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Barro R J & Grossman H I. A general disequilibrium model of income and employment. *Amer. Econ. Rev.* 61:82-93, 1971; and **Barro R J & Grossman H I.** *Money, employment and inflation.* Cambridge, England: Cambridge University Press, 1976. 263 p.
[University of Rochester, NY and Brown University, Providence, RI]

The paper described the application of a general disequilibrium approach to familiar problems of macroeconomic analysis, yielding some familiar results in a more satisfactory manner than is possible under more conventional analysis. The book provided a thoroughgoing treatment of our research on disequilibrium macroeconomics. [The *SSCI*® indicates that these works have been cited in over 325 and 285 publications, respectively. The article is the most-cited paper published in that journal to date.]

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My research with Herschel I. Grossman on disequilibrium macroeconomics has exerted a significant influence on Keynesian economics. I am often teased about the work, because I subsequently shifted my focus to the equilibrium-style modeling of the new classical macroeconomics.^{1,2} Whereas the Keynesian approach stresses market failures as the way to understand aggregate business fluctuations and to formulate policy advice, the new classical view emphasizes the effective operation of private markets. Although business fluctuations may occur because of shocks to technology or the financial system, incomplete information and adjustment costs, etc., the models tend to imply a limited role for government intervention.

While I would not minimize the differences in outlook between these two ap-

proaches to macroeconomics, I would argue that my own shift in thinking is less than most of my colleagues believe. In the late 1960s the Keynesian model was the only game in town with respect to macro modeling. Therefore, while I had reservations about the underpinnings of this theory—especially in regard to the assumption of arbitrarily sticky prices and/or wages—it seemed reasonable to work to improve these models. In this narrow sense I think that Grossman's and my research was successful. We clarified the interplay between goods and labor markets in a setting where prices and wages could not adjust rapidly and rationing of goods or jobs came into play. We elaborated on the source and meaning of the Keynesian multiplier, and we showed that the standard case of general excess supply had a parallel in terms of general excess demand. The latter case, which can be enforced by governmental price controls and rationing of goods, seems empirically relevant for the command economies of the Socialist bloc.

Despite the success that Grossman and I attained, I eventually determined that the underlying flaws in the Keynesian model were fatal. Arbitrarily sticky prices and wages were basically a theoretical cop-out and did not proxy satisfactorily for the truly difficult economic problems that an economy faces. For that reason, I went on to models that dealt explicitly with incomplete information, adjustment acts, and so on, but did not rely on unexplained price rigidities.³ This equilibrium approach has met with considerable success, although a full understanding of business cycles and government macro policies is not yet at hand. In any event, while substantial problems remain in developing satisfactory macrotheory, I cannot see returning to the Keynesian disequilibrium framework as a way to help with these problems.

1. Barro R J. Second thoughts on Keynesian economics. *Amer. Econ. Rev.* 69:54-9, 1979.

2. ———. A capital market in an equilibrium business cycle model. *Econometrica* 48:1393-417, 1980.

3. ———. Rational expectations and macroeconomics in 1984. *Amer. Econ. Rev.* 74:179-82, 1984.