New golossary entry: macroeconomics

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Macroeconomics is the study of the economy as a whole: how national income, employment, inflation, investment, and financial stability are created and sustained. It asks how the interactions among households, firms, banks, and the government produce the level of prosperity or insecurity a society experiences.

First, macroeconomics is about estimating national income and its consequences. Total spending in an economy determines total income. In monetary terms, when households, firms, or exporters reduce spending, income falls unless another sector increases it. This is why the government's fiscal balance is not independent of the rest of the economy. As I repeatedly argue on Funding the Future, sectoral balances mean that if the private sector wants to save, the public sector must usually run a deficit to maintain employment.

Second, macroeconomics is about stability. Recessions, inflation, asset bubbles, and financial crises arise from imbalances in spending, credit, and expectations. Fiscal policy, monetary policy, and financial regulation exist to stabilise demand and prevent systemic collapse. Treating balanced budgets or arbitrary debt targets as policy goals ignores this stabilising role. Treating each tool that contributes to stability as independent of the others is a category error; they are mutually dependent.

Third, macroeconomics is necessarily about money and banking. Modern economies operate with state-backed currencies created through public spending and bank lending. Governments that issue their own currency cannot run out of money in the way households can; their real constraint is resource shortages that can cause inflation. Understanding this distinction is essential to avoiding austerity policies that damage society without improving stability, whilst also creating a true understanding of inflation and how to manage it.

Fourth, macroeconomics is about distribution over time. Investment today determines productivity tomorrow. If we fail to maintain infrastructure, education, health systems, or the environment, future income falls. Good macroeconomic policy, therefore, requires maintaining the five forms of capital - financial, physical, environmental, human, and social - rather than chasing short-term growth.

Fifth, macroeconomics is about the global system. Exchange rates, capital flows, trade balances, and international institutions shape domestic outcomes. Hot money, illicit financial flows, and regulatory arbitrage can destabilise economies unless governments use capital controls, regulation, and cooperation to manage them. Policy on these issues is therefore essential and must be transparent.

Finally, macroeconomics is about purpose. The objective is not growth for its own sake, but full employment, price stability, environmental sustainability, and social well-being within available resources. When macroeconomic policy ignores care, inequality, or ecological limits, it fails its most basic task.

Macroeconomics is therefore the discipline that explains how societies maintain prosperity at scale. Used well, it helps governments create economies that deliver security and hope. Used badly, by clinging to myths like the household analogy or an obsession with balanced budgets, it becomes a justification for policies that weaken both the economy and democracy.

See also microeconomics.