

What macroeconomics can and should do

Published: January 13, 2026, 6:57 pm

I noted [Howard Reed's erudite and timely essay](#) on what he has called Deconomics on Saturday. The [original was posted in Prospect](#), who also published [a response](#) from Professor Diane Coyle, now at Cambridge University.

As I have previously noted, the opening paragraph of her response said:

Do the "tenets of neoclassicism" shape our day-to-day work as economists, as Howard Reed puts it [in his ill-informed diatribe for Prospect](#)? No—they do not.

An ad hominem did not make for an auspicious start. Matters did not improve much as the article progressed. Coyle effectively presented three arguments, in my opinion.

The first is that microeconomics does not work the way Howard Reed claims. Citing a pile of her recent reading (for no apparent reason) she says that modern microeconomics is able to relax its core assumptions to cover many of the aberrations that are found in real life, from asymmetrical data, to technological change and the fact that governments do, as a matter of fact, intervene in markets.

Her second argument is that very few economists work on macroeconomics. As she says:

Almost everybody agrees that macroeconomics—which looks at growth, inflation, interest rates and the economy as a whole—is in a troubled state. But this area is a minority field: contrary to popular belief the great majority of economists don't study it.

And then, in what I consider to be her third argument, she said:

But macroeconomics is inherently hard because there is very little data. There is only a handful of key variables, all linked to each other and changing only slowly, the outcome of multiple possible causes in a complex system, and with little opportunity for doing experiments. It will never be able to predict a crisis with a high degree of confidence.

I admit that as a series of arguments these are not the best: what they most certainly

do not do is inspire any confidence in Coyle's position. But let me look at them in turn.

I find the first argument quite odd. Most of Howard's argument related to macroeconomics. This could not have been clearer. His opening paragraph said:

When the great crash hit a decade ago, the public realised that the economics profession was clueless. The claim that "boom and bust" had been solved came crashing down, along with about 7 per cent of national income.

That's macro. Not micro. But Coyle bases most of her case on microeconomics. I can't help feeling that this is akin to a person defending their rubbish performance in the Great British Bake Off by saying they cook a magnificent roast dinner. 'So what?' would be the judges' appropriate response. Even if Coyle's defence was appropriate it would miss the point. And as it happens I do not think it is appropriate.

I know from experience that students are still taught the absurd idea that profit is maximised where marginal cost equals marginal revenue. I knew when I was nineteen that this was not true. A subsequent career in accountancy and business (which is almost unknown amongst economists) has taught me a) people do not profit maximise b) no one has a clue what marginal cost is and c) even fewer would know anything about marginal revenue. It's not just that they don't do what economists say is necessary: they could not if they wanted to do so. So why teach it as if it is the truth, and then suggest all variation from it is the aberration when it's actually laughably incorrect? This is the question Coyle does not address, and she simply misses the point as a result.

But I should add that there is also a very good reason for thinking Coyle wrong on micro. If she really knew what Howard suggests - that once there are aberrations in the market then it cannot be assumed that the market provides optimal outcomes to economic organisation - then we should expect her and other microeconomists to be offering non-market solutions to the problems they are asked to comment on at least as often as they are market-based ones. This is a testable hypothesis. And what I know is that the evidence does not support this very obvious conclusion. I can't recall the last time a microeconomics consultant looked at an issue and reported that the state should run a service because market failure made it obvious that there could be no more effective and cost-efficient way to manage the risk that market failure created than that. When such suggestions are made, frequently, then I will know that micro is free from the bias the neo-classicism builds into it.

But this does not happen, and there is a likely reason for that. It is that the prevailing view of neoclassical economics - that anything but a market-based solution is not to be preferred - does in practice prevail and microeconomists cannot tear themselves away from it. It may be that they do have the imagination to do otherwise. What they lack, I suspect, is the courage to do so in a world where only one view can prevail, and that is that the market knows best. To say anything else is unacceptable, most especially

amongst their professional colleagues.

Her second and third arguments are worse, if that is possible. I might agree that few work on macroeconomics but that's hardly a good reason for saying we need not worry about it, or that Howard is wrong to point out its flaws. The right response would be to ask why this is the case? And the answer should be apparent. It is because macro has become deeply hegemonic, largely focussing on general equilibrium analysis. In effect this takes the already unrealistic assumptions of microeconomics and compounds them, not least because fewer of the moderating influences that Coyle exist in micro reach this far. This is an issue discussed this year in a special edition of the [Oxford Review of Economic Policy](#). For those who want to learn more Simon Wren-Lewis' piece in there is worth reading on this, although the other papers add very real value as well. To summarise a complex issue, the fact is that heterodox (mainstream) macro is now based on micro foundations. In other words, micro bias is now built into almost all economics as it is now practiced. That may be why Coyle can say so few do macro.

But the fact is that we need macro and there is data. Let me offer a simple example, which does not get a mention in most current macro debate and yet which is key to the whole economic debate as it has actually developed over the last decade. That debate, which focuses on austerity, revolves around a simple equation which is expressed as:

$G - T$

G is government spending. T is government tax revenues.

According to many $G - T$ must now equal zero or be positive. Explanation for this is not easy to find on any rational basis that is not microeconomically driven, and so inappropriate.

According to the EU it had to be no more than 3% of GDP per annum. Whilst the same authority said that cumulative totals of $G - T$ should not exceed 60% of GDP.

[Reinhart and Rogoff](#) said if $G - T$ was greater than 90% of GDP then an economy was at risk. They were wrong, of course. But the legacy remains.

And the IMF have in the past week published a blog [on how to](#) create such rules, as if they mattered.

But do they? And why? And why is this not discussed? After all we do have data on G and T. This is macro. And we can say a lot more on this than we do. $G - T$ is of course heavily influenced by the tax gap. That's a macro discussion I am now writing about in my day job.

And $G - T$ can also be stated not as a constraint but as a financing function so that $G - T$ is positive until such time as long-term unemployment at optimal rates of productivity is zero. This is quite possible. But not done. So why not? Could it be that this would result

in the lesson of Keynes - that markets cannot be relied upon to deliver such outcomes would have to be noted? I suspect so.

But my key point is that there is macro we can do. And macro we should do. But to do it we have to assume that anything that exists at a macro level - call it the government and the money, tax and regulation it creates if you wish - is not an aberration to be resented but is instead a core part of the world we live in. Then macro can address real issues. No wonder no one wants to do it right now: it lives in a little bubble of its own where it fails to see bubbles that might explode coming along. Macro needs to be set free to do its job. And it can be. MMT helps that, I admit. That's why I use it, but it's more than MMT too. It's about studying the world as it is. This is what economics has to do. And it is what it is not doing. And that's the crisis Howard rightly draws attention to.