

Earth Economics - An introduction to demand management, long-run growth and global economic governance

Peter A. G. van Bergeijk

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In a globalized and highly-connected world, should we still study countries as individual entities? This question mainly arises in response to introductory macroeconomic textbooks which tend to oversimplify the economic system by initially assuming autarkic countries, i.e. not opened up to trade. *Earth Economics* offers an original approach to basic macroeconomic concepts by challenging this traditional (introductory) assumption of closed economies. Instead it presents a system comprising one single and ultimate closed economy: the planet Earth. The goal is to make macroeconomics more realistic and to widen the perspective of the discipline. In the author's words, "*Macroeconomics, so to say, studies the bees, eartheconomics studies the bee-hive*". The idea behind *eartheconomics* is to realistically depict economic dynamics without losing the simplicity of an easy-to-analyze model. Globalization and economic theories are mostly analyzed through a historical perspective: much emphasis is put on past episodes including the great depression, the oil

shocks of the 1970s, and the Asian and dot-com crises. Strangely the most recent global financial crisis is treated more cursorily. Using data going back, in some cases, hundreds of years, the author tries to find consistency and patterns between economic theory and empirical evidence.

The book opens with an extensive introduction to the goals, strengths and (self-acknowledged) pitfalls of *eartheconomics*. A section dedicated to "planet accounts" explains the methodology used in data analysis throughout the volume. The book comprises three parts. The first deals with short-term fluctuations and demand management, the second examines long-run issues, and the third considers Earth governance and global public goods. All sections have theoretical and economic models supported by simple data analyses, mostly time series trends. Economic concepts are introduced with an easy and accessible language as the reader delves into more complex economic models. The author provides ready-to-use tools to analyze economic trends, historical facts and potential policy implications.

The first two parts mainly cover the "heritages" of Keynes and Solow, with particular focus on economic development. Growth, unemployment and inflation are the three central dimensions of *eartheconomics*, mainly because of data availability. The ideas behind the ISLM model, business cycles and the Solow growth model are promptly translated in concrete terms by looking at the Earth's overall economic trends and attempting to putting into concrete terms the predictions and insights generated by these economic models.

The most original ideas are found in the last section of the book, where Earth governance and global public goods are discussed. Is it practical to talk about a global coordinated action in order to tackle these cross-border issues like environmental stresses? Countries' borders are semi-permeable and globalization is just another way to describe the increasing interactions among economic agents and governments. Unlike macroeconomics, *earthconomics* wants to find mechanisms to drive global rather than national welfare. The author admits that taking decisions at the global level is challenging due to the tendency of people to cooperate at lower level of aggregates, i.e. countries, regions, cities and families. However, as population grows and environmental aspects become actual issues, he sees no alternative to tackling these problems through a higher degree of cooperation.

The last two chapters conclude by observing two forces that push against each other, namely fragmentation and cooperation. Both have increased over time; both are being driven by the growing presence of emerging economies in the world market; and both are the results of historical, economic and political developments. The author presents the new challenges posed by China and India and supports the idea of having different growth models for developed and developing countries. In other words, global problems can be solved if different positions are taken into account and without a one-size fits all set of policy prescriptions (for instance, the Washington Consensus).

The study of Earth as a single economic system comes with clear downsides. In this system, trade among nations does not take place and the international flows of capital, goods and labour are neglected. Similarly, the interconnection between economy and politics is absent at the systemic level. Countries, and their interests, histories, and cultures, are not taken into account along the economic analysis, making the discussion oversimplified and paradoxically less realistic than what can be

found in other macroeconomic books.

The lack of reliable data is another, non-negligible problem which is acknowledged out by the author from the very first page of the book. For instance, by aggregating the current accounts of all nations, it is found that the world current account is not zero due to overestimates (or underestimates) of payments at the country level. Moreover, world data are strongly biased towards developed countries, where data are likely to be more complete and reliable. At times *Earth Economics* is guilty of a lack of mathematical rigour, although this is balanced by emphasizing the intuition behind models and policy discussion.

Overall, *Earth Economics* is an excellent source as an alternative introduction to macroeconomics. It can also assist scholars who want to study the subject from a more diverse and less mainstream angle. The book does great work in interlacing economic models, real world data and policy discussions, into a comprehensive, if unconventional, macroeconomics book.

Reviewed by Marco Scagliusi, Research Assistant, Trade and Investment Division, United Nations ESCAP.

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