

BOOK REVIEW

PRINCIPLES OF ECONOMICS IN CONTEXT

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**ENVIRONMENTAL AND NATURAL RESOURCE ECONOMICS:
A CONTEMPORARY APPROACH**

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A.J.C. Bose*

Globalisation is Americanisation. And Americanisation of the subject of economics is nothing but doing again and again the life-less mainstream/neoclassical economics on the assumption that people are self-interested and rational and that their economic behavior can be robotically captured by Gregory Mankiw's Ten Principles of Economics. More importantly, there has been little real change either in mainstream economic theories or in standard economics texts despite the financial crisis of 2008. The economics profession has not covered itself with glory either in its failure to anticipate the crisis, or in its response to the new situation. However, over the last twenty years, some teachers and many students in economics have rebelled against the reality of 'quite a lot is wrong' with what is now taught in economics courses, and made a case for pluralistic or heterodox economics. The question that has been bothering the rebels can be politely and succinctly put thus: How can economics teaching reflect current realities in a way that will be both instructive and interesting to students?

In fact, the rebellion against the mainstream has taken the shape of the New Economy movement, and there are many promising activities going on that are pointing the way toward a New Economy—one that assumes, and rightly so, that the purpose of an economy is to improve the human well-being within a healthy natural environment. By contrast, the Old Economy contains many powerful actors that follow Milton Friedman's dictum that the only proper goal of business is to generate profits. It is indeed becoming more and more evident that the results from organizing the economy this way—profit over people—include the destruction of democracy, catastrophic ecological consequences, financial instability, and increasing social unrest and unhappiness. A set of values and assumptions which are as much cultural as they are economic values and assumptions are now coming to be widely accepted as support for the emerging new

* Associate Professor, Department of Economics, Shri Ram College of Commerce, University of Delhi, Delhi-110007, E-mail: ajc.bose@srcc.du.ac.in

economy, and these are critically important as they strongly influence how we measure success, how we educate ourselves, how we reform institutions, how we make decisions, and who gets to make the decisions.

The values and assumptions characterizing the New Economy are as follows: We are part of an interconnected, living planet; a sustainable economy must operate within nature's bounds; climate change is the signature issue bringing this into focus; Ecological sustainability will require reduced levels of resource consumption, and is not compatible with an unbalanced emphasis on profit, growth, ever greater consumption, and high returns on private investment; The neoliberal experiment has shown that unfettered markets tend towards oligopoly as successful firms are able to concentrate wealth and power. The concentration of corporate power contributes to poverty and inequality, while gravely damaging communities, national resources, democratic processes, and human well-being; In the new economy, the reorganization of important aspects of work and ownership will make it possible for people to be happier and more fulfilled, while extracting a lower level of resources; The transition to a new economy needs to be as inclusive and inviting as possible; There is great urgency to making the transition before we cross socio-political as well as ecological tipping points.

The Global Development and Environment Institute (GDAE) at the Tufts University has been at the forefront in bringing about suitable changes in economics education within the New Economy movement. The two books under review have been brought out by the GDAE researchers who emphasize ecological health and the correlation between social and economic well-being. They argue that this requires expanding our theoretical understanding of economic systems, recognizing that they are embedded in the physical contexts of technology and the natural world, as well as in the social/psychological contexts of history, politics, ethics, culture, institutions, and human motivations.

The GDAE academics believe that if we want to change what is taught in economics courses, the essential starting place is educational materials—especially textbooks and web-based materials—at the introductory level. Change is rather difficult at the intermediate and advanced levels. They also believe in alliances with activist groups which can be used to encourage a broader national and international awareness of how economic problems relate to the economic theory that helped cause them.

The first book is designed as a single text for students in a full year introductory course. Innovatively, it takes a broad contextual approach to economics—including serious consideration of ecological, feminist and social concerns—while still including coverage of the standard economic concepts and models. The writing is compelling, clear, and attractive to students. Critical concerns such as ecological sustainability, distributional equity, the quality of employment, and the adequacy of living standards are well-addressed. The book also deals with the policy questions of our day by critically investigating the microeconomic claim that free

markets are always the best in organizing economic activities. It also offers an overview of the variety of contemporary economic theories, including adaptations of the neoclassical model; new and old institutionalist, social, Marxist, post-Keynesian, and Austrian economics, and ecological and feminist approaches. In the forthcoming edition, the authors should also integrate the insights of the new branch of economics called Biophysical Economics which deals with the links between energy and the wealth of nations. The macroeconomics part of the book gives extensive attention to the origins and outcome of the financial crisis, and also attempts to introduce a revised theoretical framework that is better suited to understanding issues of inequality, instability and environment. The authors point out that while textbooks should not prescribe specific policies, they should make it clear to students that a much wider range of activist fiscal, monetary and regulatory policies exist than are implied by the narrow New Classical-biased models that dominate the existing texts of macroeconomics. For example, a greener economic view implies policies such as increased public sector hiring, increased public R&D expenditures, and investment in public transit and infrastructure, public health, education, and environmental conservation and regeneration. Specific climate-related policies could include a carbon tax or equivalent, energy efficiency and renewables investment, strong efficiency standards for vehicles and power plants, and infrastructure for public transit and high-speed rail. All of these the students must know as they promote employment along with climate stability and can be justified by rigorous economic analysis.

The second book's essential focus is on making environmental issues accessible to a broad range of students. The third edition has got new material on water economics including analysis of water demand management, water pricing, and water privatization; on the relationship between environmental protection and the economy including analysis of decoupling output from resource and energy inputs, and policies to promote a green economy; and on green national income accounting, including adjusted net savings, the genuine progress indicator, the better life index, and environmental asset accounts. The third edition also presents new scientific evidence on climate change and a new chapter on global climate change policy, including technological potential, abatement costs, and proposals for an earth atmospheric trust and greenhouse development rights. All data series have been updated to reflect recent trends and new appendices have been added to chapters dealing with formal analysis, providing greater depth in analytical techniques. The text covers a number of important topics that most texts neglect, including agricultural sustainability, the relationship between trade and environment, and the role of local and national institutions in promoting environment-friendly development. The way the standard environmental economics is integrated with ecological economics is simply great and really one of a kind.

All in all, these two books from GDAE are a must read for teachers and students and should be adopted for instruction and learning all over the world. But alas, there are strong barriers to adopting alternative curriculum even in the so-called liberal-minded economics departments.

Willamette University has been the only one in the forefront in changing its economics education truly in the heterodox spirit. Unless changes on these lines occur, how can we contribute to the training of leadership for change in the areas of sustainability and fair distribution of wealth and income, be it in the private or public sphere?

It is the contributions from GDAE and the like such as the Union for Radical Political Economics and the Institute for New Economic Thinking which can save economics education from the abominations of the mainstream tradition. In the Indian context, Professor G. Omkarnath of the Hyderabad Central University has demonstrated that a non-neoclassical introduction to economics is possible and effective by writing *Economics: A Primer for India*. Times are indeed changing to bring about pluralism in economic thinking sooner or later. What is required now is to figure out the various elements of a strategy to make the availability of the new materials known, and to get past the reluctance many instructors have to undertake serious revision of their course content.