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Book Reviews

MACROECONOMICS: AN INTRODUCTION, CAMBRIDGE, UK: CAMBRIDGE UNIVERSITY PRESS, 2021, 254 PAGES. ISBN: 9781108486941 BY ALEX M. THOMAS.

This is an introductory book on macroeconomics whose target audience is readers with at least one year of undergraduate economics education, social science students and general readers interested in macroeconomic issues. It consists of nine chapters plus a preface, acknowledgments and a note to the reader. There is a list of suggested readings at the end of each chapter that provide original sources on the various issues dealt with in the book.

Thomas's book is worthy of mention because it recognizes certain limitations in the current teaching of economics and its denying of pluralism in theoretical approaches in particular. Thomas supports a 'critical appraisal of mainstream economics and the strengthening of an alternative approach' (p. xvi) and puts forward a problem-solving approach rather than providing a settled body of knowledge. Throughout the book, he compares the Classical and Marginalist theories of value and distribution as well as the Keynesian and neoclassical views on output determination. On many occasions, he stresses that modern capitalist economies are not close to full employment and that an automatic tendency towards it does not exist both in the short and in the long run. Moreover, something that is always present throughout the book is the role of history and politics in making sense of economic phenomena. This is clearly shown in the analysis of relevant aspects of the Indian economy which can be found in many of the chapters in the book.

The structure of the book is as follows. Chapters 1, 2 and 6 give definitions and a historical and methodological overview of macroeconomic analysis; Chapters 3, 4, and 5 analyse monetary issues and the determination of production and employment levels; Chapters 7 and 8 deal with economic policies focusing on the themes of unemployment and inflation; Chapter 9 concludes.

Specifically, in Chapter 1 (What is economics) a brief history of economics is provided, from Petty up until the marginalist revolution of the 1870s and beyond. With regard to the definition of economics, Thomas adopts the 'science of wealth' rather than the 'science of choice' definition (p. 10). Therefore, he focuses on how economies grow and how the surplus is distributed among social classes, rather than on human behaviour as a

relationship between ends and scarce means that have alternative uses. He also clarifies why the object of the book is primarily a monetary competitive economy that exhibits a tendency towards uniformity in profit rates across different sectors (p. 17). This is viewed as the basis upon which to build the more concrete analysis of actual market economies, which are characterized by imperfections and monopolistic and oligopolistic elements. Chapter 2, 'Conceptualising the macroeconomy', introduces the basic notions of output and expenditure, the importance of intersectoral relationships and the use of input–output matrices. Chapter 3 (Money and interest rates) discusses some aspects of the financial architecture and inter-sectoral financial flows, focusing mainly on the Indian economy. Furthermore, it analyses what money is, why it is demanded, money supply exogeneity or endogeneity and the determination of interest rates. In this respect, Thomas rightly points out that nowadays the Central Banks widely recognize that money is created by lending and that banks are active profit maximizers. Chapters 4 (Output and employment levels) and 5 (Economic growth) focus on the determinants of activity levels and growth rates. Here the Classical–Keynesian theory is compared with the Marginalist theory both when productive capacity is taken as given and when it is apt to change over time. Specifically, the contrast between supply-side growth theories and Keynesian, demand-led growth theories is clarified. The author also discusses the nature of economic growth in India and the need in this context of State intervention to overcome supply constraints to growth. Chapter 6, entitled 'Why economic theory matters,' is a watershed chapter between the initial ones focused on macroeconomic theory and Chapters 7 and 8 on unemployment and inflation. Thomas emphasises here that bad economic theory leads to bad economic policy and that good economic policy must consider the specific historical context in each country. Moreover, he exemplifies that what is true for an individual may not be true for the macroeconomy as well. He also goes through the idea of exogenous distribution as found in the surplus approach, and criticizes the marginalist theory based on factor substitutability where income distribution is set by the relative scarcity of factors of production. Chapter 7 (The policy objective of full employment) and Chapter 8 (The policy objective of low inflation) dismiss the traditional idea of a trade-off between full employment and low inflation. Employment levels are associated with the level of autonomous components of aggregate demand whereas price inflation is viewed to stem from conflicting claims over income distribution so that labour policies may affect price changes. After criticizing the quantity theory of money, Thomas

assigns an important role to imported inputs and the production limits of the agricultural sector in explaining the price level in India.

As mentioned above, the importance of history and politics is considered in all the chapters. For example, Thomas points out that Indian economic growth and the wellbeing of its population cannot be understood without studying "economic inequalities arising from colonialism' (p. 110), the cast system imposing social barriers, the property land concentration, village economics in which labour allocation is determined by cast and inequality is exacerbated by collusion between money lenders, sellers of seeds, pesticide dealers and marketing agents. Several aspects of Indian dual economy are analysed in the book, from the great weight of informal employment, contract workers and casual work, to low wages growing less than productivity and the prevalence of upper castes in well paid occupations.

However, a number of elements in the book could be improved to provide a better understanding of some macroeconomic issues by the target audience, for example by adding specific boxes in the text. Thus, although the marginalist "harmonic view" of income distribution determination is compared by Thomas with the conflict theory we find in the surplus approach, a clear scheme of the different *analytical* structure of these two main theories of value is not advanced. Moreover, in Chapter 3, the reader may have difficulty in grasping why money is demanded as a store of value: the only reference to a low opportunity cost of holding money when the interest rate is low is insufficient in this respect. The same can be said about the determinants of the yield curve (namely, risk factors and the expectations regarding inflation and the Central Bank's policy rates), which are only listed in the book without further explanation, as well as about monetary policy transmission channels. Interestingly, in this regard, there are some hints to a cost channel of the monetary policy (see, for example, p. 60 and pp. 96-97, where an impact of monetary policy on income distribution is acknowledged). However, again, the exchange rate and wealth channels are only mentioned. Moreover, the effectiveness of the interest rate channel is not (albeit briefly) discussed, which would be necessary because elsewhere it is argued that investments are mainly determined by the expected growth of aggregate demand and that an expected intensification of competition may lead "to expand productive capacity today by borrowing now (even if *there has been an increase in the interest rate*)' (p. 57). More importantly, in Chapter 4, the graphical analysis of output determination should be improved (explaining, for example, why the aggregate demand curve starts from a positive value on the y-axis), and the income multiplier

specified together with the adjustment process of savings to investment. In fact, the reader must wait until pages 118-119 for a clearer understanding of the model of income determination and page 124 for a comparison of the different variables ensuring the equilibrium in the good market in the Keynesian and marginalist theories. A better understanding in Chapter 4 of these aspects could also help grasp better M. Smith's 2012 demand-led growth model introduced in Chapter 5, which in turn could also be explained more clearly.

There are also some specific points where I do not completely agree with Thomas's arguments, probably due to his need to simplify the analysis for his target audience. For example, I wonder whether in Solow's model the fact that the growth rate of capital does not influence the growth rate of the economy really arises from the decreasing returns of capital rather than from his balanced growth assumption. More importantly, why does the idea that the 'real' rate of interest is determined by 'real' factors such as productivity and thrift, and not by 'monetary' factors, underlie exogenous money (p. 122)? Doesn't Keynes assume money exogeneity in the *General Theory* although the monetary nature of the interest rate is stressed? Don't Wicksell and the modern theory of central banking assume endogenous money although the natural rate of interest is determined by real factors? Finally, does the quantity theory of money necessarily have a marginalist core (p. 174)? What about David Ricardo?

Quoting Keynes, Thomas insists that an economist is a rare combinations of gifts: he must be a mathematician, historian, statesman and philosopher. He must understand symbols and speak in words. Notwithstanding the abovementioned points, at an introductory level, this book may help to form an economist of this kind. Since the book can be easily understood by people with no economics background, it can be recommended to everyone that wants to get started in economics.

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