A Post Walrasian Explanation of Wage and Price Inflexibility and a Keynesian Unemployment Equilibrium System

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The issue of wage- and price-level flexibility has been at the heart of macroeconomic debates over the last 50 years, and it continues to be central to modern theoretical macro debates. As the in-vogue macro models have shifted from assumptions of instantaneous flexibility of prices to assumptions of fixed prices and wages, and back again—so too have the younger economists' general acceptance of different macro models. The early Keynesian models were built on a foundation, and acceptance, of relatively fixed wages and prices, and within that foundation the Keynesian models found general support among then-young economists, with older economists for the most part sticking with their earlier Classical views. Then, when economists tried to develop micro foundations for that wage- and price-level flexibility, and did not find reasonably good explanations for it, the young economists abandoned those Keynesian models and switched to more Classical models. Keynesian economists, who in the interim had become old economists, dismissed the Classical models as irrelevant game playing.

The failure to reach a resolution on this issue, and the failure of one group to convince the other group, suggest that the problems involved here go deeper than simple logic. The argument presented in this paper is that the difference between the two views is more fundamental than merely believing or not believing in menu cost, or efficiency wage explanations of wage and price fixity. The argument is that the differences are a matter of vision; the two alternative assumptions represent fundamentally different visions of how markets work in the economy. I have elsewhere called these different visions the Post Walrasian vision and the Walrasian vision. (Colander, 1996)

In a Post Walrasian vision wage and price inflexibilities require no partial equilibrium micro foundations. Instead, they have what I call a *systemic micro foundation*--by which I mean that its explanation for wage and price flexibility lies in the theory of institutions underlying the markets, not in the decisions of individuals given otherwise perfectly competitive markets. Accepting this systemic micro foundation gives one a fundamentally different view of the macroeconomic problem than does the Walrasian vision. Specifically, it puts Keynesian economics on as firm a micro foundation as New Classical economics. They just assume different institutional structures. Deciding between these two micro foundations makes the choice of which model to use *an empirical issue*—unresolvable by analytic debate.

The Post Walrasian vision is not new; it has been around for a long time, maintained by a diverse group of economists, one of whom is John Cornwall. John has been steadfast in maintaining this vision, both in his writing, and in the legacy of understanding he has passed onto his students. Thus, it is an honor to contribute this Post Walrasian essay to a volume in his honor.

The Post Walrasian Vision

The Walrasian framework has, at its core, a general equilibrium theory which pictures abstract markets coordinating economic activity through changes in relative prices. Markets somehow exist, and coordinate costlessly. This vision is well known and I will not discuss it here. The Post Walrasian framework is based on a fundamentally different vision of the economy than is the Walrasian framework. The Post Walrasian vision is of a functionally complex economy, by which I mean an economy with complex dynamics and multiple equilibria.

In a functionally complex economy, coordination mechanisms, such as an institutionally specified market, are necessary; some unspecified "market" cannot be assumed to coordinate individuals' actions. How is this institutionally specified coordination accomplished? In the Post Walrasian vision the coordination is accomplished via institutions that place constraints on individuals. These institutions limit individual's range of choice, thereby reducing the set of achievable equilibria. Given institutions, there may be a unique equilibrium, but *that equilibrium can only be understood in reference to the institutions that play a central role in determining it.* In order to have a full analytic model within the Post Walrasian vision, one must (1) model the institutions within which individuals interact; (2) explain how those institutions are compatible with the assumptions of individual rationality that one has made, and (3) explain how those institutions play a role in the determining the equilibrium of the economy.

In modeling those institutions, I have argued that a sequential modeling approach is necessary. All questions cannot be addressed simultaneously, and, at any moment in time, most individuals simply accept large numbers of institutions, and the constraints those institutions place on them, in order to reduce the complexity of decision making to a manageable level.

In the absence of sequentially determined decision making, and acceptance by individuals of social conventions and institutions, the complexity of interactions would lead one to expect that aggregate results would fluctuate wildly. That doesn't happen to anywhere near the degree that the complexity of the interactions would lead one to predict. Walrasians interpret that lack of fluctuation as an indication that their unique equilibrium approach is the correct one. Post Walrasians interpret that lack of fluctuation differently; they see it as an indication of the central role of institutions limiting the interactions in the economy to manageable proportions for individuals, and thereby creating a surface stability over a core of chaos.

Thus, the Post Walrasian view is that the economy processes information in a quite different way than is assumed in the Walrasian view. In Post Walrasian economics much of the information processing is built into existing institutions, and is not fully understood by the participants. Specialists may understand parts of it and they may be working on changing institutions to take advantage of that understanding, but the

complexity of the economy precludes a full understanding, and complete reliance on the results of their analysis. Post Walrasian rationality has local, institutionally-based, characteristics; it is bounded, not global, rationality.

Institutions as Operating Systems

An analogy to a computer may shed some light on this Post Walrasian view of the role of institutions. A computer has a general design, an operating system, software built around that operating system, and sub software built around that software. In using the computer most individuals take the existing software for granted, much as they take institutions for granted. They operate within the limitations of that software, and their rationality is defined by that software. Thus, when someone asks, Why hit *Control Z* when the computer isn't responding? the answer is, "That's what one does." Implicit in this response is the acceptance of a DOS environment. In a MAC environment, hitting Control Z is meaningless. Other aspects of rationality carry over between the two environments—double clicking with a mouse, for example, to open a file.

The same thing happens with institutions; individuals accept the constraints imposed by institutions on their actions as necessary constraints to operate in a complex environment. When asked why one drives on the right hand side of the street, one responds, "That's what one does." Similarly when asked why one displays the degree of honesty that one does, a real person does not respond, "I have analyzed the situation and determined that, given the costs and benefits, that is the optimal degree of honesty to reflect" as a Walrasian Homo Economus would. Instead, a Post Walrasian individual would say, "It's what is right." Now this doesn't mean that Post Walrasian Homo Economus is honest, or that he or she doesn't take costs and benefits of being honest into account. Instead it simply means that there is a large non-linear cost to determining optimal actions, and in many areas, the rational decision is to learn what is, and is not, institutionally acceptable, and generally follow those institutional rules.[1] Post Walrasians follow what Herbert Simon calls process rationality.

This sequential choice view of how the economy operates also dictates the modeling strategy used. To have a full model one must have a set of multiple nested systems—one explaining why institutions and sub-institutions are adopted. Most models will not concern such grand theories; instead they will accept existing institutions as given, and incorporate the constraints—like knowing about double clicking or Control Z—of those institutions into the analysis. One of the most important considerations for individuals will be limiting the nature of the decision they are making—efficiently reducing the amount of information processing they can do. Thus, the macro constraints on micro behavior will be a central part of any but the grandest of models. They certainly

[1] By including a psychic cost of being dishonest one can make the cost/benefit approach tautological, but that simply translates institutions into something that affects the individual's taste and hence part of the analysis since tastes can no longer be assumed exogenous.

play a central role in all short run analysis; they place constraints on the type of behavior that can reasonably be assumed.

This computer analogy also sheds light on the multiple equilibria aspect of Post Walrasian macro, how it pictures institutions leading people to choose among those equilibria, and the approach to policy it suggests. In the grandest of models there are many operating systems, and the choice of one of them will exclude others. Most policy issues are addressed--given an operating system, and hence it is difficult to make any global statements about optimality from models derived from observations grounded in existing institutions. The results garnered from such models will be at best suggestive about policy.

The Post Walrasian Production Function

In terms of textbook modeling of the macro economy, the difference between the two visions can be conveyed pedagogically in the specification of the aggregate production function. In the Walrasian vision, that production function is generally seen as an individual firm production function writ large—you have a big capital, and a big labor, variable, rather than a small capital and small labor variable, otherwise the issues are the same.

In the Post Walrasian vision, that jump from individual to aggregate is unacceptable. The problem of production for the economy as a whole is quite different from the problem of production for one individual. In a real world economy, complex trades have to take place to make the aggregation meaningful and those complex trades require a specified institutional structure. Thus, when one aggregates one must simultaneously adjust the model of aggregate production to correspond to the institutional structure that allows the economy to trade. *In a complex economy production for the economy requires trading institutions, conventions, and social mores that made that trading possible.* Complicated game theoretic interactions must be resolved, and conventions developed that provide an acceptable level of stability for the economy. Market structures that reflect the complexity of that process, and which play a role in making coordination in a complex system possible, incorporate institutional solutions to those game theoretic problems. What this means is that in the Post Walrasian vision, *market structure is not exogenous to the system, but endogenous to the core of the system.* Market structure is part of the economy's operating system.

The formal analysis of endogenous market structures with sequentially determined equilibria is an enormously complicated issue. My interest in this paper is not in that formal specification, which is an emerging research program, but is in finding a pedagogical way of conveying these ideas to students. With the standard aggregate production function doing so is impossible. Coordination issues are implicitly embodied in the specification of the aggregate production function, and are not considered. The standard analysis jumps from the individual firm to the aggregate without any discussion

of the coordination problems among firms that are required to be solved before one can logically make such a jump.

To capture the aggregate coordinating problems that exist in the aggregate, but do not exist in the individual production functions, the aggregate production function must be modified to allow for the potential coordinating problems that can develop. The modification I have proposed (Colander, 1995) is to include a coordination variable in the aggregate production function. The change means that, instead of being specified as a direct relationship between inputs and outputs, as it is in the standard Walrasian production function, the aggregate Post Walrasian production function is specified with an explicit coordination variable in it:

$$q = f(K,L,C)$$

Coordination is achieved by the institutional structure, of which markets are a part; that coordination will involve discretionary action by various actors in the economy. It is, itself, a produced good--requiring capital and labor; thus it has its own production function:

$$C = f(K,L)$$

What is important about this coordination when thinking about wage and price flexibility is that the market structures that society chooses to coordinate will impose certain constraints on the market coordination. These constraints create market coordination problems when viewed in relation to perfectly competitive markets, but they are necessary constraints. Without them the economy would be worse off. It is that insight--that institutional constraints are inevitable to make a functioning market--that is central to the Post Walrasian micro foundations to macro analysis.

While adding a coordination variable to the production function may look like a small change, it has enormous implications. It requires that the choice of institutions must be integrated with the analysis of market coordination within institutions. This modification also changes the role of economists in the economy. Using the standard Walrasian production function, economists are placed outside the system. In this coordination-augmented aggregate production function, economists have an explicit role; they are the economy's investment in analyzing and improving coordination. Their job is a technical one—to help the economy find the optimal method of coordination. Thus, economists are not outside the economy, but are, instead, system engineers who study how different institutions coordinate, who help advise how to design new institutions, and who give advice on how to coordinate activities given existing institutions.

This respecification blurs the distinction between market and non-market institutions. It removes the implicit presumption (that there is in the standard Walrasian approach) that a perfectly competitive economy will operate efficiently. Given different degrees of coordination, the same inputs can bring about different outputs. There is no assumption of a unique equilibrium, and both real and nominal output can be expected to

fluctuate independently of relative price changes as strategic decision-making results in different outcomes.

With this modified production function, one must ask how wage- and price-level flexibility affects coordination—a question that from a Walrasian framework is a non-question. In the Walrasian interpretation, it is a tautology that if there is wage- and price-level flexibility, the economy will be better off than if there is not. There is an assumed long run anchor—the equilibrium arrived at if perfect wage- and price-level flexibility exists—that can serve as a reference point by which one can judge short run positions. In the Post Walrasian view, that anchor does not exist; thus there is nothing necessarily wonderful about wage- and price-level flexibility. In that Post Walrasian view, the degree of wage- and price-level flexibility is built into the market institutions, and cannot be separated from the workings of the market.

The Interplay between Various Dimensions of Coordination

In my thinking about the macroeconomic coordination accomplished by the market, I find it useful to distinguish three interdependent dimensions of coordination. One is the institutional coordination accomplished by the system coordinating institutions; a second is the coordination accomplished by discretionary actions by players in the market given those institutions, and a third is the coordination accomplished by discretionary government actions given the chosen institutions. While both the second and third types of coordination involve discretion, it is discretion that is built into the institutional structure. This division leaves two interactive areas of coordination--market coordination, and government policy coordination. But it is important to remember that these two types of coordination reflect choices made in the systemic institutional structure coordination. [2]

Why might the optimal institutional design involve less than instantaneous price and wage flexibility? One answer is that in order to handle the complex trades our economy requires, a monetary system with a unit of account is chosen. This decision to use a monetary unit of account imposes significant constraints upon the allowable degree of price level flexibility in the system. Once one defines contracts in nominal terms, any significant fall in the price level would create tremendous redistribution of wealth, driving many firms and individuals bankrupt. As they go bankrupt, other firms they owed money to would go bankrupt and soon the whole economy would likely be in shambles. True, one could redo all contracts so that they were indexed, but that indexation would be extraordinarily costly and would undermine many of the advantages of the monetary unit of account system. Indexing contracts would involve systemic change, and could not be accomplished in any short run period. In my view many of the social conventions that current markets have, such as relatively fixed nominal wages and prices play a role in this extra-market systemic coordination function. Individuals know that when they go to a

[2]This overall framework of viewing coordination encompasses the Walrasian view as an extreme case of institutional choice--one assigning all discretionary coordination to the market, and none to government policy.

store the prices they will face are roughly the same as they were the last time they were at that store. That knowledge is necessary for our current market system to operate.

The choice of a "less than instantaneous flexible price" market structure means that coordination problems will exist that discretionary action by market players will not resolve. One of those coordination problems will involve coordination of supplier's expectations of demand. These are important, given our existing market structure, because the amount firms supply depends on the expected demand for their product, and thus, expected demand becomes a determinant of the quantity suppliers choose to supply. If the institutional coordination factor allows such fluctuations in expected aggregate demand, aggregate supply will fluctuate, and, as it does, actual aggregate demand will also fluctuate.

What I am arguing is that the degree of an economy's wage and price flexibility is most sensibly thought about as a systemic constraint. Any equilibrium that the economy arrives at because of that constraint--even ones involving large amounts of unemployment and underutilized resources--can reasonably be considered an (institutionally-constrained) equilibrium, even though, viewed from an unconstrained system, it might be seen as a disequilibrium.

The above discussion does not deny the near tautology that unemployment can only exist if the wage is, in some sense, inflexible. This is true whether or not you have a Walrasian or Post Walrasian system. *If you have perfectly flexible wages, you cannot have unemployment.*[3] But would the people in a system necessarily want perfectly flexible prices and wages? That is a more complicated question.

In a Walrasian system in which full employment is synonymous with optimal output, it is relatively easy to give a yes answer: If you can have perfectly flexible wages, you would want them. It is also not beyond reason that even if one cannot have perfectly flexible wages, one would want to have as flexible wages as possible; i.e., that the more flexible wages one has, the closer to optimal output the economy will reach. That proposition is the essence of the Walrasian vision and use of a full employment equilibrium as the long run.

How Wage and Price Flexibility Can Undermine Institutional Coordination

In a Post Walrasian system, wage flexibility can undermine the coordinating functions of existing markets, and can be associated with a much lower level of overall output. Once one has chosen an operating system with relatively fixed nominal wages and prices, significant changes in those wages and prices involve giving up the current

[3]It is possible by assuming no equilibria to require qualifications to this statement, but even discussing those qualifications only makes sense in a Walrasian framework; in a Post Walrasian framework it is a silly debating point irrelevant to the central debate.

operating system, significantly lowering the achievable potential output. So, while unemployment can be eliminated by flexible wages and prices, doing so will not necessarily improve social welfare. To see this, consider the following table.

	Potential Output and (actual output)	Operating System's Degree of wage and price flexibility	Unemployment
A	100 (80)	Relatively Fixed	10%
B	50 (50)	Perfectly Flexible	0%

Picture State A as a short run disequilibrium of our current economy in which the economy has fallen into an expectational conundrum causing actual output to be 20% below potential output and unemployment to be 10%. The reason for that unemployment is inflexible wages. But the relatively fixed wages and prices are inherent in the operating system. If one institutes a policy to achieve perfectly flexible wages and prices, and hence achieve a full employment equilibrium, one would have to give up the current operating system. Doing so leads one to State B. It is an equilibrium system that does not depend on the current operating system. It is a full employment state, but it is highly unproductive. It involves production in an economy in which the social stability imposed by relatively fixed wages—stability that was necessary to make full use of modern technology—is absent.

In a Post Walrasian system, it is not at all clear (interpret: almost impossible) that the system would want perfectly flexible wages. Specifically, if wage level flexibility reduces the degree of institutional coordination in the economy, it can reduce the potential output equilibrium that the economy has arrived at sufficiently to make the full employment equilibrium less desirable than the unemployment disequilibrium. Which of these two composite choices would society make? If some method exists of transferring income from employed individuals to unemployed individuals, it is quite obvious that there would be a strong argument for State A.

So that I can be clear in Exhibit 1 I put the argument geometrically in terms of the coordination augmented production functions and labor market analysis.

insert Exhibit 1

Let us assume that the economy starts fully coordinated both structurally and expectationally within the existing institutional structure. The production function is F*(C*), the * standing for the optimal institutional structure and the optimal expectations coordination given that institutional structure. The marginal product of labor, given perfectly coordinated expectations, is given by the $D^*_L(C^*)$ curve. The supply of labor is assumed perfectly inelastic at L*. Given this situation the economy is at a full employment equilibrium with output level Q* and full employment of labor L*.

Now assume that an expectational demand shock hits the system that makes suppliers believe that other suppliers are going to reduce output. Expectational coordination falls from C* to C´ and the existing production function shifts down to F*(C´). This fall causes the demand for labor curve to shift down to D^*_L (C´), and, since

the existing system involves fixed wages and prices, that shift embodies a decrease in labor demand from L* to L´. The constrained labor market equilibrium is at point A. The reduction in workers hired brings the worker's marginal product back to where it initially was equal to the real wage. The system is in an under-full employment equilibrium due to the fixed wages, but it is at a lower output level, Q´, because of suppliers' demand expectations coordination problem.[4]

That under-full employment equilibrium, however, may be the best that the economy can do under existing coordinating institutions. To see this, let us now consider what would happen if perfectly flexible wages and prices were imposed on the system. That would change the institutional coordination of the system, and it might shift the production function down further, say to $F_1(C^*)$, and the demand for labor curve to $D_{1L}(C^*)$. The production function falls because we have removed the coordinating function that the market structure connected to fixed wages and prices were providing.[5] Given that production function, $F_{1,}$ the economy would be at full employment but it would be at a lower level of output, Q_1 than it would be at if it maintained an inflexible wage and price level operating system. Thus, *wage flexibility* would bring about full employment, but would *reduce output* by $Q´-Q_1$. The loss in structural coordination exceeds the market coordination gained by instituting the wage and price level flexibility.

The above simple example captures the central idea of the Post Walrasian explanation of the role of wage- and price-level flexibility.[6] Too much wage and price level flexibility may be bad for the economy. In economics we have a habit of arguing that if slightly tweaking an equilibrium improves the situation, then continuing in that direction will do even more good. Post Walrasians argue that that extension does not necessarily follow. To ask whether, given an inflexible wage level system, slightly modifying the degree of wage flexibility will improve the efficiency of the system, is quite different than to ask whether a movement to a perfectly flexible wage system will improve the efficiency of the system. According to the Post Walrasian approach much of the debate about wage level flexibility has confused the two questions.

Is the Post Walrasian Explanation the Keynesian Explanation?

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[4]It is possible for analytic purposes to divide the cause of the unemployment up into two components. The fall from Q* to Q_h is due to expectational coordination problems; the fall from Q_h to Q´ is due to the fixed real wages that is necessary for the F* production function to exist.

[5]That fixity provided sociological coordination--getting people to accept the existing relativities without objecting to the current system, or having a breakdown of existing social norms.

[6]The central ideas carry through to the real world even though the example presents the choice far too starkly. The issue is seldom so clear. Operating systems can be changed and tweaked, and each operating system may be associated with different degrees of wage level flexibility. One might be able to modify the system so it had more wage level flexibility, but no price level flexibility. The analysis of doing so is, however, an institutional analysis, and must be analyzed within a larger context than is generally done.

While I would not say that Keynes, or even all Keynesians, had this Post-Walrasian explanation of wage and price level stability in mind when they discussed wage and price flexibility, I would say that, at least some of the time, they had it in the back of their minds, and it was one of the explanations they used to justify their assumptions. They fully understood that while a flexible aggregate price level might theoretically " save" the economy from having any unemployment, practically it would not. Consider the following statements:

Keynes on a flexible wage policy:

While a flexible wage policy and a flexible money policy come, analytically, to the same thing, inasmuch as they are alternative means of changing the quantity of money in terms of wage-units, in other respects there is, of course, a world of difference between them.

Having regard to human nature, it can only be a foolish person who would prefer a flexible wage policy to a flexible money policy...." (John Maynard Keynes, 1936, p. 268.)

Abba Lerner on the role of wage flexibility:

The [Keynesian/neoclassical synthesis,] with its assumptions as spelled out by Keynes, shows how flexibility of wages leads to full employment. Only an inflexibility would prevent the automatic mechanism from bringing about full employment. Why then did Keynes repeatedly insist that inflexibility downward of wages (and consequently of prices) was not the issue and would make depressions worse rather than better?

The answer to the puzzle is to be found in distinguishing between two different meanings of "flexibility." The flexibility required for the Neo-Classical model is an *ideal* flexibility that Keynes considered of no relevance for any problem of the real world. The spelling out of the implicit assumptions was undertaken by Keynes only in order to show up the ideal and impractical nature of the implied flexibility, and all the more effectively to *reject* the assumptions and to dismiss any reliance on that kind of flexibility. Indeed he did not even find it possible to take it seriously. (Abba Lerner, 1978, p. 63.)

Paul Samuelson on the role of wage and price flexibility:

We always assumed that the Keynesian underemployment equilibrium floated on a substructure of administered prices and imperfect competition. I stopped thinking about what was meant by rigid wages and whether you could get the real wage down; I knew it was a good working principle, a good hypothesis to explain that the real wage does not move down indefinitely so long as there is still some unemployment. Thus I assumed a disequilibrium system, in which people could not get on the supply-of-labor curve.....

I guess I should emphasize this: (During the Depression) I spent four summers of my college career on the beach at Lake Michigan. I did not have a wealthy family and

they could have used the income that I would have produced if I had worked, but it was pointless to look for work. I didn't even have to test the market because I had friends who would go to 350 potential employers and not be able to get any job at all. I was very conscious that the unemployed had no way of going to General Motors and offering to work for less than those who were already working there, no way of displacing already-employed workers. Moreover, the question would be: Why didn't little firms take over the automobile industry, or the steel industry, by starting up in Tennessee with low wages? And the answer to that was we thought of the Fortune 500 companies as requiring a tremendous amount of capital. Free entry was not a feasible thing and there was over-capacity in all lines. This goes back to the system being floated on imperfect competition and increasing returns technologies. (Paul Samuelson in David Colander and Harry Landreth, 1995, p. 161.)

Samuelson on the nature of equilibrium in a model:

(When I didn't worry about micro foundations) I also probably had in mind, if you want to know why my conscience wasn't worse, the lectures I had in mathematical economics from Old Edwin Bidwell Wilson. He started life as a mathematician and mathematical physicist and was Willard Gibbs' last protege. He would describe equilibrium like this: You leave your car in the MIT parking lot overnight. The rubber tire is a membrane which separates the inside of the tire from the atmosphere, and because of this stiff wall there's an equilibrium difference in pressure. Wilson would say, "Come back a thousand years later, and that tire will be flat." That was not strict equilibrium. It's just a very slowly adjusting disequilibrium. The time period was involved.(Paul Samuelson in David Colander and Harry Landreth, 1995, p. 163.)

Conclusion

The above argument will, I suspect, provoke four types of reactions in readers who do not share the Post Walrasian vision. Keynesians will react in two ways.

Some will say that it is obvious, and hardly worth saying. My answer to this group is that what is obvious to one group often is not obvious to others; seemingly unresolvable debates occur when something obvious is not explained, and that obvious explanation incorporated in the argument. As Keynesian ideas were formalized, this obvious explanation for wage- and price-level flexibility was implicitly ruled out by the Walrasian unique equilibrium simultaneous equation framework within which the formalization was done. Had the Keynesian model explicitly stated the need for an institutional framework that incorporated fixed, or slowly adjusting, wages and prices as a systemic constraint, not as an imperfection, many of the latter debates could have been avoided.

Other Keynesians will say that it is not what Keynes or the Keynesians had in mind at all, and they will be able to point to other quotations where Keynes and the Keynesians supported a quite different view. My answer to this group is that they are

right. Keynes, and Keynesians, said many things, many of them inconsistent. My argument for this Post Walrasian systemic explanation of wage and price level stability is formulated for economists of the 1990s who are trained in a different fashion, and in a different tradition than earlier economists. Arguments are part of a framework of discussion, and it is unlikely that arguments made 50 years ago would have the same structure as arguments made today. My only historical point is that this view is consistent with some aspects of earlier Keynesian thinking, such as that which John Cornwall has consistently expounded. Clearly, if it had been consistent with all aspects, they would have said it explicitly rather than simply mentioning it at places.

Similarly, new Classicals will respond in two ways.

Some will argue that the systemic constraint argument is too easy—it misses the point that markets adjust, and while, yes, the market may experience systemic constraints in the short run, in the long run wage and price flexibility will reign, and that coordinating through the market price adjustment is the best policy. My answer to this group is that nothing in the argument presented precludes the possibility that long run wage and price flexibility may be the best policy. But that is an argument that must be made, and current Classical models do not make it. They simply assume it. Once one accepts that wage- and price-level flexibility imposes a systemic constraint on the system, the effect of that systemic constraint on that equilibrium must be incorporated into the dynamics of one's explanation. If one accepts this view, then the nature of the macro models and forms of argumentation in macro will change. Specifically, searching for a micro foundation independent of the structure of the economy will no longer be a meaningful search.

Others will respond, “So that is what is meant by Keynesian economics; had I known it I never would have become a new Classical, and I would have followed a quite different research agenda." (This would only be said in their heads, and would be quickly forgotten via cognitive dissonance.) “But since I have already established too much specific human capital in my current research agenda, I will simply continue in my current path, and ignore any such Post Walrasian arguments.”

To this last group, I have little to say other than that their answer itself shows the importance of systemic constraints, and shows how a profession can get moving toward an undesirable equilibrium, and remain there, even though almost all individuals know a preferable equilibrium exists.

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