Foreword

The 2008 financial crisis, that threatened the foundations of the world economy and precipitated severe economic contraction world-wide, was also a crisis for standard macroeconomic theory, which failed to anticipate the crisis, and then could not explain it when it happened. Mainstream macroeconomists, in fact, had generally shared Olivier Blanchard's mistaken verdict expressed at the beginning of the decade that "progress in macroeconomics" was "the success story of twentieth century economics" (Blanchard 2000: 1375). There were indeed dissenting voices, but they were mostly ignored and dismissed within the profession. Now it is time to revisit this dissent, much of which especially targeted the standard view that macroeconomics requires neoclassical microfoundations which assume that economic agents make rational choices and form rational expectations regarding the future.

Interestingly, whereas the Great Depression precipitated change in economics and led to the emergence of macroeconomics, the recent crisis was preceded over the previous several decades by considerable debate among microeconomists regarding the nature of rationality and behavior. This debate, however, clearly had little impact on most macroeconomists before the crisis, who were locked into traditional views about the nature of individual behavior and its relation to the macroeconomy. But this debate is now beginning to find a place in macroeconomics with increasing attention being given to crisis phenomena, doubts about rational expectations and the efficient markets hypothesis, information cascades, aggregation problems, herding behavior, and complex systems.

This volume, written by some of the most accomplished historians of macroeconomics today, provides readers with a deeper understanding of many of the issues surrounding the relationship between macroeconomics and microfoundations. This historical perspective is very important. Not only was dissent from mainstream macroeconomics ignored over the past decade, but the historical record regarding earlier thinking on the subject was mis-stated and reconstructed in such a way as to represent the standard view as "the success story of twentieth century economics." The 2008 crisis thus had one positive: it has reminded economists of the need to reflect upon their unexamined (and often suppressed) assumptions. Thus this volume is a welcome addition to the macroeconomic research literature. Readers can expect not only to learn about where macroeconomics has been, but also where it might go in the future.

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REFERENCES

Blanchard, O. (2000). What Do We Know About Macroeconomics that Fisher and Wicksell Did Not? *Quarterly Journal of Economics*, 115: 1375–409.