

### **Book Review**

Dilip M. Nachane, *Critique of the New Consensus Macroeconomics and Implications for India*, Springer (India) Pvt. Ltd., New Delhi, 2018, pp. 407, Price € 109.99/-.

After travelling a long way, different schools of economic thought reached a new consensus on macroeconomics during last two decades of the twentieth century. Before the global financial crisis (GFC), many advanced and developing economies were pursuing public policies based on the new consensus macroeconomics (NCM). Its major policy recommendations include: (a) inflation targeting, (b) setting of policy rate based on Taylor rule, (c) non-intervention in the asset market (popularly known as Jackson Hole consensus), (d) light-touch regulation of the non-bank segment, and e) ability of financial markets to regulate themselves (market discipline).

The journey to reach such a consensus was full of intense debate about self-correcting nature of the market, rationality in the behaviour of economic agents, dominance of fiscal and/or monetary policies, and above all, impact of financial innovations on growth and employment in a rapidly liberalised/globalised world economy.

Nachane, currently Chancellor, University of Manipur, Imphal and Professor Emeritus, Indira Gandhi Institute of Development Research (IGIDR), Mumbai, captured these developments in his book under review. In his foreword, Kaushik Basu said, "It is a remarkably comprehensive book ..., inspired by actual policy challenges and crises, such as the global financial crisis of 2008."

For the benefit of uninitiated readers, the author introduces the story of macroeconomics with scholarly precision in the first four chapters. Ever since the *General Theory of Employment, Interest and Money* of John Maynard Keynes was published in 1936, it has been widely accepted as a pioneering work on macroeconomics, for which Keynes has often been referred to as the father of modern macroeconomics. His idea of market intervention through fiscal activism is interpreted as Keynesian Revolution, which dominated the public policy space for more than three decades since the Great Depression of the 1930s. Several schools of thought of Keynesian tradition continue to believe that the market does not clear and therefore government intervention is needed to maintain a high level of output and employment.

Following world-wide inflation in the 1970s, the Chicago school led by Milton Friedman challenged Keynesian orthodoxy and revived the market clearing hypothesis of classical economists. According to him, '*inflation is always and everywhere a monetary phenomenon*' and therefore monetary policy should be rule-based. Monetarists believed that the private economy is fundamentally stable

which reverts to natural rate and, therefore, stabilization policy by the government may do more harm than good.

Macroeconomic debate took a new turn with the new classical economists (Lucas, Sargent, Wallace and Barro) propagating rational expectations of households and producers which is known as micro-foundations in macroeconomics. People not only form expectations based on all information but also change their behaviour in response to policy changes and therefore, public policies are largely anticipated and ineffective. Only an unanticipated policy shock may have some short-term effect on employment and output. Real Business Cycle Theory, espoused by Kydland, Prescott, etc., has gone a step ahead and abandoned the distinction between short-term and long-term analyses. According to them, fluctuations in aggregate output and employment are driven by large random changes in technology. They advocated for the extreme form of *laissez faire* economy as wage-price flexibility automatically reverts the economy to the steady state.

When Keynesian idea was pushed to the oblivion, New Keynesian School led by Akerlof, Mankiw, Blanchard, Taylor, Ball, Romer, Gali, etc., revived the market failure hypothesis. Market may not adjust quickly even with rational expectations. They cited several real world situations relating to nominal/real wage/price stickiness and coordination failure leading to prolonged recession and unemployment. New Keynesians accepted rational expectations and natural rate hypothesis, but rejected continuous market clearing. With the emergence of NCM, public policy typically gravitated towards monetary policy instead of predominantly fiscal policy, originally advocated by Keynes.

The book provides a vivid description of the origin of sub-prime crisis in the USA (Chapter 5) and its spillover to the rest of the world (Chapter 6) after the collapse of Lehman Brothers on September 15, 2008. It is very interesting to read four alternative perspectives of the GFC offered by Austrians, Minskyans, post-Keynesians and Marxists dealt over the next four chapters (Chapters 7-10).

The NCM came under severe scrutiny during the GFC (Chapter 11) soon after the monetary policy pursued by advanced countries reached the zero lower bound. Chapter 12 analyzes NCM critique from the policy angle. The NCM not only countered the critique but also defended its ground by making ad hoc changes in the policy tool kit (Chapter 13). GFC being a regulatory failure, the regulatory framework has been tightened globally as a useful supplement to NCM. Besides price stability, central banks now take a lead role in ensuring financial stability through coordinated approach. Chapter 14 deals with modalities of changes needed in the global financial architecture for financial stability. The last two chapters discuss how India is integrated into NCM through reforms in several areas.

The strength of the book lies in establishing precise link between the theory and practical problems from the real world. The coverage is wide and encyclopedic. Comments on the book by experts like C. Rangarajan, Y. V. Reddy, Kunal Sen, Vikas Chitre, Errol D'Souza, R. Barman and Tirthankar Roy, included

in the volume, are so befitting that one cannot resist the temptation of reading it. Adopting from the expert comments, it is 'an extremely thought provoking book on macroeconomics', 'a unique and unparalleled treatment of a complex subject by an eminent economist, which is a must read for academicians, policy makers and financial market participants' and so on. Even a non-specialist will benefit from this book as complex macroeconomic problems have been dealt with clarity and simplicity.

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