

Micro- or Macro- Moralities? Economic Discourses and Policy Possibilities

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In recent decades, the recurrence of financial crises, the growing gap between rich and poor, and intensified global debate have all raised questions about the appropriate responses to globalization. Yet, in the midst of this debate, tensions persist between economists' claims to apolitical value-neutrality and their often-passionate commitments to classically liberal ideals.¹ From an ostensibly technocratic vantage, the legitimacy of institutions such as the International Monetary Fund and the World Bank has come to rest on their claim to the neutrality of expertise. Their various programs, whether emphasizing the importance of surveillance, conditionality, structural adjustment or technical assistance, have been presented as “tool kits” for states in need of guidance—

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¹ In this article, we implicitly treat the majority of contemporary professional economists as liberal individualists. This is not to deny that important differences distinguish varied Monetarist, New Classical and New Keynesian perspectives, but rather to suggest that these differences are outweighed by a common aspiration to a value-free economics built on microfoundations. For example, Milton Friedman's monetarism was premised on the assumption that agents' choices were governed by “adaptive expectations,” which New Classical economists like Robert Lucas critiqued in moving to a “rational expectations” foundation. Even recent New Keynesian challengers to New Classical views accept such assumptions, seeking to show how wage and price stickiness are compatible with rational expectations. On the New Keynesian commitment to microfoundations, see Brian Snowden and Howard Vane, *American Economist* 39:1 (Spring 1995), pp. 48-65; While this commitment to microfoundations is admittedly rejected by Post-Keynesians, their difficulties in engaging the liberal/professional mainstream speaks to the dominance of the liberal individualist worldview.

value-neutral means to whatever ends a state determines. However, this claim to have divorced economics from any ethical biases coexists with a recurring resort to a classically liberal rhetoric that stresses the need to enhance the scope for individual choice and autonomy. For example, IMF Managing Director Michel Camdessus, at the height of the late-1990s currency crises, argued:

[L]et us not forget that markets also provide tremendous opportunities to accelerate growth and development... Freedom has its risks. But are they greater than those of complex administrative rules and capricious changes in their design? Freedom has its risks. But is there any more fertile field for development and prosperity? Freedom has its risks! Let us go then for an orderly liberalization of capital movements.²

Whatever their merits, these are not the arguments of a disinterested technocrat. They instead frame the liberalization of capital in explicitly moral terms as a question of individual liberty. How then can one make sense of the tensions between such appeals to liberal ethical principles and the continued claims of ethical neutrality?

In this article, we argue that this contradiction is grounded in one of the fundamental ontological distinctions in modern economic theory – between micro- and macroeconomics. Rejecting ad-hoc distinctions between positive and normative agendas, we argue that the methodological emphasis on establishing microfoundations has hardened into a liberal-individualist normative bias. Micro and macroeconomic approaches imply different kinds of moral assumptions and therefore translate into micro and macroethical orientations. These ethical orientations, moreover, have historically

² Paul Blustein, *The Chastening: Inside the Global Crisis that Rocked the Global Financial System and Humbled the IMF* (New York: Public Affairs, 2001), 49-50.

had concrete effects on policy decisions. In the first section, we accordingly dismiss the notion that contemporary liberal economics can be seen as simply offering positive rather than as advocating ethical or normative priorities. This entails an initial “ground clearing” to establish the broad ethical assumptions that inform major schools of economic thought. Having established this foundation, we move in the second section to the main claim of the paper: rejecting economists’ traditional micro-macro distinction as based on the scale of the units studied, we argue that micro- and *macroeconomic* approaches imply different micro- and *macroethical* orientations. We then outline the ethical implications of micro and macroeconomic theories, suggesting that while the micro-classical ontology produces a very individualist morality, the macro-Keynesian approach implies a far more public ethics. These different ethical orientations, moreover, translate into divergent conceptions of moral responsibility and agency.

In the third section, we address the implications of these ontological-ethical distinctions for policy ends, examining their effects on concerns for the balance between public and private interests. Contrasting macro-oriented views of the post-World War II Keynesian era with a more recent emphasis on microfoundations, we argue that economists’ recent shift toward an emphasis on microfoundations has obscured possibilities for cooperation to advance any public interest. Early Post-World War II Keynesian and Galbraithian views of the economy as a social realm highlighted the potential contribution of public solutions to overcoming ostensible trade-offs between inflation and unemployment (i.e. the Phillips Curve), or between monetary expansion and currency stability (i.e. the Triffin Dilemma). In contrast, the revived micro-classical views of the 1970s and 1980s have impeded recognition of public interests in domestic or

systemic cooperation, justifying instead increased central bank independence and the use of currency boards to limit the scope for macroeconomic autonomy and the need for multilateral assistance. Given their ontological and methodological assumptions that “there is no such thing as society” and that individuals comprise the proper focus of scholarly research, economists have implicitly accepted a normative view which precludes cooperation to advance international or public interests.

We conclude by examining the *constitutive* implications of different emphases on private or public interests. This study specifically builds on a growing body of scholarship that has brought new attention to the role of ideas in shaping economic practice. Contributors to this emerging field of constructivist political economy have traced the historical relationship between economic theory and practice, demonstrated the effects of changing economic ideas on government policy, and revealed the historically and culturally specific nature of economic rationality.³ They have also pointed to the ways in which economic theories can both enable and constrain particular kinds of political identity and agency, thus effectively constituting the world that they purport to describe.⁴

³ Mark Blyth, *Great Transformations: The Rise and Decline of Embedded Liberalism* (Cambridge: Cambridge University Press, 2002); Jonathan Kirshner, "The Study of Money," *World Politics* 52.April (2000); Kathleen McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca: Cornell University Press, 1998); Craig Parsons, *A Certain Idea of Europe* (Ithaca: Cornell University Press, 2003); de Goede, *Virtue, Fortune, and Faith: A Genealogy of Finance* (Minneapolis: University of Minnesota Press, 2005); Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (Ithaca, NY: Cornell University Press, 2005); Wesley Widmaier, "Constructing Monetary Crises: New Keynesian Understandings and Monetary Cooperation in the 1990s," *Review of International Studies* 29.1 (2003).

⁴ Thus, for example, public choice assumptions of instrumental rationality produce pessimistic assessments of public governance—a process that can, as Colin Hay points out, be self-fulfilling. Colin Hay, "Theory, Stylized Heuristic or Self-Fulfilling Prophecy? The Status of Rational Choice Theory in Public Administration," *Public Administration* 82.1 (2004). See also: Ilene Gabel, "The Political

Where this article differs from this growing literature is in its emphasis on the ethical dimensions of economic theory and its insight into the unacknowledged stakes of the micro-macro divide. We are suggesting that the socially-constitutive power of economic theory lies not only in its more elaborate and policy-relevant formulations but also in its fundamental building blocks. The very distinction between micro and macro theory is both ontological and ethical: micro and macro theories not only describe but also seek to create fundamentally different economic worlds. From this constructivist vantage, the distinction between “ought” and “is”—or between positive and normative economics—is eroded, as the diffusion of macro or micro ontologies can essentially “create” different normative worlds.⁵ We suggest that scholars and economists must both reflect on the normative assumptions of prevailing economic theories and recognize the effects of their own arguments on economic possibilities.⁶

I. Positively Normative: Economists’ Ethical Baggage

In order to highlight the ethical implications of the micro-macro divide, we must first establish that economic theory does in fact contain an ethical dimension. To do so, we must challenge a key distinction that economists maintain—between “positive” and “normative” approaches to the study of economics. David Hume famously argued in his *Treatise of Human Nature* that “one cannot deduce ought from is,” thus implying a

Economy of 'Policy Credibility': The New-Classical Macroeconomics and the Remaking of Emerging Economies," *Cambridge Journal of Economics* 24 (2000).

⁵ On reflectivist approaches to the study of management, see Donald A. Schon, *The Reflective Practitioner: How Professionals Think in Action* (New York: Basic Books, 1983).

⁶ See Robert Frank, Thomas Gilovich and Dennis T. Regan, ‘Does Studying Economics Inhibit Cooperation?’ *Journal of Economic Perspectives* 7, no. 2: (1993): 159-171.

logically-absolute distinction between positive and normative theory.⁷ Nobel laureate Joseph Stiglitz – like many other contemporary economists – adopts this distinction when he argues that positive economics “is concerned with what ‘is,’ with describing how the economy functions,” while normative economics “deals with what ‘should be,’ with making judgments about the desirability of various courses of action.”⁸ This distinction between value-laden and value-free economics is often justified on grounds that contemporary economics simply addresses the means to varied policy ends, rather than dictating the ends themselves.⁹ These distinctions between the ends and means of economic policy and between normative and positive economics can be challenged on two related grounds: first, even as they seek to focus on economic means, economists do in fact work to shape economic goals; second, economists also make specific claims about the ends of economic policy, and in doing so draw on ethical assumptions.

First, economists claim to discuss only policy means, not policy goals. As Mark Blaug observes in his study of economic methodology, economists argue that they merely “[l]et governments decide their ‘objective function’ defined in terms of the multiple ends or goals of economic activity.” In this division of labor, “it is the task of economists to delineate the ‘possibility function,’ the costs and benefits of alternative allocations of scarce means.”¹⁰ However, “possibility functions” can themselves enable and constrain specific “objective functions;” in many instances the economic tools offered to

⁷ David Hume, *A Treatise of Human Nature* (Oxford: Oxford University Press, 2000). For a discussion of the centrality of Hume’s “guillotine” see: Mark Blaug, *The Methodology of Economics: Or How Economists Explain* (Cambridge: Cambridge University Press, 1980) 130.

⁸ Joseph Stiglitz, *Principles of Macroeconomics*, 21 (emphasis in original).

⁹ For a discussion of the attempts to render welfare economics value-free, see: Amartya Sen, *On Ethics and Economics* (Oxford: Blackwell, 1987) Ch. 2.

¹⁰ Blaug, *The Methodology of Economics* 149.

policymakers shape the range of possible objectives. For example, economists' widely shared notion that an "impossible trinity" of policy goals exists, one that precludes the reconciliation of capital mobility, monetary stability, and policy autonomy. In 1999, as Deputy Treasury Secretary, Lawrence Summers asserted that "the core proposition of monetary economics is a *trilemma*: that capital mobility, an independent monetary policy and the maintenance of a fixed exchange rate objective are *mutually incompatible*."¹¹ In this view, the constraint of capital mobility means that *any* attempt at a monetary stimulus – increasing liquidity to lower interest rates and raise employment – runs the risk of spurring a run on a currency. Conversely, any attempt at restoring monetary stability – through efforts to "soak up" excess reserves – will drive up interest rates and compromise growth. The free flow of money across borders thereby constrains policymakers, making the reconciliation of full employment and price stability impossible. As we establish below, in prematurely branding this trio of goals "impossible," economists do not simply recommend specific instruments, but rather rule out specific policy ends.

Secondly, economists themselves often make ethical claims regarding different ends, drawing on varied utilitarian, liberal individualist and communitarian frameworks to do so. Following Jeremy Bentham, the utilitarian calculus can be generally expressed as espousing as an ethical goal "the greatest good for the greatest number." Utilitarian ethics play a central part in approaches that stress an overriding concern for scarcity and implicitly treat the Gross Domestic Product as the highest priority of policymakers. More

¹¹ Quote in text from Lawrence H. Summers, "Building an International Financial Architecture for the 21st Century," Remarks to the Cato Institute, 22 October 1999
<<http://www.treas.gov/press/releases/rr2770.htm>> (emphasis added)

broadly, much economic reasoning relies on a particular kind of narrow utilitarian welfarism: as Nobel laureate Amartya Sen explains in *On Ethics and Economics*, “[w]elfarism is the view that the only things of intrinsic value for ethical calculation and evaluation of states of affairs are individual utilities.”¹² At the heart of utilitarian ethics, and much of the economic analysis that relies on it, is the assumption that the general good, or welfare, can be determined by aggregating the utilities of individual members. One of the most common economic means of measuring this aggregate welfare is that of Pareto-optimality—a state in which no-one can be made better off without also making someone else worse off. Economists have arguably seen their stress on “neutral” utilitarian frameworks, with their easily quantifiable “bottom lines” like Pareto-optimality as a way of avoiding complicated ethical debates and assuming the mantle of a normal science. Yet the focus on this single ethic does not make their approach any less normative; at the end of the day, economists are still making important assumptions about what constitutes a morally defensible definition of human welfare.

Indeed, many economists are themselves unsatisfied with the normative implications of utilitarian criteria, including two of the most influential economists of the past half-century, Milton Friedman and John Kenneth Galbraith. These two economists engaged in an ongoing debate that was explicitly ethical. On the one hand, Friedman and his followers argued for a greater attention to individual rights. On the other, Galbraithian economists argued that unqualified market competition risked undermining public interests in collective well-being. Neither economist was opposed to more growth itself, but rather each felt that brute growth on its own – the utilitarian ethic – was

¹² Sen, *On Ethics and Economics*, 40.

insufficient in producing a healthy society, absent the protection of private or public claims.

From the more classically liberal vantage, Milton Friedman's arguments offer a clear illustration of the interplay between ontological and ethical assumptions. Friedman believed that the individual agent – as worker or business agent – should be the fundamental focus of economic analysis. Dismissing notions of corporate social responsibility and claims that firms should exercise price restraint on behalf of any “public interest,” Friedman argued that, “[o]nly people can have responsibilities.” He elaborated that a corporation

...is an artificial person and in this sense may have artificial responsibilities, but ‘business’ as a whole cannot be said to have responsibilities, even in this vague sense....the difficulty of exercising ‘social responsibility’ illustrates, of course, the great virtue of private competitive enterprise—it forces people to be responsible for their own actions and makes it difficult for them to ‘exploit’ other people for either selfish or unselfish purposes. They can do good—but only at their own expense.”¹³

This passage thereby speaks to Friedman's emphasis on individualist ethics and his departure from a purely utilitarian position.

In contrast, John Kenneth Galbraith stressed the need to balance respect for private interests with a sense of broader public interests. Criticizing the utilitarian reliance on GDP as the yardstick for economic analysis, he highlighted questions regarding the social purposes to which economic resources would be devoted.

¹³ Milton Friedman, “The Social Responsibility of Business is to Increase Its Profits,” *New York Times Magazine* (September 13, 1970). <www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html>

Lamenting that “the ancient preoccupations of economic life – with equality, security, and productivity – [had] been narrowed down to a preoccupation with productivity and production,” Galbraith argued for a different measure of well-being, one that would recognize the need for “social balance... between the supply of privately produced goods and services and those of the state.”¹⁴ This would hopefully engender a society more immune to the creation of purely private wants, as well as enable firms and unions to recognize the merit of private restraint to advance public interests in monetary stability.

As this overview demonstrates, whether adopting a utilitarian principle, a liberal individualist emphasis on the value of freedom, or a more communitarian emphasis on the public good, economists have historically relied on ethical insights in defining their first principles. In spite of the rhetorical effort to separate positive from normative economics, ethics continue to intrude in economic analysis. Moreover, as we will argue below, one of the most important forms that this normative bias takes is in the choice of a micro or macro-economic approach to economic analysis.

II. Macro vs. Micro: Whose Ethics?

In mainstream texts, the micro-macro difference has widely been expressed in terms of questions regarding the size or scale of the units being studied. Consider, for example, the distinction drawn by Nobel laureate Joseph Stiglitz. In his *Principles of Macroeconomics* textbook, Stiglitz argues:

¹⁴ John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton-Mifflin, 1958), pp. 201.

The detailed study of product, labor, and capital markets is called *microeconomics*. Microeconomics (‘micro’ is derived from the Greek word meaning ‘small’) looks at the behavior of the units – the firms, households and individuals – that make up the economy. It is concerned with how the individual units make decisions and what affects those decisions. By contrast, *macroeconomics* (‘macro’ comes from the Greek word meaning ‘large’) looks at the behavior of the economy as a whole, in particular the behavior of such aggregate measures as the overall rates of unemployment, inflation, economic growth, and the balance of trade.¹⁵

From Stiglitz’s (widely-shared) perspective, the difference between the micro and macro realms is one between the study of the individual and the aggregate. However, micro and macro perspectives must be about more than simple differences between units and aggregates. The “aggregate” statistic of GDP is, after all, simply the income of the “unit” of the nation-state. In this section, we argue that micro- and macro-perspectives embody both different ontological assumptions regarding agents and structures and different methodological assumptions regarding the proper means of economic analysis. We then address the ethical implications of these distinctions, particularly regarding moral *responsibility* and moral *agency*.

Micro Ontology, Moral Responsibility, and Moral Agency

Microeconomic perspectives are rooted in a profoundly atomistic ontology. They implicitly hold that only individual actions have economic meaning and that larger social phenomena have no existence that cannot be reduced to their component parts. Modern microeconomics has its roots in the general equilibrium theory of Leon Walras, first

¹⁵ Joseph Stiglitz, *Principles of Macroeconomics (Second edition)* (New York: WW Norton and Company, Inc., 1997), 17 (emphasis in original).

developed in 1874 and later consolidated in the mid-twentieth century. General equilibrium theory postulates that the rational behaviour of utility-maximizing consumers and producers will, under certain conditions, result in an equilibrium between amounts of goods demanded and supplied.¹⁶ General equilibrium theory has become the touchstone of microeconomic analysis because it has enabled theorists to explain large-scale economic patterns by relying only on the behaviour of rational individual actors. Microeconomic analysis asserts that all macro-level economic explanations must be based on microfoundations consistent with the classic liberal conception of the individual as a rational agent. E. Roy Weintraub argues in this way that microeconomic theory assumes that macroeconomics can be reduced to its microfoundations: It denies “that aggregative *theorizing* could provide any significant insight that was *logically* unattainable from a more rigorous disaggregative approach.”¹⁷

This ontological individualism has several key ethical implications. Because the social world has no independent meaning outside the action of individuals, micro-classical approaches place significant emphasis on the individual as *responsible* for his or her own economic welfare. For example, Milton Friedman’s economic ontology is tied to a conception of ethics in which only individuals can be morally responsible. His moral individualism, in turn is also very closely connected to his distaste for government

¹⁶ Léon Walras, *Elements of Pure Economics*. Trans. William Jaffé. (Homewood, Ill.: D. Irwin: 1965) For discussions of Walras’s influence on microeconomic methodology, see: E. Roy Weintraub, *Microfoundations: The Compatibility of Microeconomics and Macroeconomics* (Cambridge: Cambridge University Press, 1979) Chapter 1; Blaug, *The Methodology of Economics*, 187.

¹⁷ Weintraub, *Microfoundations*, 7. Emphasis in original.

interventions in the economy, which he enumerates in this same text.¹⁸ While only individuals can be responsible, governments can be irresponsible—when they ignore the dictates of neoclassical theory in favor of Keynesian strategies. Milton Friedman provides a particularly forceful statement of this moral logic in “Good Ends, Bad Means,” where he challenges the 1986 pastoral letter of the American Catholic Bishops, “Catholic Social Teaching and the U.S. Economy” on ontological and then ethical grounds.¹⁹

The bishops write, ‘A country . . . has a moral obligation’; ‘Society has a duty’; ‘Government has a moral function’; ‘What does the economy do *for* people? What does it do *to* people?’ There is another moral view that suggests something wholly different: that ‘a country’ or a ‘society’ is a collection of individuals; that the basic entity is the individual or, more fundamentally, the family, and that only individuals can have moral obligations.²⁰

The micro-classical pessimism about public officials in general and public economic interventions in particular is tinged with this individualist moral vision.

Microeconomic assumptions further have different implications for conceptions of *moral agency*. Microeconomic theory, with its emphasis on individual choice as the motor that drives all economic action, is often seen as an agency-centered approach. Yet, as Colin Hay has pointed out, contemporary rational choice approaches, which apply the

¹⁸ Milton Friedman, “Good Ends, Bad Means,” in Thomas M. Gannon, ed., *The Catholic Challenge to the American Economy*, (New York: MacMillan, 1987), p. 105.

¹⁹ On the pastoral letter, see Thomas M Gannon (ed.), *The Catholic Challenge to the American Economy: Reflections on the U.S. Bishops’ Pastoral Letter on Catholic Social Teaching and the U.S. Economy* (New York: MacMillan, 1987)

²⁰ Milton Friedman, “Good Ends, Bad Means,” pp. 104-105

logic of microfoundations to both economic and non-economic realms, in fact deny agency almost completely:

For, within any rational choice model, we know one thing above all: that the actor will behave rationally, maximizing his or her personal utility. Consequently, *any rational actor in a given context will choose precisely the same (optimal) course of action.* . . . “When is a choice not a choice?” Answer: “When it is a rational choice.”²¹

Thus, although individuals are the key actors in the microeconomic universe, they only have a very weak kind of practical or moral agency, for there is only one rational choice in any given economic context. There is accordingly little role for public deliberation or debate in this system.

Macro Ontology, Moral Responsibility, and Moral Agency

While notions like the public or the common good do not disappear completely in micro-classical analyses, they become additive. In contrast, the macro-Keynesian universe is not just made up of atomistic individuals, but also includes social entities and forces that possess an autonomous standing. Although many of his interpreters have sought to minimize the full implications of Keynes’ insights, reducing Keynesian macroeconomics to a special case of neoclassical economics, such representations are misleading. If we consider Keynes’ work in its entirety, we discover a kind of macroeconomic analysis that cannot be easily reconciled with neoclassical microeconomics. Keynesian macroeconomic theory treats interactions between agents as

²¹ Hay, "Theory, Stylized Heuristic or Self-Fulfilling Prophecy?" 52, 53.

having an independent standing, and sees the aggregate as more than the sum of individual parts. Macroeconomic methodology thus depends on a social ontology.

Keynes argued that long-term expectations played a central role in determining levels of investment.²² He saw the economic realm as plagued by a deep and pervasive *uncertainty*, the effects of which would generate more than normally-distributed errors in the formation of expectations. Uncertainty was not simply a subjective state, but rather pertained to matters about which “there is no scientific basis on which to form any calculable probability whatsoever.”²³ Constrained by uncertainty, agents necessarily relied on shifting conventions, based on assumptions that “existing market valuations... [are] uniquely *correct* in relation to our existing knowledge of the facts.”²⁴ Indeed, precisely because agent expectations are shaped by convention and potentially self-fulfilling, public forms of economic action become necessary to stabilize macro-level processes. The performance of the economy can depend on what actors expect it to be: if they are pessimistic, they may hoard rather than spend funds, fuelling an economic downturn; if they are optimistic, self-fulfilling wage-price spirals might take on a momentum of their own.²⁵

²² See, for example, Chapter 12 in the *General Theory*. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt Brace, 1936); John Maynard Keynes, “The General Theory of Employment,” *The Quarterly Journal of Economics* 51.2 (1937), 214.

²³ Keynes, “The General Theory of Employment,” 214.

²⁴ Keynes himself recognized that at points agents could form subjective estimates for some *probabilities* (e.g., the roll of the dice or the flip of a coin), but argued that in many instances, they could not form estimates for fundamentally unknowable *possibilities* (e.g., economic shocks, wars, or natural disasters). Keynes, *The General Theory*, p. 152.

²⁵ John Maynard Keynes, *The General Theory of Employment Interest and Money* (New York: Harcourt Brace, 1964) 316-17.

These assumptions have quite different implications for *responsibility* and *agency*. First, because the economy is itself greater than the sum of its component parts, an individual *may not be fully responsible* for her or his economic failings or successes. Given that Keynesian theory suggests that public efforts to lower unemployment, increase investment, or raise confidence *can* work to reduce economic hardship, the state does in fact have a moral obligation to its citizens to pursue their economic welfare. From this vantage, an individual's responsibility for his or her wealth is always complicated by these broader systemic forces. For example, an individual investor's success or failure in anticipating market trends could not be reduced to concerns for efficiency in the use of information. Similarly, a wage laborer's loss of employment need not be her or his own responsibility, since, Keynes insisted, some unemployment is involuntary. Because workers cannot control real wages but only money wages, he argued, they may inadvertently price themselves out of employment.²⁶

In macro-Keynesian theory, notions of moral *agency* are likewise complicated by the social nature of the economy. *Collective* moral agency exists where public deliberation itself shapes the scope for possible economic policies. Depending on the climate of expectations, different policies may have more or less effectiveness. Policymakers cannot in fact determine which steps might be more effective in the absence of some sense of the social context. Because Keynesians see the economy in social terms, they are accordingly more open to seeing the public good as something that

²⁶ Keynes thus disputed the classical assumption that wages are equal to the marginal disutility of that amount of employment. Keynes, *The General Theory of Employment Interest and Money* 13.

is subject to public discussion and debate.²⁷ For example, if public attitudes are broadly cynical regarding the possibilities for wage and price restraint, incomes policies will not work. In contrast, if there exists a broad sense of patriotism or belief in notions of collective action, incomes policies will work. As John Kenneth Galbraith said of his wartime efforts at price control, “a community that has come to regard war as a tragedy stigmatizes illegal profiteering as a more heroic age did not. The freebooting merchants who supplied the Continental or Union armies of the Civil War would be distressed at the restraints which public opinion has imposed on their descendants.”²⁸ Economic policy effectiveness cannot be divorced from a sense of the social context.

Far from being purely technical distinctions, the differences between micro and macroeconomic theories possess substantial ethical implications. They embody two fundamentally incompatible economic ontologies—a predictable micro-classical universe made up of rational isolated individuals and a much more uncertain macro-Keynesian world of both individuals and social forces. Micro and macro ontologies, in turn, involve very different ethical assumptions: micro-classical individualism embodies an individualist ascription of moral responsibility and a powerless conception of moral agency. Macro-Keynesian social conception of the economy in contrast implies a public conception of the good, a more complex conception of moral responsibility and a more expansive approach to moral agency that emphasizes the role of collective action. In the

²⁷ Whereas micro-classical economists like Willes see this as a mark against Keynesianism, since it means that welfare is not entirely objectively knowable, contemporary Keynesian-inspired economists like Ilene Grabel have suggested that the debatable nature of the economic good is in fact a sign of an economy’s democratic credentials. M. H. Willes, "Rational Expectations as Counter-Revolution," *The Crisis in Economic Theory*, eds. D. Bell and I. Kristol (New York: Basic Books, 1981) 89; Grabel, "The Political Economy of 'Policy Credibility'."

²⁸ John Kenneth Galbraith, “Reflections on Price Control,” *The Quarterly Journal of Economics*. 1946 (60):475-489, at p. 481.

next section, we show how these approaches have had concrete policy implications over the past century.

III. From Ontology to Policy

This section contrasts micro-classical and Macro-Keynesian perspectives as they have evolved in tandem with each other over the past century, emphasizing the interplay of their assumptions regarding the public or private good and possibilities for reconciling monetary stability and growth. We show first how Keynesian understandings, in highlighting uniquely public interests, justified the construction of an interrelated set of wage, price and currency guidelines as a means to reconciling monetary stability and full employment. We then show how varied Neoclassical understandings – from the Neoclassical Synthesis of Paul Samuelson and Robert Solow through to the New Classical economics of the 1970s – obscured the scope for such international or societal cooperation and cast the reconciliation of monetary stability with full employment as difficult, if not impossible.

Keynes and the Public Interest in Wage, Price and Currency Cooperation

In his policy writings, Keynes challenged what he termed “classical” frameworks that neglected the prior effects of uniquely aggregate or macro forces. According to what Keynes cast as the classical notion of Say’s Law, supply would create its own demand. Domestic adjustment to unemployment would occur as wages and prices fell, enabling increased “purchases” of labor and goods. Similarly, under the classical gold standard, an international self-correcting price-specie mechanism would work to prevent any one

state from running excessive balance of payments deficits.²⁹ Deflation – falling wages, prices, or exchange rates – would always act to facilitate adjustment, enabling workers, firms, and exporters to “sell” a larger volume of resources. In such a self-regulating world, individual citizens and states were ultimately responsible for their own economic fates. While there might be a role for the state in providing the micro-foundations for the market – by for example guaranteeing property rights – there would be no need for the state to play uniquely macroeconomic roles by seeking to influence expectations or demand.

Breaking with such classical representations of self-regulating systems, Keynes – as noted above – saw the economic realm as plagued by a deep and pervasive uncertainty. Instead of correcting itself, the performance of the economy might often depend on agents’ expectations: If they were pessimistic, they would hoard rather than spend, fuelling an economic downturn; if they were optimistic, self-fulfilling wage-price spirals might take on a momentum of their own.³⁰ Keynes’ solutions to these dilemmas were aimed at the macro-level, as states could domestically use fiscal, monetary and incomes policies, or internationally engage in macroeconomic cooperation to promote common interests across these contexts.³¹

²⁹ David Hume, *Of Money* (1752).
<<http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/hume/money.txt>>

³⁰ Keynes, *The General Theory of Employment Interest and Money* 316-17.

³¹ Indeed, Keynes’ vision of the post-World War II global economic order has seldom been appreciated in its entirety, but has instead been disaggregated into “domestic” and “international” components. Keynes himself stressed the need to simultaneously stabilize prices and exchange rates, arguing that monetary stability would depend upon “(i) measures to control capital movements and (ii) the existence of a tendency for broad wage movements to be similar in the different countries concerned. John Maynard Keynes, “Letter to W. Luck,” In *The Collected Writings of John Maynard Keynes: Volume XII*, edited by Donald Moggridge (London, MacMillan, 1983), p. 501.

First, wage and price guidelines could most obviously provide a means of relaxing what would later be termed the Phillips Curve trade-off between unemployment and inflation. If such guidelines were respected by a critical mass of societal agents, full employment would have no automatic implications for inflation. Even in the context of tight labor markets, if unions and workers could recognize the existence of public interests in private restraint, they might refrain from the use of their market power to secure higher wages. This could in turn keep labor costs stable and ease pressures on firms to raise prices. Contrary to Milton Friedman's dictum that inflation is "always and everywhere" a monetary phenomenon, inflation would rather appear to be always and everywhere a *social* phenomenon. Second, in line with purchasing power parity theories of exchange rate determination, wage and price guidelines would reduce inflation differentials and so contribute directly to currency stability. In deliberations on the 1941 budget, Keynes advocated a more aggressive incomes policy, to "put the trade unions and the Ministry of Labour 'on their honor,'" urging that the Chancellor of the Exchequer "provide that wage agreements reached by collective bargaining between trade unions and employers shall require the subsequent approval of the wages tribunal."³² Finally, Keynes stressed the importance of a macro-sense of the common interest to the successful stabilization of wartime prices, arguing that

[W]hat is to the advantage of each of us regarded as a solitary individual is to the disadvantage of each of us regarded as members of a community. If all alike spend more, no one benefits. Here is the ideal opportunity for a common plan and for imposing a rule which everyone must

³² John Maynard Keynes, "Notes on the Budget II: Price and Wage Policy," In *The Collected Writings of John Maynard Keynes: Volume XXII: Activities 1939-1945: Internal War Finance*, edited by Donald Moggridge, 222-230. London: MacMillan, 1978), pp. 228-229.

observe. By such a plan, as I hope to show, the wage and salary earner can consume as much as before and in addition have money left over in the bank for his future benefit and security, which otherwise would belong to the capitalist class.³³

If at the domestic level Keynes sought to legitimize a role for the state in advancing the public good, at the international level he sought to transcend the individualist logic of the classical Gold Standard. Keynes identified a common interest in economic stability that could not be adequately served by treating states as if they were isolated monads solely responsible for their own economic well-being. An international economic system based on classical precepts was deflationary, as banks would be forced to use high interest rates to make the domestic economy adjust to a balance of payments deficit, at a cost of high unemployment.³⁴ States might further seek to attract capital at the expense of one another, hoarding hard currencies and pursuing balance of payments surpluses:

There is no orthodox means open to the authorities for countering unemployment at home except by struggling for an export surplus and an import of the monetary metal *at the expense of their neighbours*. Never in history was there a method devised of such efficacy for *setting each country's advantage at variance with its neighbours'* as the international gold (or, formerly, silver) standard.³⁵

By denying the existence of common (macro) interests, classical theory thus forced states to pursue individual or micro-level balance of payments surpluses, in what amounted to a zero-sum strategy. Even if the subjective preference of classical theorists was for policies free trade and openness, the *systemic* effects would be deflationary, leading states to

³³ In *The Collected Writings of John Maynard Keynes: Volume IX, Essays in Persuasion*, edited by Donald Moggridge (London, MacMillan, 1972), p. 375.

³⁴ Keynes, *The General Theory*, p. 339.

³⁵ Keynes, *The General Theory*, p. 348-349.

engage in competition and protectionism. Once again, Keynes identified the existence of a public interest that could not be reduced to an aggregation of individual state interests, nor attained through the independent activity of the market.

Keynes therefore sought to create a system which would not only replace the gold standard but which would also avoid its disequilibrating and deflationary impact on domestic economies. What was needed was a new form of international liquidity, or credit, to enable states to borrow in difficult times and lend in easier ones. Keynes proposed an “International Clearing Union” (eventually, with important changes, the International Monetary Fund) that would balance out the international payments of member nations while also creating a large quantity of new credit to kick-start war-torn economies around the world.³⁶ Whereas the gold standard imposed adjustment on debtor countries alone, under Keynes’ plan, such measures would need to be taken by both creditor and debtor countries alike: “In recognizing that the creditor as well as the debtor may be responsible for a want of balance, the proposed institution would be breaking new ground.”³⁷ Rather than placing the sole responsibility for adjustment on individual states—particularly those in deficit—Keynes thus sought to develop a global solution to payments imbalances.

Keynes therefore rejected the then-dominant classical micro-morality that treated individual citizens or states as entirely responsible for their own economic achievements, opting instead for a macro-moral perspective in which individual responsibility was

³⁶ John Maynard Keynes, "Proposals for an International Clearing Union (April 1943)," *The International Monetary Fund 1945-1965: Documents*, ed. J. Keith Horsefield, vol. III (Washington, D.C.: International Monetary Fund, 1969).

³⁷ Keynes, "Proposals for an International Clearing Union (April 1943)," 20.

complicated by the social nature of the economy. Through this shift from a micro- to a macro- perspective, Keynes was not only able to explain many of the problems that plagued the classically-run economy in his day, but also to propose alternative solutions—solutions that relied on the legitimacy of a public authority and which sought to pursue the public interest. Moreover, in this integrated vision, Keynes offered a means – so long as faith in public solutions persisted – to reconcile monetary stability and growth even in the context of capital mobility. Cooperation to maintain monetary guidelines, or standards for variation in wages, prices and exchange rates, characterized his domestic and international visions alike. Domestic wage and price cooperation could enable states to stabilize inflationary expectations and to prevent full employment from engendering wage-price spirals. International cooperation to maintain fixed exchange rates in turn eased ostensible trade-offs between capital mobility and policy autonomy. Contrary to classical notions that an “impossible trinity” precludes the reconciliation of capital mobility, monetary stability, and full employment, where state and societal expectations proved favorable, states were able to stabilize monetary expectations without relying excessively on controls or surrendering autonomy.

Starting from a social economic ontology, Keynes’s economic proposals clearly articulated a socially-attuned ethical vision. In this moral and economic universe, responsibility for economic success or failure was not borne alone by individuals but was instead shared by the social collective. This collective—and the state as its practical policy-making expression—had, in turn, the moral agency necessary to resolve economic dilemmas and thus to achieve economic ends. Keynes’ economic and ethical vision

linked domestic and international policies in an effort to devise genuinely public solutions to the economic challenges of his day.

Classically-Oriented Views and Private Interests in Monetary Cooperation

The most important criticisms of Keynesianism in the 1960s and 1970s were not directed against Keynes' own writings, perhaps because Keynes' views were so embedded in a moral view of their own. Instead, the monetarist arguments that would come to prominence in the 1960s and 1970s – paving the way for subsequent New Classical and New Keynesian views – were directed against what was initially a more utilitarian form of Keynesianism, a “Neoclassical Synthesis” of Keynesian and classical views. Most prominently, Neoclassical Keynesian Paul Samuelson moved away from the Keynesianism that emphasized intersubjective uncertainty and the role of expectations in driving wage and price trends. With Robert Solow, Samuelson formalized this relationship in the construction of the Phillips Curve, positing an enduring inverse relationship between wages and unemployment.³⁸ Yet, the Phillips Curve turned out to be a fragile basis for legitimizing public coordination of the economy. It was premised on the notion that where private agents – workers or firms – *could* capture wage or price gains, they inevitably *would* do so, regardless of implications for the public interest. While advocates of the neoclassical synthesis continued to identify the state as a key player in economic management, they understood that role differently from Keynesians

³⁸ Paul A. Samuelson and Robert M. Solow, "Analytical Aspects of Anti-Inflation Policy," *The American Economic Review* 50.2 (1960).

to that point.³⁹ For Keynes, economic solutions had to be public because of the social nature of the economy and the complex uncertainties that this created. By downplaying the intersubjective nature of the economy, Samuelson and his colleagues reduced the state to a purely utilitarian role. For them, the problem was not that the economic whole was qualitatively different from the sum of its parts, but rather that the parts were simply complex, requiring some fine-tuning. What was lost in this shift was Keynes' insight into the social nature of the economic world; and – perhaps more important – a socially-attuned moral vision to counter the emergent liberal individualist critique of Friedman and his followers. Friedman's arguments – particularly in the U.S. – also had a greater resonance, as they were tied to a liberal, rights-based ethic, one more in tune with the liberal tradition, a cultural convergence that obviously exceeds the scope of this paper.

Friedman began the micro-oriented counter-offensive by arguing that fiscal efforts to navigate the Phillips curve trade-off would in the long run only result in higher inflation.⁴⁰ Expansionary macroeconomic policies would only work in the short run, since rational individuals would only be drawn back into the workforce temporarily – preferring to return to unemployment once they adapted their expectations and realized that inflation was eroding their real wages. His critique relied on a return to the neoclassical assumption that all unemployment was voluntary, replacing Keynes' macro-

³⁹ While attempts to formalize Keynesianism had begun with John Hicks' development of the IS-LM approach, this model was limited to the short-term analysis and offered no explicit insights into the specific problem of inflation. Indeed, most Keynesians into the late 1950s viewed inflation trends as significantly driven by self-fulfilling expectations. (Not coincidentally, it was the emergence of the Phillips Curve that led to the first major wave of debates over the meaning of Keynesianism itself in the early 1960s).

⁴⁰ Milton Friedman, "The Role of Monetary Policy," *American Economic Review* 58 (1968); Edmund S. Phelps, "Phillips Curves, Expectations of Inflation and Optimal Unemployment Over Time," *Economica* 34, August (1967).

level demand-driven explanation with a micro-level explanation based on individual preferences. Unemployment was once again understood as an individual choice, and thus as an individual responsibility.

Subsequent New Classical economists would even more aggressively cast individuals as blessed with rational expectations—each individual having an accurate model of the economy and able to predict the likely impact of any government action. The Phillips Curve would be vertical in the short and long runs. This New Classical logic would further work to counter arguments that states could use macroeconomic policies without affecting exchange rates, as currency traders would efficiently undermine any exchange rate targets not supported by appropriate domestic policies. Hence the impossible trinity.

This methodological and ontological individualism had significant policy implications: both monetarist and new classical theorists argued for a radical reduction of the role of the state in the economy. Industrial policy, fiscal policy—even discretionary monetary policy—were all seen as inherently suspect. In a world of rational agents, the best thing that the state can do is to establish clear property laws and let the market sort things out. In domestic settings, the stagflations of the 1970s were blamed on loose fiscal and monetary policies, legitimating the more austere monetary policies of the early 1980s.⁴¹

⁴¹ Federal Reserve Chairman Paul Volcker accepted constructions of stagflation which stressed persistent fiscal and monetary missteps, which justified the Federal Reserve's October 1979 shift to a focus on monetary aggregates as a means to austerity. Paul Volcker and Toyoo Gyohten, *Changing Fortunes* (New York: Times Books, 1992), 164.

This skepticism regarding the ability of public actors to capably serve the private economy was formally modeled by economists as a “time inconsistency” problem, rooted in a “game-theoretic” model of conflict between “policy makers and private economic agents.”⁴² These models posited an incentive for public officials to seek short-run (i.e. electoral) gains by violating long-run policy pledges: while it would be ostensibly optimal in the long run for policy makers to promise that they would adhere to, say, a monetary rule, it would also make sense in the short run to violate that rule for “political” gains. In this framing, ethical lapses occur not on the part of private economic agents – kept in line by competitive market forces – but instead on the part of policy makers.

This framing therefore legitimates efforts to remove the opportunity for such official transgressions and to leave public agents exposed to face market counter reactions as a possible private deterrent:

When the source of a credibility problem lies in time inconsistency (or, more provocatively, cheating)... [o]ne possibility is to change the rules or institutional structure... to limit the scope for discretionary opportunism on the part of policy makers... [T]here may [also] be more informal incentive schemes with which private agents can threaten them if they behave disobediently (e.g., the threat of industrial action or inflationary wage setting [or, in the international setting, a speculative attack])⁴³

To rectify concerns for governmental cheating, public agents must accordingly either surrender autonomy or face market sanction. Over the final quarter of the twentieth century, the former solution predominated, manifested in trends toward increased central bank independence and recourse to currency boards (as states would tie their currency to

⁴² Keith Blackburn and Michael Christensen, “Monetary Policy and Policy Credibility: Theories and Evidence,” *Journal of Economic Literature*, Vol. 27, No. 1 (March 1989), p. 3.

⁴³ Blackburn and Christensen, “Monetary Policy and Policy Credibility: Theories and Evidence.”

that of another, more “credible” state’s policies). Where states sought to resist such trends, the latter solution – of speculative pressures – would assert themselves, making efforts at policy autonomy “impossible” over the run.

Consider, for example, the adoption of a currency board in Argentina in 1991, designed to eliminate inflation and – in the process – enable currency stability and so increased foreign investment. After a decade of hyperinflation, Argentine policymakers willingly tied their own hands, pegging the peso at a rate of one for one to the U.S. dollar. In the context of a broader regional recovery, inflation abated and investment began to flow back into Argentina. From a classical vantage, this success reflected the depoliticization of Argentine macroeconomics. Nevertheless, when the Argentine peso collapsed in late 2001, this was also seen by classical economists as a private market reaction to increasingly ill-advised Argentine policies, most importantly unsound management of the currency board itself. The Argentine currency board was criticized for having lacked “lacked one or more of the defining features of an orthodox currency board throughout its lifetime.”⁴⁴ New-classically-inspired economists framed the Argentine crisis of 2001-2002 as caused by illegitimate public policy, not market instability.⁴⁵ The dominant microfoundational logic thus not only radically narrowed the range of possible policy outcomes to the strictures of a currency board, but when that

⁴⁴ Steve Hanke and Kurt Schuler, “What Went Wrong in Argentina?” *Central Banking Journal*, Volume XII Number 3, February 2002, p. 43. <www.cato.org/current/argentina/pubs/hanke-schuler-0202.pdf>

⁴⁵ For an analyses of the collapse of the currency board in January 2002, which argue that Argentina’s currency board was insufficiently orthodox, see Mark Spiegel, “Argentina’s Currency Crisis: Lessons for Asia,” *Federal Reserve Bank of San Francisco Economic Letter* No. 2002-25 (August 23, 2002); <www.frbsf.org/publications/economics/letter/2002/el2002-25.pdf>; Hanke and Shuler, “What Went Wrong in Argentina?”; For an account which stresses market tendencies to contagion, see Paul Blustein, *And the Money Kept Rolling In (and Out): Wall Street, the IMF, and the Bankrupting of Argentina* (New York: Public Affairs, 2005)

policy failed, placed responsibility for its failure on what little remained of public-policy discretion. This framing went so far as to cast IMF efforts at advancing collective interests in stabilizing the Argentine economy as themselves enabling the continued pursuit of unsound domestic policies by the Argentine government itself. Responsibility was so housed in the domestic setting, systematically obscuring any systemic, macro concerns.

As financial leaders and scholars have sought to come to terms with the fall-out from the financial crises of the 1990s, they similarly drew upon a micro-ethical analysis, casting emergent market states like Argentina—as well as Asian economies—as responsible for their own suffering. Just as a domestic level the shift to micro-economics and ethics precipitated an erosion of the legitimacy of public economic solutions, this shift was thus reflected in a return seeing individual states as responsible for monetary crises in the international realm. In a speech on the lessons of the 1990s, Michel Camdessus, then Managing Director of the International Monetary Fund, noted:

Take the three major Asian crises, for example: Thailand, Indonesia, and Korea. Dealing with them meant dealing with a three-dimensional problem: a dimension, obviously, of macroeconomic imbalances, along with massive outflows of short-term capital; an acute crisis in the financial sector, reflecting institutional and banking practice weaknesses; and a much more fundamental crisis in the economic management model to which the previous successes had complacently been attributed, but which was quite simply in conflict with the new demands of a globalized economy. I'm thinking here of unhealthy—I would even say incestuous—relations among corporations, banks, and government.⁴⁶

Camdessus defines all three dimensions of the crisis as largely domestic in nature, ultimately caused by the failure of the Asian model of capitalist development. Little

⁴⁶ Michel Camdessus, *From the Crises of the 1990s to the New Millennium: Remarks to the International Graduate School of Management*, 27 November 1999, International Monetary Fund, Available: <http://www.imf.org/external/np/speeches/1999/112799.htm>, 11 September 2003. Emphasis in original.

attention is paid to the role of international forces—most notably the rapid liberalization of capital accounts that laid the groundwork for the subsequent crisis.⁴⁷ While the IMF subsequently recognized that the pace of financial liberalization may have played a role in the crisis, the focus of proposed reforms has remained overwhelmingly domestic. Indeed, through its new emphasis on universal standards and good governance, the Fund has begun to intervene in areas that had been deemed the sovereign purview of states.⁴⁸

In doing so, moreover, they have increasingly drawn on an explicitly moral vocabulary, emphasizing in particular a micro-stress on responsibility. In a 1999 address, Camdessus argued that “a duty of *universal responsibility* is incumbent upon all. Every country, large or small, is responsible for the stability and quality of the entire world growth.⁴⁹ He went on to define the components of responsible behaviour in classical terms, stressing, for example, the need to maintain “the proper perspective about the benefits of private capital markets.”⁵⁰ Although the concept of universal responsibility invokes the idea of a common good, Camdessus defines that responsibility as an

⁴⁷ For such alternative analyses of the causes of the crisis, see: Joseph Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton, 2002); Robert Wade, "From 'Miracle' to 'Cronyism': Explaining the Great Asian Slump," *Cambridge Journal of Economics* 22 (1998); Ajiit Singh, "'Asian Capitalism' and the Financial Crisis," *Global Instability: The Political Economy of World Economic Governance*, eds. Jonathan Michie and John Grieve Smith (London: Routledge, 1999).

⁴⁸ Dani Rodrik, “Governing the Global Economy: Does One Architectural Style Fit All?” In *Brookings Trade Forum*, edited by S. Collins and R. Lawrence. Washington, D.C.: Brookings Institution Press, 1999; Martin Feldstein, “Refocusing the IMF.” *Foreign Affairs*, 1998, pp. 20-33; Yung Chul Park and Yunjong Wang. “Reform of the International Financial System and Institutions in Light of the Asian Financial Crisis.” *G-24 Discussion Paper, UNCTAD* No. 12, 2001.

⁴⁹ Camdessus, *From the Crises of the 1990s to the New Millennium*.

⁵⁰ IMF, "Camdessus Calls for Responsibility, Solidarity in Dealing with Challenges of Globalization," *IMF Survey*. October 6 (1997): 292-93.

exclusively individual undertaking.⁵¹ His micro-perspective blinds him to possibilities for macro-cooperation.

In sum, analytically prior ontological understandings have shaped economic policy possibilities over the past century, altering the potential scope for public-private cooperation: over the early post-World War II period, where macroeconomic frameworks stressed the autonomy of the public interests, cooperation to advance such concerns took on a “life of its own.” More recently, where microeconomic approaches have stressed the primacy of individual or private interests, pessimism regarding the exercise of public authority has similarly become self-reinforcing. The prevalence of such intersubjective effects raises important questions regarding the interplay of theory and practice, to which we turn in our conclusion.

IV. Conclusions

This article began by noting a persistent tension in economic debates. From the consolidation of classical theory in the late nineteenth century to the rational expectations revolution of the late twentieth century, the formalization of economics has been seen as promising a truly value-free science. Yet, the language of morality pervades the proposals of contemporary financial leaders and scholars. We have therefore argued that these ethical overtones cannot be dismissed as “merely normative” preferences, but rather

⁵¹ Horst Köhler, a more recent Managing Director, also relies on the idea of responsibility, which he describes in explicitly individualist terms as “self-responsibility.” Horst Köhler, “Strengthening the Framework for the Global Economy,” A speech given on the occasion of the Award Ceremony of the Konrad Adenauer Foundation Social Market Economy Prize. International Monetary Fund, November 15 2002. <<http://www.imf.org/external/np/speeches/2002/111502.htm>>; Köhler. “The Challenges of Globalization and the Role of the IMF.” Address at the Annual Meeting of the Society for Economics and Management. May 15 2003. International Monetary Fund.

are rooted in deeper ontological assumptions. Tracing the evolution of economic debates, we have argued that classical or Keynesian economic theories have systematically legitimated different ethical and policy stances. Where classical theory, with its individualist ontology recommends policies that maximize the good of individual people and states, Keynesian theory, with its a conception of the economy as a social whole, seeks to pursue economic policies in order to achieve a social good which ultimately exceeds the sum of any individual gains. Over time, we have suggested, micro-classical approaches have come to replace macro-Keynesian perspectives as the dominant moral frameworks for economic decision-making.

These analyses direct attention to the constitutive impact of theory on policy, supporting a broader view of policy as involving efforts to resocialize state and market agents. They suggest that agents are not simply limited to “working around” shifts in material structures, but rather can deliberately give new meaning to those structures. Systemic understandings determine whether states will recognize their own authority to stabilize economic expectations. For example, depending on prevailing understandings, it may be that there truly is “no such thing as society.” Where broader attitudes disparage the existence of public interests in private restraint, domestic or international agents may be – quire sensibly – more reluctant to engage in cooperative or macroeconomic initiatives. Such efforts will likely be rewarded with a “sucker’s payoff.” For example, where Milton Friedman’s assumption that “inflation is always and everywhere a monetary phenomenon” is widely accepted, it must be because – given some increase in the money supply – workers and capitalists will each move to capture all possible relative wage and profit gains. Of course, whether this is the case may itself depend on how

successfully Friedman makes his arguments. Similarly, where attitudes support public cooperation to enhance shared interests, cooperation may make sense. Socially constructed understandings can have a self-fulfilling effect on policy possibilities. If societal agents recognize a common interest in wage-price restraint as a means to monetary stability, the money supply can double, triple or quintuple, but the price level will stay the same. Indeed, post-World War II wage, price and currency guidelines enabled states to stabilize monetary trends by fixing market expectations without relying excessively on controls or surrendering autonomy. What mattered was that market agents were confident that public guidelines would be obeyed, and so provided no significant restraints on autonomy.

If political scientists and economists carry out their analyses in a manner that reifies “microeconomic” interests and which denies the possibility that state agents may define their interests in more encompassing terms, then policy makers and other agents will be more likely to internalize and act upon those limited understandings—creating a self-fulfilling cycle in which microeconomic theory effectively constitutes the very world that it claims to explain. In this light, our goal in unearthing the implicit moral underpinnings of economic arguments has not necessarily been to exclusively advocate for one or other ethical or economic framework, but rather to insist on their central role in our political economic debates and decisions. It is incumbent on political leaders and scholars alike to recognize and justify our moral commitments. Above all, it is crucial that we realize that these tensions do exist and will persist—between the universal and the particular, the individual and the collective, the public and the private. Both micro- and macro- perspectives capture some aspect of these tensions. Neither on its own can

grasp all registers of ethical and economic existence. Yet, in denying the reality of macro-level forces, recent economic theory and practice has perhaps constrained the scope for economic and ethical debate. It may be that the pendulum has swung too far in the direction of micro-classical analysis and we have lost sight of our common interests.