Marshall, Models, and Macroeconomics: Comments on Michel De Vroey's "The Marshallian Roots of Keynes's General Theory"
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Michel and I both agree that the correct interpretation of Keynes's work involves seeing Keynes as a Marshallian. Where we differ is on what it means to be a Marshallian. Michel interprets *Marshallian* as "one who uses Marshallian models"; I interpret *Marshallian* as "one who uses the Marshallian method." A Marshallian in my sense would use models in quite different ways than a Marshallian in Michel's sense.

Because Michel interprets Marshall as someone who uses Marshallian models, much of his discussion is about Marshallian models, such as Marshall's market clearing labor market. He judges Keynes's work within this "model" interpretation of Marshallian, and finds that Keynes essentially added nothing to the Marshallian models in terms of an explanation of unemployment. He argues that Keynes did not extend Marshall's theory, because Keynes did not develop a macroeconomic theory of unemployment based on Marshallian models. He ultimately concludes that seeing Keynes as a Marshallian does not reinforce the validity of Keynes's argument, but rather shows its weaknesses and undermines Keynes' contribution.

I fully agree that Keynes did not develop a macroeconomic theory of unemployment based on Marshallian models. However, I do not see that failure as undermining Keynes' contribution. In fact, I suggest that since Keynes used the Marshallian method, his goal in presenting Marshallian models was *not* to develop a theory of unemployment or a macroeconomic theory using Marshallian models. Rather I see his goal as simply to explore how a vision of the economy grounded in his work on true uncertainty would fit in those models. If it had been possible to develop his ideas in Marshallian models in any straightforward manner, Keynes, having a high regard for Marshall's abilities, would have fully expected that Marshall would have already done it.

Instead of seeing Keynes's *General Theory* as an attempt to develop a theory of unemployment within Marshallian models, I see Keynes' *General Theory* as an attempt to view the macroeconomy with a different vision than Marshall implicitly used as background for his models. Elsewhere, (Colander, 1996, 2006) I have called this vision a complexity vision, and have argued that the novel elements of the *General Theory* involved an exploration of how that complexity vision might help in explaining persistently and high unemployment and the depression that the economy was experiencing at the time. This complexity vision involved giving up Marshall's "one thing at a time-hold everything else constant" partial equilibrium micro modeling method, and replacing it with a "everything is interrelated–all things at the same time"—macro modeling method. Doing so, Keynes saw that the assumption of a unique long-run stationary state that served as an implicit backdrop for Classical and neoclassical (both informally in Marshallian and formally in Walrasian) models, was problematic, and that in the short run, many different aggregate outcomes to the economy due to aggregate coordination failures were possible. In such a vision, Marshall's micro models had no macro foundation. Given the highly complex interdependencies of agents' decisions, nothing inherent in a model that included those interdependencies guaranteed the achievement of a desirable aggregate equilibrium in the short run.[1] This meant that you couldn't assume aggregate full employment level of aggregate activity a backdrop for models as Marshall had implicitly done, and that Walras had explicitly done. Instead, you had to develop an aggregate model that would determine the aggregate level of activity that would be achieved by the economy and embed micro models within the appropriate macro models. Classical economists had not done this, and thus did not have an acceptable theory.

Within this complexity vision an aggregate economy of interdependent agents would likely to have serious coordination failures. Thus, unemployment of aggregate resource was a *macro* phenomenon that could have little to do with micro issues. Issues of unemployment could not be reasonable analyzed in ceteras paribus models. Whether in some abstract long run these coordination failures would be solved and a desirable aggregate equilibrium would be reached was irrelevant to Keynes, because society would never wait that long, and allow that particular long run to occur by the system.

Having arrived at that alternative complexity vision after a long struggle to escape the alternative unique equilibrium (stationary state) vision, Keynes faced the problem of how to convey his new vision to other economists. To do so, he naturally tried to relate it to models that they understood; much of the *General Theory* involves Keynes' attempts to do so. But these attempts should be seen as attempts to explain his vision, not as an acceptance of the alternative vision implicit in the existing micro models, Keynes's arguments did not rise of fall on his ability to translate his vision into existing micro models; that is why when the models and the vision came to different results, Keynes accepted the vision in his discussion. He could do so because he used the Marshallian method, which sees models as aids to intuition, not as the holders of truth. Consider Keynes's description of the use of models.

> Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to be this, because, unlike the typical natural science, the material to which it is applied is, in too many respects, not homogeneous through time. The object of a model is to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating so as to develop a logical way of thinking about the latter, and of understanding the time sequences to which they give rise in particular cases. Good economists are scarce because the gift for using "vigilant observation" to choose good models, although it does not require a highly specialized intellectual technique, appears to be a very rare one. (Keynes, 1938)

[1] My interpretation of short run is a period of time that was shorter than society would need to give up the economic system, in which case the model would no longer be relevant.

This description places intuitive judgment above models. As Michel, and many others, have pointed out, Keynes' translation of his vision into Marhallian models is confusing and involved many mistakes. Unfortunately, later economists built on those models, and lost sight of the Marshallian method as they embedded Keynes's ideas into models. Put simply, they choose the wrong models. As that happened, Keynesian economics lost its grounding in the Marshallian method, and was replaced with a neoKeynesian/Neoclassical synthesis that focused on models in place of judgment. As that happened Keynes' complexity vision was lost and macro theory went astray.

Why didn't Keynes and Keynesians object to this transformation? Some, such as GLS Shackle, (1949) and Paul Davidson (1978) did, but most Keynesians were more interested in policy, not theory, and were willing to accept models that came to what they considered the "right" policy conclusion even though they were intellectually unsatisfying.

Conclusion

In conclusion, seeing Keynes as a follower of the Marshallian method is important both in understanding his contribution, and in understanding how later economists lost sight of it. Keynes' contribution to Marshallian economics was twofold. First he developed a vision of the aggregate economy that saw it as possible that it could end up for long periods of time at highly undesirable equilibria. That was an enormous contribution to theory that was unfortunately lost. Second, he saw that it would likely that to get out of those undesirable equilibria in a politically socially accepted period of time, government action might be necessary. That was an enormous contribution to policy. True, he did not develop an acceptable scientific theory of how such a complex system would operate, nor did he have acceptable models to convey his vision to others. But for those who were willing to see the vision, it was there.

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