Book Review

South Asia Economic Journal
23(1) 110–113, 2022

DOI: 10.1177/13915614221076230
journals.sagepub.com/home/sae
SAGE

Alex M. Thomas, *Macroeconomics: An Introduction*. Cambridge University Press, 2021, pp. xx + 234. ISBN 978-1-108-73199-7.

While microeconomics in its dominant avatar is very adept at standardizing the behaviour of an economic agent using a number of assumptions to simplify the problem at hand, macroeconomists have had an unenviable task of developing economic models that explain deviations from reality in the aggregate and the consequent unexpected crisis. Thus, Keynes had to develop his argument to explain the possibilities of less than full employment equilibrium against the backdrop of the great depression that shattered the Marshall–Say–Walras belief of automatic full employment through a general competitive equilibrium process and the neo-classical dichotomy based on money playing the only role of a medium of exchange. He linked employment to aggregate demand and emphasized the role of fiscal and monetary policies in pushing an aggregate economy out of distress by tackling care of the possible market failure through sticky wages. The 'golden era' between the Second World War and early 1970s passed smoothly without much macro-level economic crisis, resulting in engagements by the then economic thought leaders to develop a model of neo-classical-Keynes synthesis based on IS–LM interpretation, with dominant policy makers happily buying into such interpretation. Dangers of stagflation across the industrialized countries in the early 1970s brought back into prominence the school of monetarist thought centred around the supply side of the economy.

The 1970s witnessed a significant renaissance of the pre-Keynesian belief that the market economy is capable of achieving macroeconomic stability and rapid growth provided the visible hand of government is prevented from conducting active discretionary fiscal and monetary policies. The recession of 1973–1975 led to the strengthening of the monetarist idea of expansionary monetary policy with reduced tax rates to provide incentives for increasing production, investment and consequent growth. However, the stage was set to usher in neoliberalism with President Nixon abandoning the gold standard in 1971, albeit temporarily, and completing the process by 1973 (Centeno & Cohen, 2012; Slobodian, 2019; Zoeller & Bandelj, 2019). And the step provided privilege to US interests in the international arena. US dollar quickly emerged as the international reserve currency (Zoeller, 2019). Interestingly, the first International Money Market was set up around early 1972 at Chicago Mercantile Exchange with intellectual backing through a paper by Milton Friedman.[1] The oil shock in 1973, and the consequent emergence of petrodollars, also provided the necessary fillip to carry forward the argument beyond Keynes and create a policy space for neo-liberal ideas that were fundamentally based on the idea of a strong global financial market.

The global financial crisis in 2008 created a conceptual vacuum that the present batch of macroeconomists are yet to fill effectively. However, five important features in the history of macroeconomic thought emerge clearly. First, unlike the somewhat stable structure in microeconomic thought, macroeconomic ideas went through changes in the face of crises. Second, they emerged as trying to provide policy solutions to mainly the industrialized economies from the Western world. Thus, macro-models are not time invariant, as is often true for the micro-models in economics. Third, by the same logic, they need not be truly independent of the economic structure of an economy. There may be pluralities of macro-foundations depending on the nature of problems, linked to the structural features of economies. Fourth, dominant macro paradigms change when the predictions cannot be sustained empirically; just the reverse is the case of micro theorization where empirical methods are often used to validate the existing theoretical foundations. Finally, recent approaches by new Keynesians have argued in favour of moving forward to a dynamic disequilibrium theory with randomness (Guzman & Stiglitz, 2020). Recently, Vines and Wills (2018, 2020) argued for a new multiple equilibrium and diverse (MEADE) paradigm that is needed for macroeconomics and emphasize that economies can have more than one stable outcome.[2]

The prelude is an attempt at reviewing an introductory text on macroeconomics, written for the benefit of students studying in Indian colleges and universities with limited access to appropriate reading materials, has been rather long. However, it should not be considered out of place, and altogether. *Macroeconomics: An Introduction* by Alex M. Thomas is a welcome effort to present the salient features of an aggregative economy, from the period of Adam Smith, when there was no distinctive watershed created between microeconomics and macroeconomics till the arguments of Keynes, who may be unhesitatingly called the father of macroeconomics. The author provided brief but interesting insights to the fundamental building blocks of a macroeconomic structure, namely, money and interest rates, output and employment levels, economic growth and inflation, among others and rightly underscores the fact that a good theory has to recognize the context—the time and space differentials. Empirical validation of such theories is also contingent on availability of good quality of data. Based on these premises, he goes on to contextualize the theoretical arguments from the perspective of Indian economy using available empirical evidences.

Such an effort is very much the need of the hour for students from India and also those pursuing the subject in developing countries that share socioeconomic traits that are more comparable to that in India than those economies characterized by existence of a society that is more based on the spirit of dominance by capital. The illustrations spread all over the book and has been effective in localizing the fundamental ideas under consideration. The long list of references curated mostly with contributions from Indian scholars is a welcome feature of this book and will expose the young Indian readers to the Indian perspectives of reality in the domain of macroeconomic discourse. Finally, the listing of data sources with respect to India is a valuable effort to benefit the students.

However, the painstaking endeavour to introduce Indian students to the nuanced features of macroeconomics is necessary to be taken forward a bit further, if not to a large extent. For decades, Indian students have been treated with books published in the Western world, with empirics and evidences collated from unknown locales. More often than not, such examples have not helped us internalize the problems, causalities and the solutions thereof. Some suggestive ideas that may be captured either in the next edition of the book or even better, in a sequel to the present one, are as follows. The present text captured the ideas that were inspired by the writings of Smith, Ricardo, Marx, Keynes and Sraffa. To contextualize their ideas against the backdrop of macroeconomic and developmental crises faced by India, since independence, it will be worth investigating the implications of monetarist, new classical and new Keynesian ideas in explaining the present reality and even forecasting, if methodologically feasible, for the days ahead. Such exercises may also help arrive at some contextual and conceptual framework to understand the functioning of the Indian macro economy.

Given the quantum of available India-specific empirical studies, it may not be possible to arrive at any robust theoretical construct right now. But an exposure to the new ideas on macroeconomic paradigms will definitely provide an opportunity to the students from Indian colleges and universities to look beyond Keynes and test the empirical validity or otherwise of the new paradigms in their local contexts. A theoretical synthesis of different ideas at the end of the whole exercise would go a long way in achieving the desired objective to induce our students into original thinking.

Notes

1. The article titled 'The need for futures markets in currencies' was prepared for Chicago Mercantile Exchange and is dated 20 December 1971. It was subsequently published in *Cato Journal* (Friedman, 2011).
2. See also the papers from the *Oxford Review of Economic Policy* issue on *Rebuilding Macroeconomic Theory* (Vines & Wills, 2018).

ORCID iD

Milindo Chakrabarti https://orcid.org/0000-0001-9598-525X

References

Centeno, M. A., & Cohen, J. N. (2012). The arc of neoliberalism. *Annual Review of Sociology*, *38*, 317–340.

Friedman, M. (2011). The need for futures markets in currencies. *Cato Journal*, *31*(3), 635–641.

Guzman, M., & Stiglitz, J. E. (2020). Towards a dynamic disequilibrium theory with randomness. *Oxford Review of Economic Policy*, *36*(3), 621–674.

Slobodian, Q. (2019). *Globalists: The end of empire and the birth of neoliberalism*. Harvard University Press.
Vines, D., & Wills, S. (2018). The rebuilding macroeconomic theory project: An analytical assessment. *Oxford Review of Economic Policy*, *34*(1–2), 1–42.
Vines, D., & Wills, S. (2020). The rebuilding macroeconomic theory project Part II: Multiple equilibria, toy models, and policy models in a new macroeconomic paradigm. *Oxford Review of Economic Policy*, *36*(3), 427–497.
Zoeller, C. J., & Bandelj, N. (2019). Crisis as opportunity: Nixon's announcement to close the gold window. *Socius*, *5*, 1–14.
Zoeller, C. J. (2019). Closing the gold window: The end of Bretton Woods as a contingency plan. *Politics and Society*, *47*(1), 3–22.

Milindo Chakrabarti
Professor, O.P. Jindal Global University, Haryana, India;
Visiting Fellow, Research and Information System for Developing Countries, New Delhi, India
E-mail: milindo.chakrabarti@ris.org.in