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A Rigorous Text

Macroeconomics for Developing Countries
by Raghbendra Jha;
2nd ed, Routledge, 2003;
pp 496 (paperback) $44.95.

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Simply said, macroeconomics is the analysis of a country's economy as a whole. The way the subject has developed, it paints all countries with a similar if not the same brush – a pure sable haired one. It is quite often the case that brushes could differ on account of bristles, pointers and ferrules. Goat, pony or badger hair could make more economic sense than sable haired ones. Jha's new second edition of his book recognises that maroeconomics for developing countries is different: it is different from closed economy macroeconomics, as also from open economy macroeconomics. A practical reality is that macroeconomics, as taught for developing countries, lacks the scientific rigour associated with mainstream macroeconomics. Jha's book goes several yards to correct this. For those familiar with its first edition, the latest edition is new in more than half of its content.

The book is organised into four parts. Part I provides the basic macroeconomic framework in terms of national income accounting, the Keynesian multipliers, the IS-LM-AS model and open economy macroeconomics. Part II discusses three macroeconomic models for developing countries, viz, IMF-type, structuralist and dualistic, as well as contemporary growth theory as applicable to developing countries. Parts III and IV are essentially macroeconomics writings that emerge from an international finance angle. Part III provides an evaluation of IMF programmes and covers policy issues such as seigniorage, indebtedness, exchange rates and fiscal dimensions. Part IV raises two specific issues: one on financial market liberalisation and its relationship with growth, and the second on international financial architecture.

The six chapters in Part I present a good text to the subject and impart strength to the book as an undergraduate text. Its last two chapters lay the foundations for understanding the open economy framework in a simple fashion. While good texts on open economy macroeconomics, such as those by Obstefeld and Rogoff are available, they are basically for advanced graduate courses, and are, as such, unintelligible to undergraduate students. Jha's book fills this gap. The four chapters in Part II are also ingrained in standard text material that comes from macroeconomics as well as development or growth theory. However, here product differentiation sets in. The student is exposed to the application of macroeconomics through the Fund-Pollack model, the Haque-Lahiri-Montiel IMF model, the structuralist model of Lance Taylor and others, besides the dualistic model. The reader is taken from Solow to important advances in endogenous growth theory in the last chapter of this section. The chapter stands out for its insights into growth accounting and convergence questions.

Parts III and IV are focused on global policy dilemmas. There is too much economic theory running sublime behind these policy-oriented chapters. They cover many paradigms and many issues and the chapter titles give little clue to the wealth that lies within. For instance, chapter 13 is titled 'The Inflation Rate and Seigniorage', but covers two additional areas, viz, central bank independence and inflation targeting. Similarly, the chapter on exchange rate issues in developing countries deals with the choice of exchange rate regime as well as issues of exchange rate misalignments and real equilibrium exchange rates. Besides, it grapples with currency crises, as also with issues of surges and reversals in capital flows. The book has 18 chapters in all, with the final chapter entitled 'A Final Word', making a short but pointed statement. Macro problems of developing countries are much more pressing than developed countries. It questions some of the existing strategies and policies that have been covered in the book and says they are unlikely to succeed unless they are supported by suitable international arrangements.

There are many reasons to recommend this book to readers. It has product differentiation and blends rigour with policy orientation. It is very current in text and issues. There are several text boxes of interest, such as Stiglitz's critique of Fund-Bank policies or the one on Malaysian capital controls. The book also contains some very interesting discussion questions at the end of each chapter. The boxes and questions will keep students in thinking mode. The book also provides a good account of research and evidence on a range of policy issues. Last but not the least, it is well edited, which makes its rich content eminently readable.

Deficiencies in the book are hard to find. But, if one was to suggest a few, one may yearn for coverage of a few more issues. First, if policies are unlikely to succeed in the absence of suitable international arrangements, one would want to know what these arrangements might be. The chapter on international financial architecture provides a rudimentary agenda of reforms in IMF covering quotas, voting structures and conditionalities. It also briefly covers the WTO and World Bank. However, these could be supplemented by linking governance, aid and development issues. Works of Andrei Shlifer, Kaufmann and others are of great relevance in this respect. Besides, a mention could be made of the works of Rodrik, Acemoglu and several others on the impact of institutions on the macroeconomy. It could also take note of deSoto's growing influence on Fund-Bank thinking. Second the argument that if slum dwellers could use huts as collateral, they could borrow enough to set up small businesses and escape poverty has important implications for legal and institutional reforms. The book could cover this by invoking microfoundations in the text. Third, central bank independence could include a box on empirical evidence and also a discussion related to issues such as accountability, transparency, endogenisation of inflation bias and interaction with labour markets. On inflation targeting, coverage could be expanded so that the reader understands the range of choices for nominal anchor and issues relating to the design of the inflation targeting regime. Fourth, Chapter 16 could add new perspectives from the well-cited research of Williamson and Mahar on financial liberalisation and Capiro and Honahan on finance and growth.

Jha's second edition is an outright apple, different from the orange first edition. In his preface, the author says that the book is primarily intended as an upper level undergraduate or a standard intermediate text. While this is broadly the right statement, the beauty of the book is that its readership would surely go much beyond. You can easily skip portions of the book and yet enjoy its richness in policy evaluation. Yet, those who value formal treatment of the subject would have many more calories. As such, the book will constitute an important capsule of codified documentation of macroeconomic theory, problems and strategies that students, teachers and practitioners can chew upon for a long time to come. Bottom line – add this to your cart as well as gain syllabus.