

Niechoj, Torsten

### Book Review

Book review: Brancaccio, E. and Califano, A. (2018): *Anti-Blanchard Macroeconomics*, Cheltenham, UK and Northampton, MA, USA (158 pages, Edward Elgar Publishing, hardcover, also available as paperback and ebook, ISBN 978-1-78811-899-6)

European Journal of Economics and Economic Policies: Intervention (EJEEP)

### Provided in Cooperation with:

Edward Elgar Publishing

*Suggested Citation:* Niechoj, Torsten (2020) : Book review: Brancaccio, E. and Califano, A. (2018): *Anti-Blanchard Macroeconomics*, Cheltenham, UK and Northampton, MA, USA (158 pages, Edward Elgar Publishing, hardcover, also available as paperback and ebook, ISBN 978-1-78811-899-6), *European Journal of Economics and Economic Policies: Intervention (EJEEP)*, ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 17, Iss. 1, pp. 106-109, <https://doi.org/10.4337/ejeep.2020.01.07>

This Version is available at:

<https://hdl.handle.net/10419/277469>

#### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

#### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<https://creativecommons.org/licenses/by/4.0/>

## Book review

Brancaccio, E. and Califano, A. (2018): *Anti-Blanchard Macroeconomics*, Cheltenham, UK and Northampton, MA, USA (158 pages, Edward Elgar Publishing, hardcover, also available as paperback and ebook, ISBN 978-1-78811-899-6)

Komlos, John (2019): *Foundations of Real-World Economics: What Every Economics Student Needs to Know*, 2nd edition, London, UK and New York, NY, USA (292 pages, Routledge, hardcover, also available as paperback and ebook, ISBN 978-1-13829-652-7)

Torsten Niechoj

Rhine-Waal University of Applied Sciences, Kamp-Lintfort, Germany and FMM Fellow

More than a decade after the global financial crisis there are a number of heterodox textbooks on the market. For example, the CORE project offers an online as well as a print version of its textbook developed over recent years by a group of economists, including Wendy Carlin and Sam Bowles (The CORE Team 2017, <https://www.core-econ.org/>; cf. Stirati 2018 in this journal). The influential modern monetary theory economists have published a textbook too (Mitchell et al. 2019; cf. Michell 2019). Another now well-established series of textbooks was written and maintained by economists of the Economics in Context Initiative (ECI) (Goodwin et al. 2019; 2020a; 2020b; cf. Lavoie 2009; 2015). Sebastian Dullien has adapted the macroeconomic textbook to the European situation (Dullien et al. 2018; cf. Lavoie 2018). Those textbooks address the introductory level and try to integrate standard economics content through the lens of (and in contrast to) heterodox theories.

This review showcases further contributions to the growing corpus of heterodox textbooks, and it contrasts two quite different approaches. *Anti-Blanchard Macroeconomics* by Brancaccio and Califano is now, after three Italian editions, available in an extended English version. Komlos's *Foundations of Real-World Economics* has been updated and revised recently and is now available in its second edition. Therefore, it is reasonable to assume that both books have established themselves on the market and that there is an ongoing interest in them.

Concepts and potential audiences of the books differ enormously. *Anti-Blanchard Macroeconomics* is a critical appraisal of the famous textbook by Blanchard (2017, and previous editions) and at the same time an alternative to it. To be precise, the book offers in a condensed form a reformulation of the models of Blanchard's older versions of his macroeconomic textbook and of the latest edition, revised in the aftermath of the global financial crisis and inspired by his work for the International Monetary Fund. The presentation by Brancaccio and Califano does not resemble the typical style of recent textbooks. No examples, illustrative case studies, trenchant cartoons or exemplifying boxes are to be found in the main text. On the contrary, the book uses a very lean approach to provide a lucid development of the causal structure of both Blanchard's AS–AD model, used in the first editions of his textbook, and the new model of the latest edition. Brancaccio and Califano

call this an 'IS–LM–PC' model in order to highlight Blanchard's turn to the IS–LM model as a foundation for his textbook which he then enriches by a particular formulation of the Phillips curve as output gap vs inflation. The new model tries to adjust the theoretical foundations of the textbook to the challenges which both the economic discipline and mainstream textbooks had to face after the recent crises, especially the negative consequences of deflation. It does not come as a surprise that the authors of *Anti-Blanchard Macroeconomics* are not fully satisfied with Blanchard's attempt. The main thrust of the critique is that although Blanchard can model the negative impact of deflation (due to the rise of the real interest rate in the IS–LM–PC framework), the new framework still rests, as did the old AS–AD model, on an inverse relationship between interest rate and investment, and it ignores conflicts over wages. Thus, monetary policy is key in this model, and the role of fiscal policies is downplayed.

The authors of *Anti-Blanchard Macroeconomics* contrast in chapters 3 and 5 Blanchard's AS–AD model and the revised IS–LM–PC model with their own alternative, a class-oriented conceptualisation that highlights power differences, especially the bargaining power of workers vis-à-vis firms. Therefore, they discuss shapes of the AD curve that are not downward-sloping as in Blanchard's AS–AD model where he derives this from an inverse relation between prices and AD. Furthermore, Brancaccio and Califano endogenise both the mark-up of firms and workers' bargaining power in a conflicting claims model. Consequently, they come to policy conclusions that are different from Blanchard's inferences. Both fiscal and monetary policies can be effective to stabilise an economy, not only in the short but also in the long term.

Two appendices accompany the first analytical chapters and provide empirical applications. The first appendix, by Domenico Suppa on 'Labour market flexibility and unemployment', is a guideline on how to do an econometric study, applied to the relationship between labour market regulation and unemployment. Appendix 2, by Andrea Califano and Fabiana De Cristofaro on 'Contractionary fiscal policy and fiscal multipliers', reproduces and reflects upon the now well-known Blanchard/Leigh (2012; 2013) contributions to the discussion on the magnitude of fiscal multipliers, which was a game-changer in the debate on expansionary austerity.

The book clearly addresses more experienced students or researchers who are already familiar with the canonical presentation of economics in textbooks, at least with the work of Blanchard, and always had the feeling that there is something lacking or that does not fully add up. *Anti-Blanchard Macroeconomics* strips down the voluminous editions of Blanchard's textbook to their analytical core and thus helps readers to understand why and to what extent the canonical presentation is not convincing. That implies, in my view, that this book is neither an introductory textbook nor a book that should be read alone. To me this is an excellent choice for a comparative seminar in macroeconomics or in addition to a standard textbook, most likely the latest edition of Blanchard's *Macroeconomics*.

Komlos's book, *Foundations of Real-World Economics*, follows a different approach that mimics didactically, but not in its content, other modern textbooks. It addresses the introductory level and has a focus on microeconomic and institutional issues; eight chapters deal with this. There are three chapters on macroeconomics, one on international trade and one on the global financial crisis, plus an introductory and a concluding chapter. The strength and at the same time weakness of the book, in my view, is that it does not develop models or introduce other analytical tools. It makes use of a lot of stylised facts and presents theories verbally or with the help of illustrations. His presentation of prospect theory (pp. 68–74), which discusses exemplary prospects against the background of utility functions and visual representations of the idea of loss aversion, is the maximum level of technicality that readers have to face. Whereas other textbooks at introductory

level often use simplified versions of AS–AD models, Komlos discusses macroeconomics mostly verbally and against the background of stylised facts on business cycles and key macroeconomic indicators. The only two equations I could find in the chapters on macroeconomics were one describing the quantity theory of money and another providing the composition of GNP (pp. 175–176). This approach facilitates access to the world of economics, but it also blurs that, as well as how economists can use analytical tools to dig deeper and enrich their knowledge about the patterns of the real world. Komlos is correct when he writes in his introduction (esp. pp. 10–16) that, as he calls it, ‘blackboard economics’ too often uses overly simplified models to derive unsubstantiated conclusions that then obscure economic behaviour more than they explain it. I would prefer, however, an approach that clarifies the analytical assumptions and underlying causal relations of theories in order to be able to emphasise their restricted explanatory power. And it would help to understand better some of the criticism Komlos correctly mentions in his book. For example, in a short discussion on the natural rate of unemployment (pp. 193–194) it does not become clear why, in such a framework, the unemployment rate centres around a specific value. Moreover, he presents in a few sentences a number of counterarguments – the concept of the natural rate preserves the status quo, actual unemployment rates undercut the natural one without triggering inflation, structural changes of the labour market can reduce unemployment, the government has tools to reduce unemployment not only in the short-term – which are all arguments worth considering but without further explanation are hard to understand for an inexperienced student.

My impression was that the book covers a lot of ground in only 272 pages. It deals with most of the topics of other introductory textbooks (behavioural foundations, micro and macro, international issues), and suffers from the same problem as other heterodox textbooks: the necessity to describe the mainstream view in order to be able to criticise it, plus a presentation of the plurality of approaches heterodox economics has to offer. As a consequence, the presentation is not always sufficiently balanced and cannot provide in-depth explanations. For sure, a textbook like this is by definition limited to being an introduction, but my feeling is that an introduction has to be as clear as possible in its line of reasoning and in contrasting opposing views to avoid confusion among readers interested in economics. It should also combine an overview with selected in-depth analyses of topics and it has to offer some tools to demonstrate how economists are able to analyse economic phenomena and to derive new insights. This is what I partly miss. But other readers might disagree and prefer a broader and livelier approach. Nevertheless, as an introductory textbook the quality of the visual presentation and the support for lecturers should be improved. This is nowadays – besides the content – another crucial criterion for the adoption as a textbook. For example, there are no questions and answers in the book, no online testbank or slides, no glossary, the whole book makes use of greyscale graphs only, and the layout is in general not very appealing.

To sum up, this book review focused on two textbooks, both of which are worth reading. However, they address completely different audiences. *Anti-Blanchard Macroeconomics* provides what you need to understand the analytical foundations of the different editions of one of the leading textbooks, *Macroeconomics* by Blanchard. The presentation is very clear and to the point. It is an excellent way to understand both analytical strengths and weaknesses of the mainstream approach, represented here by Blanchard. It also offers an alternative that addresses some of the weaknesses of the mainstream approach and invites the reader to dig deeper into heterodox economics. *Foundations of Real-World Economics* aims at the introductory level and grounds its presentation in a lot of helpful stylised facts to connect to the real world. It contrasts the mainstream approach with many important heterodox insights in order to help readers to get a more realistic and multifaceted picture of

economic relationships. I recommend the book to people who are interested in economics or for business students. For students of economics, I would recommend a more analytical approach (like the textbooks by Goodwin et al. mentioned above) which more fully equips students with the tools they need to start their own investigation of economic phenomena.

## REFERENCES

- Blanchard, O. (2017): *Macroeconomics*, 7th edn, Boston: Pearson Education.
- Blanchard, O., Leigh, D. (2012): Box 1.1: are we underestimating short-term fiscal multipliers?, in: International Monetary Fund, *World Economic Outlook*, Washington, DC: International Monetary Fund, 41–43.
- Blanchard, O., Leigh, D. (2013): Growth forecast errors and fiscal multipliers, in: *American Economic Review: Papers and Proceedings*, 103(3), 117–120.
- CORE Team, The (2017): *The Economy: Economics for a Changing World*, Oxford: Oxford University Press.
- Dullien, S., Goodwin, N., Harris, J.M., Nelson, J.A., Roach, B., Torras, M. (2018): *Macroeconomics in Context: A European Perspective*, London and New York: Routledge.
- Goodwin, N., Harris, J., Nelson, J., Rajkarnikar, P.J., Roach, B., Torras, M. (2019): *Microeconomics in Context*, 4th edn, London and New York: Routledge.
- Goodwin, N., Harris, J., Nelson, J., Rajkarnikar, P.J., Roach, B., Torras, M. (2020a): *Macroeconomics in Context*, 3rd edn, London and New York: Routledge.
- Goodwin, N., Harris, J., Nelson, J., Rajkarnikar, P.J., Roach, B., Torras, M. (2020b): *Principles of Economics in Context*, 2nd edn, London and New York: Routledge.
- Lavoie, M. (2009): Book review of Goodwin, Nelson, Ackerman and Weisskopf, *Microeconomics in Context* (M.E. Sharpe, Armonk, 2009) and Goodwin, Nelson and Harris, *Macroeconomics in Context* (M.E. Sharpe, Armonk, 2009), in: *Intervention: European Journal of Economics and Economic Policies*, 6(2), 315–316.
- Lavoie, M. (2015): Teaching monetary theory and monetary policy implementation after the crisis, in: *European Journal of Economics and Economic Policies: Intervention*, 12(2), 220–228.
- Lavoie, M. (2018): Book review of Dullien, Sebastian, Neva Goodwin, Jonathan M. Harris, Julie A. Nelson, Brian Roach and Mariano Torras (2018), *Macroeconomics in Context: A European Perspective*, in: *European Journal of Economics and Economic Policies: Intervention*, 15(1), 105–107.
- Michell, J. (2019): Book review of Mitchell, William, L. Randall Wray and Martin Watts (2019), *Macroeconomics*, in: *European Journal of Economics and Economic Policies: Intervention*, 16(3), 431–435.
- Mitchell, W., Wray, L.R., Watts, M. (2019): *Macroeconomics*, London: Red Globe Press.
- Stirati, A. (2018): Book review of The CORE Team (2017): *The Economy: Economics for a Changing World*, Oxford, UK, in: *European Journal of Economics and Economic Policies: Intervention*, 15(1), 108–112.