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Microfoundations: Introduction ‡

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The microfoundations debate has now been a live issue for more than half a century, and shows no signs of abating. An early attempt to link Hick's IS-LM model with the conceptual structure of general equilibrium models, with tâtonnement adjustment of prices as postulated by Walras, occurs in Patinkin's 1956 book *Money, Interest, and Prices* (Durlauf and Hester 2008). Lucas's 1976 paper 'Econometric Policy Evaluation: A Critique' transformed the discussion of microfoundations and rendered the search for microfoundations an imperative for generations of macroeconomists. Recent additions to the literature include John King's 2012 book (reprinted in 2014) *The Microfoundations Delusion: Metaphor and Dogma in the History of Macroeconomics* and Pedro Garcia Duarte and Gilberto Tadeu Lima's 2012 collection of papers *Microfoundations Reconsidered*.

This symposium of papers originates from an October 2009 workshop, 'Microfoundations: The Legacy of New Classical Economics', organised by Jan Toporowski, and held at the School of Oriental and African Studies, University of London. Subsequently, some workshop papers have been withdrawn and others recruited, leading to the collection presented here, which demonstrates the range of work taking place in this area of research. The symposium comprises papers by Jan Toporowski, Victoria Chick, Anthony Evans and Paul Dragos Aligica, Alessandro Vercelli, and Andy Denis. These papers, despite overlaps and clashes, offer no common theme or consensus view, but they illustrate key issues that have arisen from the controversies of the microfoundations discourse.

Perhaps the nearest to a theme that emerges is that Toporowski, Vercelli, Denis and Chick all argue against the attempt to reduce macroeconomics to microeconomics,

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contending that this greedy reductionism (Dennett 1995, p. 82) necessarily misses important factors in the relationship between the micro and the macro. For Toporowski (2016), what is omitted is both the key importance of the circular flow of income in integrating individual choices and the fundamental difference between two classes of micro agents: firms and households. For Denis (2016), what is left out is intention and he posits that all microeconomic behaviour takes place in the context of social relations which determine the payoffs which micro agents face; the question, therefore, is not simply what the rational individual will do, so much as where the incentives come from which lead individuals to the behaviours consistent with specific macro outcomes. For Chick (2016), micro decisions and macro relationships interact in a complex feedback pattern which to ignore is to commit the fallacy of composition. Finally, for Vercelli (2016), the methodological requirement of microfoundations precludes the consideration of those emergent properties of macro entities that depend upon the interaction of economic agents. There is thus some overlap in the standpoints of these papers relative to the issues of reduction and emergence.

Yet even here, the paper by Evans and Aligica (2016), setting out an Austrian economics view of the microfoundations issue, takes a contrary view, arguing for important points of contact between the standpoints of Hayek and Lucas. This is surprising as Lucas seems to embody all those qualities of neoclassical thought that Austrian economists most object to – the substitution of a static general equilibrium for restless equilibrating forces, and the intense mathematisation of the discipline, to name but two. It is well known that Lucas for a brief interval regarded his work as standing in the same tradition as Hayek, a view which he fairly quickly abandoned, attributing it to his own mis-reading of the Austrians. Evans and Aligica take the view that there are nonetheless continuities between the two standpoints. For them, the alleged reductionism of the microfoundations programme is not an issue; rather, Hayek played a role, and the Austrian school still has an important part to play, in the microfoundations programme by building on both Lucas and Hayek.

It is clear that the assertion of the need for microfoundations of macroeconomics remains intensely controversial, and it may be forecast that the debate will continue unabated for some time to come.

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