to involuntary job loss (largely layoffs) and evidence-consistent responses of employment, output, and income. Given that MWR cannot be accommodated by their consensus market-centric general-equilibrium theory, mainstream macro theorists go to great lengths avoid paying attention to the macro centrality of MWR.

Costas Azariadis is a mainstream macro theorist who helped pioneer the literature on implicit contracts and therefore has a place among those who have contributed useful building blocks to the GEM Project's generalization of rational price-mediated exchange from the marketplace to information-challenged workplaces. I was disappointed when I read in the current issue of the *Journal Economic Literature* that he has come up with a novel strategy for diverting research away from MWR. In his lengthy review of Michel De Vroey's very good *A History of Macroeconomics from Keynes to Lucas and Beyond,* Azariadis argues that stabilization theory has over time become less important in our understanding of the economy and in guiding effective policymaking. It has lost its top priority in modern macro research agendas to other more exciting, more useful fields:

"Macroeconomics became a distinct field in the 1930s as a byproduct of inquiries by John Maynard Keynes and some contemporaries into the causes of, and cures for, mass unemployment and great contractions. In the eighty years since the *General Theory of Employment, Interest, and Money* was published, depressions and mass unemployment have lost their leading position as economic maladies in advanced economies, except perhaps for brief periods in the stagflation of the 1970s and the Great Recession of 2008–09. Business cycle issues now share top billing in the field with other riddles in growth and development, asset prices and bubbles, invention and innovation, institutions and political economy, income and wealth inequality, banking and credit, globalization, and others."

It is not difficult the spot flaws in the Azariadis assessment. In part, he has mixed up the practical importance of economic growth, invention/innovation, inequality, banking and credit, and globalization with the modest incremental effect on each that more targeted macro research would have. But mainly he has somehow concluded that the cost of a nonstationary collapse of nominal demand of a size comparable to the 1930s Great Depression if repeated in today's highly specialized economies would be somehow equivalent to the losses produced by a big asset-price bubble? The measurable cost of the 2008-09 Great Recession, which was very much short of a full-fledged depression (what Ben Bernanke took to calling "the big one"), runs into the many trillions of dollars. Keep in mind that a big one, relative to 2008-09, would have hugely greater costs rooted in the much more prolonged idling of substantial shares of the labor force and capital stock, mass bankruptcies involving almost all existing corporations, public debt default, destruction of most private wealth, unprecedented public unrest, and more and more horrors. In comparison, the losses resulting from 1990s internet bubble, the big one of asset-price bubbles, approach insignificance.

Azariadis does insert "except perhaps for the brief periods in the stagflation of the 1970s and the Great Recession of 2008-09." He reminds me of members of Congress after the relatively recent macro crisis who wanted (and probably still want) to deny the Federal Reserve future use of the demand-intervention powers the central bank used to prevent the 2008-09 extreme instability from morphing into depression. Legislators would point to the fact that there was no depression and conclude that the powers were not necessary. I'm not making that up. Azariadis must know better than to aid and abet no-nothing policymaking.

Moreover, in downplaying research on macro instability, Azariadis conveniently omits the extraordinarily troubling fact that mainstream macro theorists (of which he is one) still have no adequate explanation of the causes and consequences of the Great Recession, let alone the 1930s Great Depression or the 1970s stagflation. How could they when the mainstream market-centric general-equilibrium analysis does not even recognized the existence of involuntary job loss, i.e. layoffs, or wage rents. Again, I am not making this stuff up. Bernanke and his crisis team at the Fed prevented the 2008-09 nonstationary contraction of nominal demand from morphing into a full-fledged depression with *ad hoc* policies, drawing heavily on the Chairman's particular knowledge of the 1930s debacle. Privately they bitterly derided mainstream stabilization theory as useless.

Why in the world Azariadis would seek to downplay the need to understand how to manage periodic macro shocks in order to prevent future Great Depressions? Why would he not reaffirm the top billing of research on how to prevent Great Recessions? Is his deprecation of the long-standing priority given to instability analysis motivated by a desire to protect the mainstream macro status-quo? Is his fake assertion of other more important macro topics just another Ptolemaic attempt to divert attention away from the failure of mainstream macro theory to support adequate advice to stabilization policymakers? Those are important questions.

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