Macroeconomics Has No Clothes

A Guide for Historians of Economic Thought

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The book rebuilds macroeconomics on microeconomic foundations, holding that "whatever kind of microfoundations exists, that kind of macroeconomics follows" (§4.8). It is not a survey of policy debates, though it confronts the fallacies common in mainstream macroeconomics along the way. Its foundations rest largely on classical economic thought, extended by the author's own contributions. Each theme below lists the sections (§) concerned and the classical sources at stake, followed by what is distinctive in the book's treatment. Names in **bold** are named or cited in the book.

Theme	Sections	Classical texts & controversies
Say's Law and the general glut	Foreword, §4.1, §4.2, §6.6	**Say**, *Traité* (1803); James Mill, *Commerce Defended* (1808); Ricardo–Malthus general-glut controversy (1820); J.S. Mill (1844); Keynes (1936), ch. 2
THE BOOK Goes further than Say and Mill, who allowed temporary gluts. Supply alone creates demand, and aggregate supply and demand are one magnitude seen from two sides. A glut is therefore never excess capacity but *erroneous capacity*: production aimed at the wrong goods, which is also the cause of recession.		
Keynes's "classics"	§1.3, §1.4, §3.1–3.7, §4.2, §7.4	**Keynes** (1936), chs. 2 and 14; Turgot–Smith doctrine that saving is spent as investment (WN II.iii); Smith on public vs private prodigality (WN II.iii) and on managers of other people's money (WN V.i.e); Friedman's four ways of spending (1980); J.S. Mill, "Of the Influence of Consumption on Production" (1844); Bastiat's broken window (1850)
THE BOOK Rebuilds the case from production. $GDP = C + I + G + NX$ classifies output already produced; reading it causally reverses cause and effect (§3.7, §4.2, §7.4). The key tool is *pseudo-GDP*: recorded spending in excess of the wealth it creates. Private errors are occasional; the excess is systematic when people spend other people's money, chiefly government and state enterprises (§1.3, §1.4). Since GDP counts the whole outlay, a stimulus that "raises GDP" can destroy wealth. The test is value for money, not Smith's line between goods and services; it echoes his warning that nations are impoverished by public, never private, prodigality, and puts Bastiat's broken window into national accounts.		
Multiplier	§3.2, §4.2	**Keynes** (1936), ch. 10
THE BOOK Questions the Keynesian ranking of multipliers. Consumption's multiplier, $1/(1-b)$, exceeds a tax cut's, $b/(1-b)$, only because spending is counted as GDP and a tax cut is not. Taken literally, primitive societies, which consumed all their output, should have grown fastest (§4.2). Read from production, every purchase is paid for with goods someone produced, so the multiplier works through the investment behind spending; there is actually no consumption multiplier (§3.2, §4.2).		
Money, prices and transmission	§2.7, §2.8, §3.2	Hume (1752), **Cantillon** (1755); **Fisher**; Cambridge cash balances; **Friedman**; Patinkin's real-balance effect (1956)
THE BOOK Keeps the classical link between money and prices but explains why it has weakened: new money now flows into asset markets as well as goods. Its core is a contradiction between two textbook theories: the real-balance effect has people spend excess money on goods though their real income is unchanged, while consumer theory ties consumption to real income. The book resolves it by splitting the mechanism. The Cantillon effect is an *income* effect: early recipients' real income rises before prices, so they buy more goods. The real-balance effect is a reallocation of assets: excess money buys financial assets, raising their prices and lowering interest rates. The two channels can also explain the Pigou effect.		
Money: function, value and anchor	§2.1–2.5, §6.4, §6.5, Preface	Smith, WN I.iv; Jevons (1875); Menger (1892); **Marshall**; the Austrian school
THE BOOK Departs from the classical emphasis on money as a medium of exchange and makes unit of account its primary function. Against some Austrians, argues that money's marginal utility does not diminish, which supplies the missing foundation for Marshall's synthesis of classical and marginalist value. The unit of account is an arbitrary standard, like Alchian's reference pebble, but once chosen it must stay stable, so money needs an anchor (§2.2). Good money comes from a sound, direct anchor and free competition in issue, not from being commodity rather than credit money (§2.3). The same test rejects Bitcoin: its fixed supply lacks the mild elasticity good money needs (§2.5).		
Inflation as a monetary phenomenon	§2.5, §2.7, §5.1–5.7	**Friedman**, *Capitalism and Freedom* (1962), ch. 3; Ricardo, *Proposals for an Economical and Secure Currency* (1816)
THE BOOK Closest to Friedman: inflation is "always and everywhere a monetary phenomenon," its sole cause an excess of money over goods, from overissue or lost output (§2.7, §5.1). With money fixed, a rise in some prices is offset by falls in others; the rises blamed as "cost-push" or "imported" inflation are more often its result than its cause. It also rejects "demand-pull" inflation outright: only excess money causes inflation. With Ricardo, it holds that money needs no intrinsic value, only a limit on its quantity; against Friedman, it sees gold's production cost as that limit, not as waste (§2.5, §5.6). The CPI, omitting asset prices, mismeasures inflation, which is why Japan's loose money seemed to refute the quantity theory (§2.7, §5.4).		

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Interest as the price of time	§5.7	Hume, "Of Interest" (1752); Turgot, *Réflexions* (1766) on the fruitfulness of land; **Fisher**, *The Theory of Interest* (1930)
THE BOOK With Hume and Fisher, treats the interest rate as a real rate that exists even without money: the price of consuming goods in advance (§5.7). To Fisher's impatience, which the book reads as explaining only the wish to consume sooner, it adds a supply side: resources have a natural tendency to grow (a grain of rice planted yields many), so some people defer consumption to capture that growth. The interest rate settles where the two meet (§5.7).		
Growth: Smith and the stationary state	§7.1–7.5, §7.8, §7.9	**Smith**, WN I.i–iii, II.iii, I.x, IV.viii; Ricardo and J.S. Mill on the stationary state
THE BOOK Smithian in grounding growth in markets, division of labor and accumulation, and argues that only investment drives growth. Breaks with Ricardo and Mill (and Solow) by rejecting diminishing returns: more wealth should mean faster growth (§7.3). Inequality is traced to market distortions, as in Smith I.x.		
International trade	§8.1, §8.3, §8.5–8.7	Mun, *England's Treasure by Forraign Trade* (1664); **Hume**, "Of the Balance of Trade" (1752); **Smith**, WN IV.ii; **Ricardo**, *Principles* (1817), ch. 7; **List** (1841); Torrens and J.S. Mill (1844) on reciprocal demand and the terms-of-trade case for tariffs; **Alexander**'s absorption approach (1952)
THE BOOK Recasts Ricardo's principle in money costs and argues, against List, that every economy has a comparative advantage at any stage (§8.1, §8.6). Goes beyond the classical free-trade case: against Torrens and Mill, the optimal tariff is zero even when adopted unilaterally, provided the trading country is a market economy (§8.5, §8.6). The terms of trade cannot measure the gains from trade (§8.7). With Alexander, reads the trade balance as output minus domestic absorption, so the external balance mirrors the internal one (§8.3).		
Exchange rates: real and nominal price	§8.2, §9.1, §9.3, §9.6	Smith, WN I.v: the real price of a thing is what it really costs to acquire it, as distinct from its nominal (money) price; **Cheung**: real price as full cost, monetary plus non-monetary; **Mundell**
THE BOOK Reads the exchange rate through Smith's real/nominal price, as deepened by Cheung: the real price is the full cost, monetary plus non-monetary, so controlling the nominal price only shifts the cost elsewhere (§9.1). The real rate reflects a country's whole economy, not only goods and services but also capital assets, institutions and political risk (§8.2); fix *any* nominal rate and it still finds its level (§9.3). "Fixed" and "floating" are just two routes to the same real rate: through wages and prices, or through the nominal rate. A peg can even borrow another country's monetary institutions (§9.6).		
Method: principles without exception	§2.8, §4.7, §4.8, §5.2, §6.3, §7.2, §7.7, §9.1	**Cheung**; **Coase** (1960); Gresham's law
THE BOOK Follows Cheung most closely: a principle admits no exception, and each anomaly is explained by the constraints in play, not by constructing new theories such as market failure. Principles alone predict nothing; with specific constraints they yield conclusions that change when the constraints do (§5.2). Gresham's law is a phenomenon, not a law: bad money drives out good under some constraints and good drives out bad under others (§6.3). Transaction costs and property rights, the constraints of Coase and Cheung, explain apparent market failure (§4.8) and "shortages" under price controls (§9.1). China is the sharpest test. Where many accounts credit state ownership or a unique model, the book traces its growth to market-oriented reform of property rights and, where land stayed public, to local governments competing for GDP, which puts land to its most valuable uses as private owners would. China thus confirms the market principle rather than standing as its exception (§7.2, §7.7). Theories must also be mutually compatible, a test the textbook real-balance effect fails against consumer theory (§2.8).		

A note on sources. The book makes little attempt to trace ideas to their origins: the author takes each idea as it stands and tests it by logic, keeping what fits, so that the result is a consistent framework. He wrote from memory, having absorbed classical thought through long study, much of it of Steven Cheung's writings, so classical arguments often appear in his own words rather than as quotations. This guide's historical mapping, like most of the book's citations, was added in translation to help readers and scholars. Where the book's arguments coincide with classical ones, it claims no priority; the third column records those debts. Steven Kates describes a related experience: "…what I had come across in Mill was what we today refer to as Say's Law. I had thus discovered Say's Law for myself and on my own" (*Classical Economic Theory and the Modern Economy*, Edward Elgar, 2021, ch. 2).