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Convergence? Thoughts about the evolution of macroeconomics over the last 40 years

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M. Ayhan Kose opened the discussion by complimenting the appendix of the paper. He noted that Blanchard had emphasized the substantial convergence of ideas in macroeconomics but wondered about his views on the pace of convergence. He also asked whether there have been improvements in the communication of ideas, stressing its importance for the profession's influence on policy making.

Olivier Blanchard replied that he has no strong views on the pace of convergence itself but highlighted the remarkable pace of reaction within the profession. He illustrated this point by referencing the rapid production of high-quality research during the global financial crisis, the COVID-19 pandemic, and the recent inflation burst. He emphasized that although the profession is typically characterized by slow thinking, it has demonstrated an impressive ability to think and react quickly when required.

Giovanni Violante thanked Blanchard for his insightful reflections on the evolution of macroeconomics, and noted that the topic of distribution was absent from the presentation. He argued that distributional considerations are now central to macroeconomic analysis, citing two reasons: First, there is work that shows how distribution matters for the propagation of aggregate shocks. Second, distributional concerns have become essential for the design of macroeconomic policy. He asked how macroeconomists should integrate these distributional issues into the minimal model framework.

Blanchard distinguished two separate issues in response. First, he affirmed the importance of distributional concerns, offering the example of free trade. While generally viewed as beneficial, the evaluation becomes more complex once we carefully consider who is affected and how. Second, he addressed whether incorporating distributions fundamentally changes our understanding of macroeconomic fluctuations. He acknowledged that distributional considerations are clearly essential for certain topics—such as matching observed consumption patterns—but stated that further research is needed to understand precisely how much difference it makes across broader macroeconomic contexts. He praised the recent heterogeneous-agent New Keynesian (HANK) literature as a significant methodological contribution to addressing these questions.

Kristin Forbes then noted that the perspective from someone in the financial sector might be at odds with Blanchard's assessment of the profession's performance. Such observers might argue that macroeconomics had missed important events, such as the global financial crisis and recent inflationary pressures, leading them to view macroeconomic performance as weaker. She asked Blanchard for his perspective on this perception.

Blanchard responded by acknowledging that this criticism has merit but pointed out a key difficulty: Many people who comment publicly on macroeconomic issues identify themselves as macroeconomists without necessarily having the requisite expertise, which negatively affects the profession's reputation. He admitted that macroeconomists largely failed to foresee the 2008 crisis, though some economists did correctly anticipate the recent inflationary episode. He stressed that macroeconomists are often judged by their ability to predict events—something the profession sometimes can and sometimes cannot reasonably achieve—and that this creates significant reputational costs.

Gabriel Chodorow-Reich followed by observing that macroeconomics seems to have had a greater impact on monetary policy decisions relative to fiscal policy. He asked Blanchard for his thoughts on why this disparity exists.

Blanchard agreed and identified a critical institutional factor: Central banks generally have large, highly capable teams conducting research in situ, while ministries of finance and treasury departments typically lack similar research capacities. He conceded that this viewpoint might be overly U.S.-centric, mentioning his involvement in discussions on the new fiscal rules within the European Union, where macroeconomic theory indeed played a significant role. Nonetheless, he suggested that there is room for deeper and more systematic economic thinking on the fiscal side.

Frederic Mishkin added to this discussion by highlighting how central banks and other institutions have successfully incorporated top-tier academic economists into their policy-making processes. He argued that this integration is central to the success of monetary policy and why it is now viewed as more of a science. Furthermore, he commented on some disparity in the strength of research teams between the Federal Reserve and the Treasury. Mishkin attributed these differences partly to the Fed's better seigniorage opportunities and partly to the perception of the Fed as less political, factors which likely contributed to the disparity Chodorow-Reich mentioned.

Matteo Maggiori then asked Blanchard about the role of big and real-time data for macroeconomic policy. He observed that policymakers had very limited information during the global financial crisis, but the COVID-19 crisis marked a new era in data availability. He inquired about the implications of this shift for real-time policy decisions and how research would feed into policy.

Blanchard referred to research by Raj Chetty as an example of how valuable big data can be for macroeconomics. He noted that macroeconomics typically focuses on aggregate data, which often suffices, but sometimes important details are missed. He provided the example of the economic transition in Europe during the 1990s, where it turned out that microeconomic frictions played a crucial role—supply chains and network relationships proved far less resilient than initially expected. He acknowledged that economists learned these details only ex-post. He concluded by stressing the importance of recognizing that top-down macroeconomic perspectives can overlook critical details and that the key is determining how much disaggregation is necessary. He emphasized that big data will undoubtedly play a valuable role in addressing this challenge.