

Unbearable Truth

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Date : Nov 16, 2018

Nietzsche believed that a person is entitled to as much truth as he or she can bear. My corollary is that people push aside truth that they cannot bear. The capacity of truth to inform is much in the news today with the rise of Trump, his reliance on a breathtaking range and quantity of lies (who can forget his torrent of falsehoods leading up to the midterm elections), and his continuing rock-solid support in the Republican Party. The startling shift to the unchecked, shockingly effective trashing of truth over the past three years is immensely damaging and is easily recognized as an existential challenge for American democracy. And, most surprising to me, we don't know what to do about it.

I am familiar with how confounding the effective trashing of truth can be. The particular manifestation of the problem that has bedeviled me is, of course, not nearly as damaging and consequential as Donald Trump. But it is not unimportant, and I cannot figure out what to do about it.

My concern is a class of unbearable truth that is at the heart of an existential challenge to the policy-relevance of mainstream macroeconomics. My concern is what is taught in our best graduate schools and what provides the framework required for research published in our most prestigious journals. Macro theory derives much of its importance from its role in guiding the actions of stabilization policymakers. The guidance produced by today's consensus thinking isn't just useless, it is downright harmful.

What follows is an illustrative dozen critical facts, clearly supported by available evidence, that mainstream New Keynesian theorists simply ignore. They represent unbearable truths that the macro academy cannot abide.

- Involuntary job loss (layoffs) accounts for most of the increased joblessness that occurs in recessions.
- Forced job loss in recession is highly concentrated in firms restricted by costly, asymmetric workplace information.
- The rational suppression of wage recontracting, and therefore the existence of meaningful wage rigidity, is also highly concentrated in firms restricted by costly, asymmetric workplace information. (See the GEM Project's e-book for much more on the keystone role of MWR, which is defined by its capacity to rationally suppress wage recontracting.)
- The reversal of the textbook neoclassical real-to-nominal macroeconomic nexus, most critically the causality from nominal demand to layoffs and evidence-sized contractions of employment, output, and real income, is a necessary condition for theory to be stabilization-relevant. Such nominal-to-real causality requires meaningful wage rigidity.
- Chronic, time-varying wage rents exist, helping to explain unemployment persistence in recession and why most workers are off their neoclassical labor supply schedule.
- The rational payment of chronic wage rents is highly concentrated in firms restricted by costly, asymmetric workplace information.
- Recessions necessarily reflect broad market failure. Attempting to understand instability as consistent with general market equilibrium is a foolish analytic dead-end.
- Economic efficiency is not coterminous with market efficiency.
- Episodes of widespread firm downsizing is a critical macroeconomic phenomenon that cannot be understood within the consensus market-centric general-equilibrium framework.
- Textbook neoclassical labor analysis, accepted with little comment in the modern macro academy, is fundamentally wrong. In a consequential example of how things really work, firm labor demand is directly motivated by product demand; aggregate labor demand is determined by total product spending.
- Baseline labor pricing in information-challenged workplaces is almost always rationally independent of market labor demand.

New Keynesians also cannot handle the fact that the generalized-exchange theory developed in the GEM Project is consistent with all those facts and is necessary for macroeconomics to be simultaneously micro-coherent and stabilization-relevant. The Project's intuitive generalization of rational exchange from the marketplace to highly specialized, bureaucratic firms identifies market-centricity as the fatal flaw of consensus macro theory. It has been the fundamental macro model-building problem since the Second Industrial Revolution and the emerging ubiquity of workplaces inherently restricted by costly, asymmetric employee-

employer information.

The widespread practice of pushing aside unbearable truth is an existential problem for mainstream stabilization-relevant macroeconomics. Its importance probably makes Nietzsche a too-genteel spokesman for the GEM Project. More effective would be Jack Nicholson's on-the-stand passion as Col. Nathan Jessup in *A Few Good Men*: "You can't handle the truth!"

Blog Type: Policy/Topical Saint Joseph, Michigan