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Book Review

Markets, Morals and Development: Rethinking Economics from a Developing Country Perspective

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An academic discipline needs to be dynamic to be viable. In recent times, a rethink about the corpus of economics has been underway. Following the 2008 financial crisis, the need for macroeconomic models to go beyond the current DSGE (Dynamic Stochastic General Equilibrium) models has become pronounced, so much so that alternative schools of thought and associated institution building (INET, for example) are rapidly gaining prominence. Within microeconomics, establishment of causality as a methodological issue has become dominant. After the initial euphoric adoption of RCTs (Randomized Controlled Trials) as the gold standard, questions are now being raised about the appropriateness of this method in a variety of circumstances. On the educational side, the popularity of economics as a (sole) major has declined, with students globally preferring to take economics as a minor or combining it with another major. There is also occasional discussion in the media about dropping economics from the roster of Nobel prizes. Thus, the discipline of economics is being rethought across a variety of fronts. This book may be considered part of this rethinking.

It is a short book, consisting of an Introduction and five additional chapters. The chapters are based on public lectures given by the author in Bangladesh over a six-year period starting in 2016. Two have been published as journal articles in Bangladesh and India. In these lectures, the author has drawn on his expertise as a professor of economics, a researcher, and a policymaker/policy advisor.

Because of the disparate nature of these lectures, there is no clear central theme in the book. Rather, the lectures emphasize three, occasionally overlapping perspectives – economic modeling can be useful in understanding otherwise impenetrable topics; economic theory needs to be upgraded to be more globally attractive/relevant; and the concept of a "social business" serves as an example of the need to augment the traditional tools of economics.

Chapter two is the longest chapter in the book. In it, the author tries to convince a general audience how economic theories can be used to make headway in understanding many real-world phenomena. Economists have some important lenses. They use the notion of causality, economic models, and economic logic (as opposed to instinctive thinking). They employ the concepts of absolute vs. comparative advantage, sunk cost, time-inconsistency, national income identities and Keynesian models, markets, and institutions – and the related ones of information asymmetry, including the notion of lemons and moral hazard. Appropriate use of these concepts can help explain unorthodox situations in the developing world such as specialized cases of the cobweb model in the agricultural sector, overcrowding of micro-enterprises and the problems related to scaling up, unforeseen effects of poverty and market interventions. At the least, these concepts help set up a common platform for discussion. However, the author does not stop at simply trying to convince the audience of the usefulness of economics. He weaves into the discussion the need for economics itself to extend its reach to adjust to special circumstances found in the developing world.

In chapter three, the author takes a close look at the ethical basis of economic theory and practice. His purpose is to review and rethink economics in light of ethical considerations. With appropriate examples, he questions whether the profit motive alone can be used to explain the workings of *all* kinds of markets. He also questions, again with relevant examples, whether all self-seeking transactions are necessarily welfare enhancing for society as a whole. As such, he is questioning the viability of the "Invisible Hand" in all circumstances.

According to the author, some areas of economics are in urgent need of the incorporation of ethical concepts. These are: welfare economics and policymaking – in which value judgements are relegated to the background; income inequality – where there is a strong case for considering other motives; evaluating the workings of a modern financial system and the design of government spending – where the presence of myriad actors and broad-based effects on society render the current framework inadequate. He also criticizes the sole use of money as a measure of value.

In chapter four, titled Institutions, Morality, Norms and Development, the focus is once again on the deficiencies of the current state of economics (as in the earlier chapter), but with an emphasis on the lack of institutions and norms in the economics toolkit. He argues that taking institutions into account would make for a better explanation of observed phenomena, help design more effective policies, lead to a better understanding of cooperative behavior, help devise better measurements of development, and improve our understanding of the process of governance.

While the other chapters were devoted to examining economic concepts and their applications to actual situations, chapter five focuses on Amartya Sen's ideas regarding "development" in the context of Bangladesh. Sen is well known for his special approach to evaluating "economic development" and both Sen and Mahmud (separately) have done extensive work in this area, as shown by the number of citations in the chapter.

Sen has lavishly praised Bangladesh's achievements in terms of his favored development metrics. Mahmud, elaborating on these gains, explains how Bangladesh has been able to carve out its homegrown strategy for achieving these gains by using NGOs, and points out upcoming difficulties for Bangladesh in continuing with these gains. Extrapolating from Sen's ideas, Mahmud also develops the role of "public reasoning" as a check-and-balance system in explaining Bangladesh's achievements, despite the absence of traditional governance mechanisms. In my opinion, after chapter two, this is perhaps the most valuable chapter for a general audience in developing countries, since it combines exposition of innovative concepts in economics and concrete examples in the context of a single developing country.

In chapter six, the main purpose is to explore if and how the idea of a "social business" (SB) can be reconciled with mainstream economic thinking. Following up on the characteristics of a SB exposited by the originator of the concept, the Bangladeshi Nobel laureate Professor Yunus, the author explores the various types of businesses that fit the required characteristics, providing examples of each type from Bangladesh in particular, and South Asia in general. The main lesson here is that there is no unique profile of a SB. He laments the lack of interest on the part of both proponents of the SB concept and academic economists in reconciling these types of businesses with economic theory. He then puts forward some thoughts on two possible methods of reconciliation. One, based on the welfare economics literature, envisages the social business as a means for "internalizing" the externalities within its business model. The second approach suggests combining the use of shadow prices, and social costs and benefits, with the maximization of net social returns in understanding the workings of and evaluating a SB. The author acknowledges the difficulty of designing such businesses and suggests a case-by-case approach rather than any universal standard yardstick of market efficiency with which to evaluate a SB. He also points out some pitfalls and risks in coming up with a technical framework grounded in economic theory in understanding and evaluating SBs.

The reader is impressed by the wide range of topics that is covered in this short book, without sacrificing depth. The exposition is excellent, the examples suitably appropriate, and the mastery of the issues discussed complete. Only a person with the wide range of experience as an educator, researcher, and policymaker as the author could have written this book.

My minor quibbles have to do mainly with the setup of the book. A list of the lectures with the dates and type of audience would have helped better understand the progression of the ideas. For the discussion in chapter five, it may be argued that in addition to the NGOs, remittances and mobile technology have played a deeper role in hastening development in Bangladesh than is considered in the chapter. Finally, a concluding chapter would have helped bring the different strands together.

What remains now is to put the book in context. Where does the book fit in in relation to the rethinking mentioned above, as well as in the title of the book? A central theme, of sorts, does emerge from the book: to remain relevant and useful on a global level, the discipline of economics needs to pay attention to the experience of the developing countries. Ways have to be figured out to incorporate the lessons learned into its framework, and to not write these off as exceptions to the rules. In a globalized world, and with the "periphery" becoming increasingly close to the "center", continuing to do so risks making economics irrelevant for many. This is not to minimize the technical issues involved in augmenting the toolset of economics. But, the brightest minds of the profession, wherever they may be located globally, need to be encouraged to work in these directions. As in other disciplines, such as mathematics, physics, and biology, perhaps computational power in the form of simulation techniques can be brought to bear in solving analytically intractable problems. While simulation is increasingly being used in the empirical portions of DSGE models, its use in theoretical modeling is still not accepted in economics as unquestionably as in other disciplines.

In short, in a world that now emphasizes “inclusiveness”, the discipline of economics needs to become more inclusive, in the broadest sense of the term.