

Why 'critical realism' is important for macroeconomic theory

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Macroeconomics is about the overall economic structures of the entire society. This cannot be understood by either observations/data, or abstract thinking alone. Furthermore, macroeconomics could never be understood with the so called microeconomic foundations as the starting point. Quite the opposite - to uncover the structures is the main purpose of macroeconomics. Structures are the result of, and the respond to, collective (aggregate) activities and could never be deconstructed into individual activities. Among several important methodological points 'critical realism' has improved the understanding of the 'fallacy of composition' which has marred macroeconomic theory for years and years.

At the end of the talk I will point to some instances where Keynes could be interpreted as a 'critical realist'. One of these is the (well known) debate between Keynes and Tinbergen. Another example is his chapter 19 in GT where 'rigid wages' is demonstrated to be a useful structure for achieving macroeconomic stability, and **not** the cause of unemployment so often claimed by the new-Keynesians, because they do not use the method of 'critical realism'.

Paper

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