Preface

Macroeconomics concerns inflation, unemployment, money, international trade and economic growth. The subject is often controversial, because the direct purpose of macroeconomic theory is to guide general policies that affect the immediate happiness and well being of hundreds of millions of people. The theory should have been especially relevant during the last years of the twentieth century, which have witnessed great asset booms and financial collapses on a global scale. Yet despite its great importance, there has been no coherent and acceptable theory of macroeconomics for more than a quarter of a century. There must be some reason for economic and financial volatility, but there is still doubt and confusion about the most basic principles of the subject.

This book is a polemic about those basic principles; it argues that macroeconomic theory has reached an impasse because its method is inherently inconsistent with the facts that it tries to explain. It advances a new explanation for macroeconomic volatility, and suggests a new way of understanding what macroeconomic policies can and cannot do.

The ideas have had a long period of gestation. Some of the chapters were presented to the Leeds Conference on Knowledge and Economics in 1993 and 1996, and to the 1997 European History of Economic Thought Society Conference in Marseille. I thank the participants in those conferences, particularly Geoff Harcourt and Victoria Chick, for their comments.