

Commentary

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Diagnoses and prescriptions: macro vs. micro

Diagnoses of maladies afflicting the economies of the United States and other developed countries fall into two distinct classes. For convenience I give them the shorthand labels "macro" and "micro." Prescriptions differ correspondingly. Of course the physicians of each camp have plenty of disagreements among themselves. And some manage to inhabit both camps.

The common feature of macro diagnoses is the view that the central problem, today as in the past, is to reconcile high employment of labor and capital with stability of prices or, at least, of inflation rates. Conflict between these goals has been the basic dilemma of macroeconomic policy in advanced democratic capitalist economies for nearly 40 years, especially the last 10. Failure to resolve the conflict by monetary and fiscal policies has been the principal source of business fluctuations and of interruptions to economic growth. Its resolution is the key to prosperity and progress for the rest of the century.

Macro physicians do not deny that the economies of the United States and the rest of the world also face some challenging microeconomic adjustments. They do, however, deny that these are of such unusual magnitude that, given a clement macro climate, they could not occur via the normal processes of private and public initiative in our mixed economies. The impression that problems of structural adjustment are of a new, high order of magnitude reflects from two optical illusions. One is to overlook the dramatic structural changes — in the technology, composition, and location of production and employment — that have occurred in the past. The other is to misidentify as micro-structural the numerous cases of economic distress that are the natural consequences of *macro* policies and events.

