

A Better Economics for the Indian Context

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Reflecting on their experience of using *The Economy* to teach undergraduate students in India, two teachers of economics discuss the need for a version of the alternative textbook that addresses the needs of students who seek to understand the Indian economy. The possibilities of such a version of the textbook are discussed.

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Paul A Samuelson, the Nobel Laureate in economics, once said, “I don’t care who writes a nation’s laws—or crafts its advanced treatises—if I can write its economics textbooks.”

He was right about the greater long-term impact of being a framer of minds. Samuelson’s famous textbook, *Economics* (1948) created a paradigm which formed the cornerstone of millions of people’s understanding of economics across the world for decades. From its first edition in 1948, it made sense of economics to newcomers and provided a framing that remains the standard for preliminary education in the subject. Samuelson brought together in one text the insights of Marshallian microeconomics and Keynesian aggregate demand and broadly consolidated the

sub-disciplines of microeconomics and macroeconomics in the economic curriculum. This framing helped establish the view of the market economy as a self-equilibrating system with some failures—externalities, insufficient public goods, and occasional demand shortfalls—all of which could be addressed by appropriate intervention. This approach is now standard, and almost all textbooks have the same formula (for example, best-selling textbooks such as Gregory Mankiw’s *Principles of Economics*) adding updates from more modern research as an afterthought.

Thus, we have the following rough sequence almost everywhere: the idea of scarcity, the theory of the consumer, the theory of the firm (more appropriately termed the theory of the plant), market failures and public goods, national income accounting, inflation, output, and ending with fiscal and monetary policy.

In India generations of students have been brought up on these texts and this sequence. As a rough rule, in our conversations we have found that about

seven out of 10 college faculty use Mankiw or a similar textbook in their introductory course which follows the aforementioned sequence.

In our view, this is a pity because it is increasingly recognised that the standard approach, while perhaps reasonable as a goal for launching a typical undergraduate curriculum, does little to help understand the economy that the students observe. Both educators and more importantly students in the West have realised that the standard economics education available in countries such as the United States (us) and the United Kingdom (uk) not only did not equip them with the tools to understand the great recession of 2008, it also ruled out the possibility of alternative frameworks. By setting up an exercise in intellectual mastery of a set of theoretical constructs rather than a robust engagement with the messy and changing economy they saw, students were often left with a sense of bewilderment as the economic world crashed around them. Groups such as Rethinking Economics were born out of this malaise and have grown much stronger since that time.

While it is understandable that Indian students did not have an equivalent sense of discomfort given that the epicentre of the crisis were the Organisation for Economic Co-operation and Development economies, there is at least one way in which they too might be rightly incensed by their introductory education. Economics is often taught as being a context-less, ahistorical discipline in which the basic and most important tools and examples through which to analyse economic life are universal, and which can be applied across contexts without concern. In practice this often means that texts reflect the reality of the us or uk economy, rather than that of any other place in the world. Unlike in the West, however, Indian students ought to be deeply conversant and analytically at ease with issues such as informality, structural transformation, planning, liberalisation, dual economies, caste and gender inequalities, and urbanisation that pervade their own lived experience from the outset rather than as (is the current

case) special topics for a third-year course in economic development.

Using *The Economy*

At Azim Premji University, these twin considerations loomed large as we attempted to reimagine three years ago what an introductory undergraduate course in economics ought to look like. At the outset, we decided to support and adopt *The Economy* which was still being written when we began. The textbook is written by 20 economists from all over the world and directed by Wendy Carlin from the University College London, Samuel Bowles from Santa Fe Institute, and Margaret Stevens from University of Oxford, and seeks to create a new paradigm for introductory economics.

One reason for this attempt is that the standard textbooks fail to reflect many advances in economics over the last few decades which taken together create a much more complex vision of the functioning of the economy than the paradigmatic Samuelsonian approach. Many of these are central to the understanding of the limitations of market-based economies and are key to modern theories which seek to explain events such as the global financial crisis. These include the centrality of imperfect contracts and imperfect information in limiting the ability of markets to allocate resources efficiently, the understanding that self-interested strategic interactions among agents can lead to socially undesirable outcomes, as well as the comprehension that endogenous money, feedback effects and leverage can lead to dramatic volatility and financial crashes.

The Economy in contrast to the standard approach attempts to address these and re-engages (in modern terms) with classical concerns surrounding distribution, conflict and social order that has motivated economics from its beginning. The text focuses on pressing economic problems such as unemployment, instability, inequality, environmental sustainability, and develops modern analytical tools required to understand these. It does this while paying enormous attention to history, institutions, and experiments that illuminate these topics and places them in context.

Throughout, it incorporates relevant insights from other disciplines, including psychology, sociology, history, legal studies, anthropology, biology, and ecology and philosophy. These in turn suggest a complex and nuanced understanding of economic behaviour, in which human interactions involve bounded rationality, reciprocity, adherence to norms, and a concern for justice and an embedding in society; a far cry from the “rational economic man” of standard textbooks.

The Economy is more international and its digital format allows greater flexibility and adaptability. Furthermore, it is designed to be taught as a one-year course and is not neatly divisible into a typical “Introduction to Microeconomics” and “Introduction to Macroeconomics” (although this can be done). There are separate units on the growth of capitalism, the functioning of banks and credit, on the international economy, on inequality, environmental concerns and distribution and so on, all with a clear underlying analytic framing.

But, while all of this makes it a far superior alternative to conventional economics textbooks, there is more work that can be done to make it even better suited for our purpose. Currently, we find that it is best to supplement *The Economy* with the very good material from Indian books such as G Omkar-nath's *Economics: A Primer for India* (2012) or Errol D'Souza's *Macroeconomics* (2009) which provides greater institutional detail for our students. We are attempting to create a South Asian version of *The Economy* that engages more fully with the lived realities and features of the economy here. While the basic structure and much of the content will remain the same, we hope to be able to make a few changes that align perhaps more closely with some of the key concerns that may be specific. We aim to do this in a few ways.

First, we plan to use meaningful narratives from the Indian context to illuminate economic concepts. Thus, for example, most introductory courses teach the basic model of labour supply wherein workers trade off between work and leisure. But, this same labour supply decision can be richly illustrated in the context of women's labour force

participation in India. Unlike in developed economies, in India women do not choose only between paid work outside the home and unpaid work at home. They also participate extensively in the economy as unpaid workers in market operations (such as farming or home-based industry) or work for money as piece-rate workers at home. We can introduce the analytical framing of the standard labour supply model with an actual example from fieldwork in Varanasi undertaken by one of us (Basole 2016) to discuss the choices and constraints facing women in undertaking paid work or caring labour. This also allows us to introduce students early on to tools such as time-use surveys.

Second, wherever possible, we aim to expose students to actual Indian data right from the outset. *The Economy* provides over 200 data sets to learn about real world data and we hope to supplement these in the South Asian version.

Third, we hope to expose students to some aspects of thinking in India about the issues raised in *The Economy*. Thus, for example, while Lionel Robbins's principle of scarcity and the preference for growth is embedded in most textbooks, India has a rich tradition that contests this framing. Gandhian and other perspectives which have different normative underpinnings continue to play a part in our polity and society. While an introductory course in economics cannot cover such material in detail, it is important for students to be able to be exposed to these alternative visions.

Fourth, and perhaps most difficult, we hope to be able to embed material that is critical to understand the Indian economy but which is not emphasised in *The Economy*. Examples might include dualism, informality, structuralist understandings of inflation, and of course the historical trajectory of modern India.

In our opinion, the performance and evolution of the economy as a subject fascinates students. Consider for example the hugely positive response to Arvind Subramanian's yeoman efforts to make the *Economic Survey* accessible to students. At the same time, however, they are quickly bored by the standard textbook approach and treat the curriculum

as a set of puzzles to master. This is not a surprise at all given the limitations we have described earlier.

What We Saw So Far

For us, using *The Economy* has been a successful experiment so far. It has helped students simultaneously obtain the tools of economic thinking while retaining interest in the real world and indeed becoming more engaged over time in a wide range of interests that really befit the notion of becoming "worldly philosophers."

A few examples of the textbook's success may be useful.

One student currently in the second year became very interested in the issue of debt dynamics that is described in the section on fiscal policy. The chapter makes the obvious, but critical, point that debt rises not only because of borrowing but also because real interest rates grow faster than real gross domestic product (GDP) growth rates. This interest in understanding the basic mechanics allowed him to engage with the N K Singh Committee report and their aims at maintaining debt stability, an example of a very live debate. In doing so, the student noticed that there were several concerns (for example, that the debt stability target of 60% debt to GDP ratio implied procyclicality of the deficit and so on). As a result, the student is doing an honours thesis using a Python programme simulating state and centre debts and the joint role of monetary policy and fiscal policy in this regard.

A now third-year student became interested in the problem of spontaneous social order that arises from strategic interactions described in the sections on games earlier in the book. She used this as a springboard to create an agent-based model of caste dynamics that allowed new insights into the persistence of caste.

A group of three, now third-year students, inspired by the inherent ideas of evolution and persistent social orders, worked on creating a model of caste persistence using an evolutionary game from previous work by Kaushik Basu (2017).

Our students in "Money and Banking" and in other classes can more easily

understand lectures around the process of money creation (for example by Chowdhury 2013) after having done the relevant chapters in the section on money. This has made engagement with current debates far more sophisticated and embedded than might be expected from a simple introductory textbook-level of engagement.

The foregrounding of the political assumptions and considerations of questions of fairness in the book gave space to a third-year student who became interested in those concerns and who then wrote an honours thesis on the liberal philosophical underpinnings of markets and criticisms thereof, drawing from diverse readings ranging from political philosophy to information theory to psychology, and including direct engagement with the original work of such thinkers as Niccolò Machiavelli, Albert Hirschmann, Michael Sandel, Debra Satz, Kenneth Arrow, Elizabeth Anderson, Eva Kittay, Gerd Gigerenzer, Herbert Simon, Joan Robinson and others.

Again, these are unusually high levels of sophistication and engagement for undergraduate students in India. While the aforementioned are some striking examples, it is certainly the case that almost all our students have been similarly inspired. Some of this has been because the foundation allows us a more robust and broad engagement with the materials in the second and third years of an undergraduate programme. There are no reasons other Indian students would not also benefit greatly, especially if such an approach can be made more contextually appropriate.

However, some potential adopters may balk at choosing *The Economy*. In some cases, this may be for principled reasons (for example, some may prefer to use a "pluralist" approach, whereby paradigms compete as an "Introduction to Economics" or with other disagreements about presentations). In other cases, there may be pragmatic considerations of how to sequence material. But these are likely to be very few. For the most part, we suspect that the biggest impediment to switching to a more engaging and up-to-date approach (whether through *The Economy* or any

other set of materials) is because of habit and inertia. It requires re-tooling and re-engagement on the part of instructors who currently run on a standard set of practices that are easily replicated everywhere. But from a pedagogical viewpoint this is a mistake. The status quo short-changes our students and does little to ensure that they remain engaged and vitally interested in understanding

the economic world. But, the purpose of an economics education is to create a better-informed polity that can effectively engage in these complex understandings. It is possible, we believe, to have a better approach.

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