Macroeconomics and Human Development

Deepak Nayyar

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Microeconomics and Human Development pursue to tackle both negative and positive effects of macroeconomics on human development and vice-versa through a series of external and internal factors. From the very beginning, the author, Deepak Nayyar, professor of Economics at Jawaharlal Nehru University, New Delhi, India and Distinguished University Professor of Economics at the New School for Social Research, New York, USA, aroused the reader’s interest by promising to present an unexplored but very important domain.

The book consists in a series of articles published in a prestigious publication: Journal of Human Development and Capabilities. The authors have a perennial echo in the economic field. For example, Joseph E. Stiglitz is the winner of the 2001 Nobel Memorial Prize in Economics and José Antonio Ocampo received in 2008 Leontief Prize for Advancing the Frontiers of Economic Thought.

The authors’ writing style, scientific, coherent and easy to follow, transforms the paper into a compelling and must-read writing. The book is structured in 7 independent chapters. The first one draws attention to the relation between macroeconomics and human development. The next 3 chapters include various factors in the analysis of macroeconomics in human development such as economic fluctuations, inequalities and distribution. The 5th chapter presents a global and actual problem: the effects of the economic crisis on the poor. The 6th chapter illustrates a particular case: an analysis of the issue in Latin America. Finally, the book ends with a financial perspective on human development.

In the first part of the book, Deepak Nayyar highlights the relevance of studying together both macro and human development, identifying them as “dichotomized world” (p. 2). The most relevant ingredients in the sphere of macroeconomics on which the well-being of people reckon are: employment levels, social protection and public entitlements. The author expresses his own opinion regarding the macroeconomic goal setting, stressing on that “what is efficient for a household at a micro level it is not necessarily efficient for the government at a macro level” (p. 14). The chains of negative causation between human

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8 The editorial team is composed of: Deepak Nayyar, José Antonio Ocampo (Professor in the School of International and Public Affairs and Fellow of the Committee on Global Thought at Columbia University, USA), Stephanie Seguino (Professor of Economics at the University of Vermont, USA and Professorial Research Associate at the School of Oriental and African Studies, University of London, UK), Ajit Singh (Emeritus Professor at Cambridge University, UK and a Life Fellow of Queens’ College), Frances Stewart (Emeritus Professor of Development Economics in the University of Oxford, UK), Joseph E. Stiglitz (University Professor at Colombia University, USA), Juliana Vallejo (independent consultant).
development and macroeconomics are presented in parallel: jobless growth, unsustainable growth and the aging of industrial societies.

In Stiglitz’s perspective, inequality generates a great impact on volatility and the creation of crises. In turn, financialization is a decisive phenomenon for economic instability. Moreover, downward fluctuations in government spending, inadequate monetary policies and asymmetric trade agreements lead to higher volatility, less efficiency and more inequality (the poor are the least able to protect themselves). As a solution to overcome crisis, the author states that: “it is costly (...) to increase resource transfers from the private to the public sector (e.g. taxes)” (p. 41). The economic strings in a national economy are presented as an intriguing vicious cycle: weak investment in human capital and human development (e.g. public transportation, education, R&D etc.) increase volatility and inequality and weaken growth, while, weaker growth, greater volatility and inequality lead to weaker investment in human capital and human development.

Moreover, Stephanie Seguino brings into discussion the role of distribution of income. She asserts that the intention to correct the distribution of income can, under some conditions, bring negative effects: reduce both aggregate demand and employment. The author proved, through mathematical calculus, that human development can be encouraged through higher real wages and public physical and social infrastructure investment. Additionally, the government plays a role in promoting win-win outcome through macroeconomic regulations on trade, investment, finances etc. Macroeconomic strategies should be orientated toward the creation of demand: trade and investment policies that rebalance worker’s bargaining power and incentive for firms to share increases in profits with workers.

In the second part of the book, Frances Stewart analyzes the impact of two global economic crises on the poor: the one in 1980 and the other one in the 2000s. In author’s opinion, the 2000s crisis was a more all-embracing, provoking negative effects that spread all over the world. The impact was measured on trade, commodity prices, portfolio flows, FDI and remittances. This crisis affected more middle-income countries than low income ones, South and Eastern Europe and Latin America, being the worst affected. In 2000s, there were used more extensive social programs, but they did not hinder the rising of poverty. In line with this, there is an actual need for different types of schemes: unemployment support, additional cash transfers, provision of emergency employment. An interesting observation is that in 2000s, fewer countries have recourse to IMF compared to the 1980s, because they have accumulated reserves to protect themselves. The author presents the case of 5 countries: Egypt, Mexico, the Philippines, South Africa and Uganda. Egypt suffered an important reduction in its all major sources of foreign exchange: exports, remittances, tourism, Suez canal dues, and FDI. Mexico registered the sharpest fall in output while Philippines was the most dependent on remittances. On the other hand Uganda was the least affected by the 2008 crisis. Another difference between crises is the level of poverty. In 2000s, the fall in poverty has been less than it was in 1980s, because the crisis was shorter lived, and it allowed people and governments to draw on their savings to protect the livelihoods. The prolonged nature of the crises of the 1980s exhausted this type of protection.

The third part of the paper puts forward the analysis of Economic Growth, Equity and Human Development in Latin America. The relationship between the economy and equity

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9When there is used asymmetric trade agreement, the author refers to free financial flows but constrained labor flows.
has shown significant contrasts in Latin America over the past two decades. On the one hand, increases in public spending caused advances in education, health and access to basic utilities, and, on the other hand, they provoked weak labor market performance and slow advances in social security. The author made an interesting comparison: social spending as a "democratic dividend".

Additionally, he argued that a process of human development with precarious employment and economic stability\(^{10}\) took part in Latin America. (p. 107)

It is considered that trade liberalization was the most notable factor that helped widen the wage gap. This idea was also vouched and confirmed in a study made by Alessandro Nicita who states that "(...) trade liberalization has had diverse effects on wage rates. Skilled workers, for which trade liberalization has produced an increase in wages, have benefited in relation to unskilled workers."\(^{11}\) [2] There was a mix of ingredients that contributed to this result: reduction of the tariff on capital goods, the complementarity between investment in machinery and equipment and skilled labor, the pressure to adjust competition and currency appreciation. Moreover, it has been proved that there is a direct relation between the evolution of educational sector and income inequality. Likewise, transfer programs have a great impact on income distribution as in the case of Mexico and Brazil.

The author ended the topic by concluding the fact that, despite the several schemes implemented to contract inequalities, there is still a need for Latin America to improve the share of informal economy, the development of social security and the progressive tax systems.

Financial globalization, the last of the book’s themes, reveals a current concern: how the phenomenon influences the economy. On the one hand, the orthodox theory suggests that because of the greater risk-sharing between countries there should be no welfare losses. Yet, there is evidence that crises are the effect of liberalization. The analysis goes from macro to micro environment, arguing that financial globalization changes the nature of capitalism, affecting the micro-economic level corporate governance, corporate finance and income distribution. All these factors outlined above have a tremendous impact on human development.

An example of the negative effects of the financial globalization is the crisis that broke out in 2008 in USA. It spread quickly all over the world and it hindered a large number of foreign economies. However, a counter-example is the case of China, India and many developing countries, which were not unfavorably affected. The general idea is emphasized by Ajit Singh, concluding that financial globalization has enabled developing countries to take a giant step forward in the first decade of the new millennium. Notwithstanding, the world economy’s growth path for period 2000-2007 was unsustainable, generating enormous inequalities.

As a conclusion, one could argumentatively argue that the book is highly helpful for researchers and students with an economical background. There can be emphasized several advantages.

The explanations given in this book are rounded by notes; thus, the reader can find out more on each problem he is interest in. Furthermore, one can undoubtedly enrich his

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\(^{10}\) The author refers to the fact that Latin America has found it easier to respond to challenge of human development than to the reduction of inequality and the expansion of labor citizenship

economic knowledge. The author names and describes several vital economic laws, theoretical aspects, theorems and sayings of the great economists. Additionally, the book brings in personal perspectives. The author expresses personal ideas, conclusions, which, unfortunately, are impossible to be scientifically proved. In line with this, he defends his thoughts offering relevant examples from the past.

Also, each chapter is written as an individual novel, having its own abstract, conclusions, explicative notes and references. This brings significant benefit to the readers by fixing the information and helping them remember all important ideas presented during the chapter. Furthermore, the information is disseminated through tables, graphs which leads to easier understanding.

At the same time, there can be noted a preference to cite authors that have empirical studies concerning the tackled issue. The writing also includes mathematical calculus made by the author, carefully explained to the readers.

The book owns pioneer features. The authors bring into discussion issues that did not have been dealt with before (ex: the relationship between financial globalization and human development).

As a drawback of the book there can be noticed the lack of comparative analysis. A presentation of the best and worst or at least wrong practices with respect to enrichment of human development implemented around the world would have been useful for the economists in charge with the settlement of this issue. Thereby, the book would have also gained the reputation of a guide of best practices with respect to human development.

All in all, Macroeconomics and Human Development contributes to the enhancement of the scientific literature and it is a must-read book for all the students and researchers. For the former ones it can enlarge the domain of knowledge, and for the latter, it just fixes the information and confirms some assumptions with respect to human development.

Book details:

Economics can be broken into two sections: microeconomics and macroeconomics. Here we delve into these sections; their differences, how they affect each other, and their impact on business. What is microeconomics? Microeconomics and macroeconomics both explore the same elements, but from different points of view. The main differences between them are Macroeconomics and its central issues: inflation, unemployment, economic growth, stabilisation policy. The problem of aggregation of macroeconomics and evaluation of the author’s statements through the lens of theoretical predictions of your model. 10 marks for the critical evaluation of the author’s result, comparison of the crucial assumptions, identification of the driving forces of the model. 5 marks for the statement ‘the author is just right’. 0 marks for the pointless criticism.