

Economic Theory and Practice in the Asian Setting, Volume 1. Committee on Economics Teaching Material for Asian Studies. (New Delhi, Wiley Eastern Ltd., 1975).

This collection of eight articles on macroeconomics edited by the Committee on Economics Teaching Material for Asian Universities and published by Wiley Eastern Limited, New Delhi, is the first of four such collections; the other three deal with microeconomics, agriculture, and development.

The volume under review covers seven aspects of macroeconomic theory. These are: national income, consumption, savings, money, trade, employment and economic growth.

The national income article is "The New National Income Estimates" by H.W. Arndt and C. Ross. It highlights the structure and growth of the Indonesian economy. The initial portion is detailed and descriptive. It provides insight into the existing data on national accounts, a comparison between old and new estimates, and describes the many problems faced in arriving at these. That these accounts are based on shaky statistical foundations is not new to the Asian student of economics. In the later portion of the article the authors use the U.N. Year Book of National Accounts for an interesting comparison of the components of expenditure.

The consumption article by K. Krishnamurty, demonstrates a masterly use of technique on the available statistical data for India to estimate the consumption function. An interesting finding of this article is that the marginal propensity to save is higher for the rural than the urban sector.

The savings article is "Personal Savings in Developing Nations, an Intertemporal Cross-section from Asia" by Jeffery G. Williamson. The article sets out the various hypotheses regarding savings behaviour and then proceeds to test these using Asian data. Thought provoking is the fact that models specified for Western economies perform equally well in most cases for the Asian economies also, despite the vast structural differences. One of the most significant findings of this paper is that the distributional effects on savings are more powerful for Asian economies than for the worldwide sample—a finding that implies greater predictive errors for savings functions estimations without distributional variables. At present a high marginal propensity to save out of transitory income and a high income growth (which tends to create disparities between measured and permanent incomes) imply a high marginal savings rate for Asian economies.

The money article entitled "Demand for Money in Asian Countries, Empirical Evidence" by I.S. Fan and S.R. Liu, tests the demand for money as a function of real income and the interest rate, for a selected group of Asian countries. Amazingly, the authors assume an equilibrium value of money and so implicitly assume that the demand curve for money does not shift over time. Furthermore, they use nominal income data which makes it impossible to distinguish a change in the demand for money due to a change in real incomes from one due to a change in prices. Consequently, the findings of the article lose all significance, especially in the Asian setting where spiralling prices are an omnipresent feature.

The trade article, "Export Multipliers and the Stability of the Federation of Malaya's Economy" by C.H.H. Harvie, attempts to explain the impact of fluctuations of export prices on national income and the various leakages from the economy, by estimating export multipliers for the Malaysian economy. The article however does not list the level of significance of the estimation.

The sixth section on employment is the longest and the most useful of the collection. It contains two articles, one on "Labour Absorption in East and South East Asia, A summary with interpretations of Post War Experience" by Harry T. Oshima, and the other a short, precise well-written but controversial paper on "The Choice of Technique in Rice Milling in Java" by C. Peter Timmer.

The first article is a lengthy, descriptive analysis of labour absorption in East and South East Asia. The old maxim that "The best of all worlds is one in which all income is produced with no employment and the worst of all worlds is one in which no income is produced under conditions of full employment" leads the authors to use growth in employment to growth in income ratios to compare labour absorption, a crude but effective tool for this purpose. The article sets out various hypotheses, probes different indicators and policy implications relevant for the East and South East Asian experience, but does not suggest any measure of policy guidelines.

Timmer's article on choice of technique can be very useful to economists in underdeveloped countries faced with the problem of inadequate data. He constructs an iso-value added curve for five different techniques of rice milling quite like the simple microeconomic isoquant for capital and labour inputs. He then estimates the loss of employment as the economy shifts from the use of labour-intensive hand pounding to the use of more sophisticated capital intensive labour saving, automatic husking.

The final, economic growth article is "Foreign Capital and Indonesian Economic Growth" by Alan M. Strout. Despite the perennial data problem, the author argues that given Indonesia's export potential a large dose of foreign capital during the short run can lead to an early closing of the saving-investment gap and cut the reliance on foreign capital much earlier than is possible with small doses over a longer period. The article is followed by an interesting comment on the exposition and interpretation of the two gap theory as applied by Dr. Strout, and a reply by the author to the comment by H.W. Arndt and R.M. Sundrum.

Overall, the technical merit of the articles aside, the basic motivation of the series is appreciable. Applications of textbook economic theory to the realities of Asian economies—where systematic collection of data is only just gaining vogue, where elaborate business cycle models and monetary and fiscal measures, over-emphasized in the West, seem far and remote, where the growing problems are those of poverty, unemployment, resource allocation, self-sufficiency, protectionism, labour-capital substitution under conditions of surplus labour supply, and aid dependence—is the urgent need of the hour.

The data problem in most Asian countries is the primary bottleneck to effective research. Thus, any paper that outlines methodology to test economic

theory in the face of this dearth of data can be very enlightening to the Asian student of economics. It is a very real need, especially in countries like ours, that students of economics be able to associate what they read of theory to the economic environment around them, and any effort that aims at "putting together suitable teaching materials that are theory based and pertain to the Asian setting," deserves credit.

The Committee of Economics Teaching Material for Asian Universities has done a good job in its selection on macroeconomics. Given the constraint of finding standard research papers, and in their effort to "exclude all theoretical articles however good which didn't rest on a base of empirical testing and all descriptive articles, however valuable which didn't seek to test theory," the committee has still succeeded to a great extent in putting together in 172 pages the essence of the various aspects of "Macro-economic Theory and Practice in the Asian Setting".

Pakistan Institute of
Development Economics,
Islamabad

Sohail J. Malik