COMMENT

'A Non-Walrasian Model of the Business Cycle' by Jean-Pascal Benassy

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Jean-Pascal Benassy's macroeconomic study provides a sharp contrast to the preceding chapters that emphasize microeconomic foundations. He reminds us of the methodological advantages of the aggregative point of view. Because macro models economize structure they permit the derivation of sharp and interesting results that go well beyond the question of existence and comparative statics that dominate standard micro theory. No one can appreciate this fact more than those here who have modelled dynamic phenomena using microeconomic concepts where the higher model complexity ever presses downward the analytical benefit-cost ratio and ever presses upward the need for computer simulation. Especially in the disequilibrium arena, because of the added structure required to guarantee viable dynamics, the cost of micro modelling is high. One can, however, with a few deft Keynesian strokes describe a disequilibrium macro model and derive its salient dynamic properties.

Benassy's model preserves crucial non-linearities. This necessitates difficult global analysis of dynamic behavior. The payoff is increased qualitative realism with low order equations. It has been a long time since Hicks, Kaldor and Goodwin contributed the initial non-linear theories of the business cycle. It seems worthwhile reviving the approach now that improved mathematical tools can enhance the analysis.

The author also introduces price adjustment explicitly, the absence of which is perhaps the most important restriction in the standard IS–LM framework. The results illustrate the important point that the mere existence of price adjustments cannot guarantee the emergence of equilibrium, a mistaken presumption at the root of much discussion of the market system.

Indeed, perpetual disequilibrium seems to me to be a much better representation of the facts than is equilibrium. The great contribution of market processes in the organization of economic activity is in my view not that of bringing about equilibrium, which — as I argued in my own paper — it fails to do, but in maintaining viability among decentralized agents, that is, in making possible continual production, exchange and consumption in disequilibrium. The theory of disequilibrium economics must involve these microeconomic foundations, a subject to which Benassy has been an important contributor.

It has been fashionable for many years to denigrate macroeconomics, and many economists express the view that it is only in the microeconomic realm that we have rigorous knowledge. My own view is that the great macroeconomic writings compare rather favourably with those in the microeconomic genre in spite of the contrasts in the type and level of mathematics used. (I think of Hansen, Kalecki, Lundberg, Metzler, Modigliani, Okun, Ohlin, Samuelson, Tobin, not to mention a host of younger authors who might be included.) I think it especially noteworthy that a mathematical economist of the general equilibrium school should venture into this macroeconomic realm where much serious analytical effort needs to be allocated.