



## Ananya Ghosh Dastidar, Rajeev Malhotra and Vivek Suneja (eds): Economic theory and policy amidst global discontent

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The volume under review is a book edited by Ananya Ghosh Dastidar, Rajeev Malhotra and Vivek Suneja. The book has a collection of essays honouring Deepak Nayyar. The breadth and diversity of the contributions reflect the wideranging interests of the honouree. Over a long and very productive life, Deepak Nayyar has made significant contributions to the understanding of pressing global problems of uneven development, poverty and inequality. Through this work, he has influenced both theoretical research and applied work leading to policy formulations. As the editors have put it aptly, ‘He has donned several hats and shouldered diverse responsibilities with great distinction.’ The first chapter, Deepak Nayyar—a diverse oeuvre, is a nice summary of his contributions to research and policymaking.

The three editors have sought to bring together the thoughts of many eminent economists on the spectrum of issues that have engaged Nayyar’s attention over the years. The outcome is a volume that is rich in breadth and depth and is likely to be very useful to both students and researchers.

Out of a set of twenty papers of high average quality, let me more or less randomly choose some for brief discussion.

Frances Stewart’s essay examines the link between globalisation, inequality and conflict. She focuses on ‘horizontal inequality’ or inequality among religious, ethnic and racial groups. A thorough analysis of available evidence on the different dimensions of HI led her to the conclusion (‘appears trite but is critical’) that peaceful existence requires inclusive societies with low inequalities.

Joseph Stiglitz, a prominent critic of unregulated globalisation, contributes a substantial piece on the theory of credit supply and macroeconomic stability. He has written (and spoken) on this very important topic on numerous occasions. But this compact restatement of his position makes very interesting reading. In the theory and practice

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of conventional monetary policy, the credit channel is either completely ignored or given very brief treatment, at best. It is argued very convincingly in this chapter that this produces a very inaccurate picture of the power of monetary action (operated by manipulations of the central bank policy rate) to influence the economy, especially in the periods of economic turmoil. Credit rationing is a pervasive phenomenon in the presence of information asymmetry and other distortions, and with credit rationing in force the availability of credit matters very much, along with other non-price terms of credit contracts like collateral requirements. Mainstream macroeconomic policy focuses only on the direct cost of borrowing and ignores the fact that this direct effect may be overwhelmed by wealth, risk and other non-price balance sheet effects during economic downturns. The strong message is that if the potency of monetary policy as an instrument of stabilisation is to be restored its theoretical foundations needs to be re-examined and re-formulated. Stiglitz himself in collaboration with Bruce Greenwald has made solid contribution in creating a new credit-centric framework of monetary action, but unfortunately this has not so far received the attention it deserves.

Anjan Mukherji presents a lucid analysis of market failure in a money using economy. Applying the Hicksian idea of temporary equilibrium in a simple three good model, he highlights a new source of inefficiency of the market solution. The failure is due to agents forming expectations about the future differently. It cannot be cured by 'appropriate' Pigovian taxation. That the competitive solution may fail in a dynamic setting, without or with uncertainty, is well known; but this essay reveals the central problem in an original and technically accessible way.

In a similar fashion, Amitava Bose also succeeds in throwing fresh light on the much researched problem of balanced growth in dualistic developing economies.

Like the Stiglitz paper in a macro course, the Mukherji and Bose papers should also be very useful to teachers in getting across the central ideas to the students in a technically undemanding manner. Similarly, Ananya Ghosh Dastidar's lucid analysis of the global financial crisis and policy challenges in the EMEs should be helpful to students coming for the first time to the topic of the greatest economic catastrophe of modern times since the Great Depression. Y. V. Reddy presents a concise but very readable summary of policy debates in the Indian economy since independence.

In the area of development analysis, Jose Ocampo's essay is a good overview of Latin America's development record and challenges and so is Mritiunjoy Mohanty's detailed discussion of globalisation and the slowdown of the economy in the Indian context. It presents a very clear picture, though restricted to a demand side view only of our recent growth trajectory. An analysis from the supply side would have been a nice complementary piece, but unfortunately that is missing.

In a well-written, very topical essay, Ram Singh addresses the issue of land acting as a bottleneck for development in a country like ours. With great clarity, he identifies several institutional and regulatory hurdles that stand in the way of transferring land from inefficient agriculture to other desirable purposes. On the basis of his analysis, a way forward is clearly delineated.

Festschrift papers often fail to stand up and deliver as a team. This one is an exception. Kudos to the editors for a job well done and congratulations to Routledge India for the nearly flawless product.