

# Towards a Reconstruction of Macroeconomics

Problems of Theory and Policy



William Fellner

*American Enterprise Institute  
Yale University, Emeritus*

Wi Theo



American Enterprise Institute for Public Policy Research  
Washington, D.C.

# Table of Contents

## Preface

### **I The Main Theme and the Nature of the Approach . . . . . 1**

1. Sketching the Content 1
2. Combining Methods of Approach 4
3. Unconvincing Objections 13

### **II Fundamentals in an Elementary Analytical Framework 19**

1. The Reorientation of Macro-Theory  
during the 1930s 19
2. The Imprint of a Past Era 22
3. The Meaning of Say's Law in a Simple  
Quantity-Theoretical Framework 24
4. Basic Elements of the Keynesian System  
and the Cambridge Equation 26
5. Income-Expenditure or Stock-to-  
Expenditure Approach? 32
6. Interdependence with the Rest of the  
World 33

### **III Employment Theory and the Price Level . . . . . 37**

1. Generalization of the Argument against  
Reliance on Say's Law 37
2. Valid Description of the Process  
behind Say's Law 38

3. The Alleged Real-Wage Equilibrating  
Effect of Inflation 44
4. The Phillips Trade-Off in View of the  
American Experience 47
5. Trends in Real Wages and in Real Profits  
during the Recent Inflationary  
Period 50
6. The Uselessness of the Distinction between  
Voluntary and Involuntary  
Unemployment 53
7. Employment Policy and Alternative  
Price-Level Targets 55
8. Success and Failure in Past Periods 58

#### **IV Induced Innovations, Distributive Shares, and Sustainable Employment along the Growth Path . . 65**

1. Rates of Return and Distributive Shares 65
2. Innovations and Income Distribution 69
3. Offsetting Tendencies 71
4. The Problem of Incompatible Income  
Claims 76

#### **V Outline of a Macroeconomic Equilibrium System and the Problem of Shortcuts . . . . . 79**

1. The Nature of a Macro-Equilibrium  
System 79
2. The "Unnumbered Equation" for the Supply  
of Output ( $Q$ ) 81
3. The Demand Side: The Symbols and  
Implications 81
4. Finding the Values of Policy Variables  
Ensuring Equality of Aggregate Demand  
with the Supply Defined in Section 2 84
5. Extreme Simplifications along Quantity-  
Theoretical Lines 88
6. Extreme Simplification along "Stagnationist"  
Lines 90
7. Leanings Contrasted with Extreme  
Simplifications 91

<b>VI Monetarist and Neo-Keynesian Leanings:</b>	
<b>Useful or Misleading Labels? . . . . .</b>	<b>93</b>
1. Simplifications Involving Interest Rate Effects . . . . .	93
2. What Is Behind a Simple Regularity? . . . . .	99
3. Appraising the Monetarist Emphasis on <i>M</i> Targets . . . . .	108
4. Labels that Misdirect Attention . . . . .	110
<b>VII Policy Problems, Present and Future . . . . .</b>	<b>113</b>
1. The Immediate Antecedents: Overexpansion and Commodity Shortages . . . . .	113
2. The Main Difficulty: The Public's Self-Justifying Skepticism about Policy Makers . . . . .	116
3. Limited but Improving Foresight: Introductory Observations on the "Troika" Forecasts . . . . .	118
4. The Forecasting Record from 1962 to 1975 . . . . .	121
5. The Break in the Mid-1960s . . . . .	124
6. Gradualism and Abruptness . . . . .	126
7. Subsistence Guarantees, Market Power, and the Problem of Measured Unemployment . . . . .	128
8. Turning from the Spurious Distinction between Voluntary and Involuntary Unemployment to Substantive Problems . . . . .	131
9. The Alternative . . . . .	135
10. The Future of Macroeconomics . . . . .	137
<b>Numbered References . . . . .</b>	<b>141</b>
<b>Index . . . . .</b>	<b>147</b>