ELRR

Book reviews

The Economic and
Labour Relations Review
24(2) 255–260

DOI: 10.1177/1035304613481168
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John E King, *The Microfoundations Delusion: Metaphor and Dogma in the History of Macroeconomics*. Edward Elgar: Cheltenham, 2012; 293 pp.: 9781849803175, US$120.00 (hbk)

Reviewed by: Frederic S Lee, *University of Missouri-Kansas City, USA*

John King has written a very interesting book on a theoretical agenda central to neoclassical qua mainstream economists, that is, the reduction of macroeconomics to microeconomics or the quest for the microfoundations of macroeconomics. He makes it known early in the book that what is at stake is whether macroeconomics is a separate distinct sub-discipline in economics on a par with microeconomics, international economics or monetary economics, and that his position is that macroeconomics is indeed a distinct sub-discipline, hence the title of the book. King also includes Post-Keynesian and other heterodox economists who have written on the microfoundations of macroeconomics in the discussion without noticing that their concerns are quite distinct from those of the mainstream economists. Consequently, as noted below, the book is a little confusing.

King begins the book by interrogating microfoundations as a metaphor that legitimates the elimination of macroeconomics. In Chapter 2, he argues that as a metaphor, microfoundations implies that microeconomics itself has a solid unquestionable foundation and that macroeconomics is an unsecure theoretical edifice if it does not have such a foundation. Moreover, 'foundation' is specifically used to imply something that is secure beyond all doubt, such as a foundation of a building or foundational principles. However, this by itself does not necessitate the reduction of macroeconomics to microeconomics. Thus, microfoundations also needs to be a reductionist metaphor as well, which is discussed in Chapter 3. Taken together, microfoundations implies that macroeconomics needs a secure foundation that microeconomics supplies and that the connection between macro and micro is that the former is simply a summation of the latter. What this means is that (1) there is no fallacy of composition and (2) there are no emergent entities that exist between micro and macro. King concludes his interrogation of microfoundations with two case studies of failed micro-reduction: the attempt to reduce life sciences to genetics and the attempt to impose methodological individualism on the social sciences.

In the second part of the book, King undertakes a chronological–historical analysis of the microfoundations debate as it took place in mainstream economics. Chapter 5 starts with the prehistory period of 1936 to 1975. Central to the discussion is the fallacy of composition: if it exists, as Keynes argued, then macroeconomics exists; if it does not exist, as Hicks argued, then there is no macroeconomics. Because mainstream microeconomics from its beginnings in the 1870s has rejected the fallacy of composition, the microfoundations debate could have broken out at any time after the publication of the *General Theory*, but it did not. Of course, there were many statements by economists, such as Lawrence Klein, demanding a microfoundations for macroeconomics, and there was also the aggregation debate that started in the 1940s and lasted into the 1960s. But there was no real debate until the 1970s. In Chapter 6, which starts with 1975, King traces out the string of arguments – monetarism (mark I and II), real business cycle theory, new Keynesianism and general disequilibrium models – that by 2012 eventually converged into the new neoclassical macroeconomics with its representative agent with rational expectations foundations and dynamic stochastic equilibrium models. He further notes that not all mainstream economists approve of this end point, and in Chapter 7, he asserts that such a reductionist agenda did not infect other social science disciplines.

In the conclusion of the book, King offers some explanations for the reduction of macro to micro: physics envy, 'relaxed approach to empirical validity', a well-argued case for microfoundations and politics. Of the four, only the 'well-argued case' is dismissed outright, but the other three explanations are discussed only cursorily. This is surprising since the political explanation corresponds so well with the rise to dominance of neo-liberalism and the attack on pluralism and especially on Keynes in economics. While it would take a bit of work, it would be rather easy to show that neo-liberalism was the ideological catalyst for the microfoundations debate and hence for the elimination of Keynes from mainstream macroeconomics.

Not liking the microfoundations victory in mainstream economics, King, in the third part of the book, has three chapters of dissenting voices: Post-Keynesians, Austrians, institutionalists and methodologists. This discussion is diffused and weak, for it does not firmly grasp the obvious issue: should heterodox economists care what happens to mainstream macroeconomic theory? The answer is, and I think that King agrees with me, no. If so, the relevance of the mainstream microfoundations debate for heterodox economics is that it makes it very clear that microeconomics is the theoretical core of mainstream economics. Hence, the substantive theoretical critiques of mainstream economics are those that deal with its theoretical micro core (as epitomised by the price mechanism), such as the capital controversy, marginalist controversy and the long running administered price–price inflexibility controversy, and not macro-oriented critiques. That is, heterodox critiques of mainstream macroeconomics – both theory and policy – are just irrelevant to mainstream economists since they do not deal with their theoretical core. This is why heterodox macroeconomists, relative to heterodox microeconomists, are not subject to the same level of condemnation and discrimination by mainstream economists. However, this is just a side issue.

King does not reject all foundations vis-à-vis macroeconomics; he believes that macroeconomics should have adequate social, philosophical and methodological foundations. As noted below, heterodox microeconomics deals with the social foundations of the capitalist economy via its contribution to explaining the social provisioning process. However, King does not recognise this and therefore believes that the mainstream microfoundations virus also infects heterodox economics in that heterodox macroeconomics should be reduced solely to heterodox microeconomics. As a result, he misses the point of the heterodox quest for microfoundations. The quest does not involve, relate to, or have any connections to mainstream microeconomics. For example, King states that heterodox microeconomics is not up to the task because 'their microeconomics is a work-in progress that lacks the rigorous analytical core of neoclassical theory ...' (p. 22). But since it is well known that mainstream microeconomics is theoretically incoherent, the comparison is irrelevant. Moreover, Marshall's microeconomics is equally incoherent, which means that any attempt to ground heterodox-Keynes macroeconomics on it is flawed and can be dismissed. Finally, heterodox microeconomists who have pushed the microfoundations debate, especially in the last decade or so, have done so not because of the need to get published in mainstream journals but mainly because of the need to provide realistic explanations of agency embedded in and driving the changes in socio-economic structures, which are missing in most heterodox macroeconomic models.

The heterodox interest in microfoundations of macroeconomics (whether Post-Keynesian or Marxian) arises in two ways. The first but less important one arises in the context, especially among Post-Keynesians, where macroeconomics is considered more important than microeconomics or any other sub-discipline in heterodox economics; therefore, in an effort to gain some professional respectability and equality among heterodox economists, arguments were and are advanced to explore the microfoundations of heterodox macroeconomics. The second and much more important way (which ultimately absorbs the first one) arises from attempting to model the economy as an emergent whole in a disaggregated manner. That is, since heterodox economic theory is a theoretical explanation of the historical process of social provisioning within the context of a capitalist economy, it is concerned with explaining those factors that are part of it. More specifically, the provisioning process is situated within a specific stage of capitalist development and its associated cultural values, norms, institutions and technology. In turn, the emergent economy consists of various sub-systems (prices, output and employment, for example) and emergent acting organisations and institutions, such as business enterprises, the state, households, market governance organisations and trade unions. This means that the economy as a whole must be conceived in terms of structures and acting persons qua organisations and institutions that constitute the various sub-systems and generate the economy-wide economic activity. With their embeddedness in a socially and activity-wide interdependent economy, it is not possible to understand the decisions and actions of individual acting persons qua organisations from other acting persons and from the rest of the economy. In fact, the state, market governance organisations, and trade unions explicitly deal with the issue of engagement between acting persons, thereby embedding the problem of the 'fallacy of composition' in their activities and decisions. As a consequence, it is not possible in an emergent economy as a whole to aggregate upwards or disaggregate downwards.

To theorise about the social provisioning process in terms of a disaggregated, interdependent economy, it is necessary to delineate and explain its constituent parts and their reproduction and recurrence, their integration qua interdependency by non-market and market arrangements and institutions, and how the system works as a whole, which implies examining how changes in one part of the economy produce changes in other parts as well as the economy as a whole. Heterodox microeconomics is thus concerned with delineating and explaining the constituent parts or sub-systems of the economy and their interdependencies, while heterodox macroeconomics is concerned with the economy as a whole and changes that occur as a result of changes in various parts of the economy.

As a result, the macro outcomes, such as variations in output and employment and differential access to social provisioning, are grounded in and hence compatible with the micro sub-systems that connect the economy into a whole. More significantly, this means that all economic activity is simultaneously a macro–micro activity. Thus, dealing with the business enterprise and changes in competition laws is not per se microeconomics and dealing with government expenditure decisions and fiscal policy is not per se macroeconomics, which means that fiscal policy in principle is of no more or less importance than competition policy, rather they are differently important.

This brings us back to King's classification of heterodox supporters and opponents of microfoundations. Once the mainstream microfoundations vision is replaced by the heterodox vision of the economy as a whole, it is easily seen that the Post-Keynesian supporters, opponents and fence-sitters are more or less in the same camp (Chapter 8), as well as Gardiner Means and Alfred Eichner (King, pp. 196–197). Therefore, with everyone in the same broad camp, the phrases 'macroeconomics is independent of microeconomics', 'macroeconomics does not need microeconomic foundation', 'microeconomics and macroeconomics should be thought of as two separate buildings' and 'autonomous macroeconomics' have no sense and no theoretical meaning. Rather micro and macro are different but interrelated areas of study within economics.

The fact that the microfoundations dogma has brought about the death of mainstream macroeconomics should be of no surprise or concern to heterodox economists. The core theory of mainstream economics has been and always will be micro; the emergence of mainstream macro after 1945 was an aberration to be eliminated. However, for heterodox economics, macroeconomics is part of its theoretical core – has been and always will be. King does a good job illuminating the first point, but is not so good on the second point. Still the book is a good and profitable read.

Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to Blair (1945-2005)*. Routledge: London and New York, 2011; 258 pp.: 9780415579445 (hbk), 9780203842744 (eBook)

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Paul Keating and John Howard both warned us that if you changed the government you changed the nation. Strong supporters of one or other party, whenever their party was tipped out of office, felt instinctively that this must be true. In his impressive analysis of 60 years of British politics and economic policymaking, Matthias Matthijs has argued that the assertion of change by ballot box was often untrue in the British case but that on those occasions when the nation was changed, the shift was comprehensive.

There were three occasions in the 20th century, Matthijs believes, when comprehensive reorganisation occurred: during Asquith's Liberal administration between 1905 and 1915, under Attlee from 1945 and under Thatcher after 1979. All

> challenged the received economic wisdom of the time and created a new economic settlement by redefining the role of the state ... All three also changed the consensus of what the main goals of economic policy ought to be. (p.3)