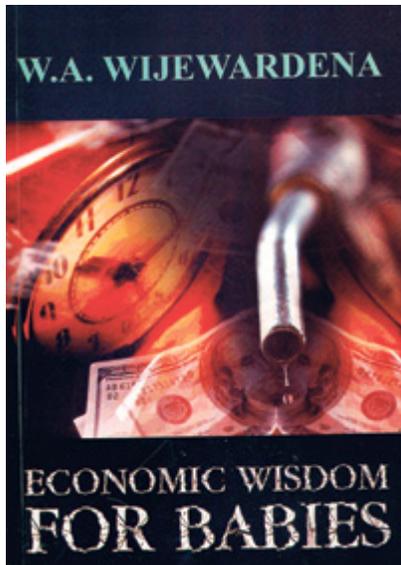


## 'Review of the Book: 'Economic Wisdom for Babies'

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### Economic Wisdom For Babies

By W.A. Wijewardena *Reviewed by Dr Saman Kelegama*



This book consists of 39 essays written over a period of one year for The Sunday Times FT. The great appreciation by readers of the weekly column made the author compile the essays into a book.

The author is a seasoned Central Banker and is currently the Senior Deputy Governor of the bank. He has been a policy maker, university lecturer, and an author of many papers on economic issues.

The author's starting point is that "as long as scarcity rules the world, an economic man should necessarily live in every human being". With that goes the main theme of the book, i.e., we are all babies when it comes to economic literacy. "We make decisions and come to conclusions looking at only what is within our eye sight. We lose the big picture and so the wide range of repercussions that would follow our actions". The book therefore attempts to make economic literacy accessible to a broader spectrum of the population. The author tries to do this by fictionalizing economics.

The virtues of fictionalizing a subject are highlighted by the author in the introduction. This is not something novel. Ayn Rand attempted fictionalization of economic issues in her books starting with 'We the Living' (1936). The 3rd Century BC text called Panchatantra by Sage Vishnusharman to teach politics, economics, and government to princes had a fictionalized narrative. Above all, the Jataka stories that narrate the lives of the Buddha in his previous births also have fictionalized versions of economic systems at that time.

The topics covered in the book are of contemporary relevance: High Inflation and High Growth, Irresistible Promise of High Interest Income, Generic vs. Branded Drugs, Brain Drain or Brain Gain ?, etc. They range from technical economic topics to political economy and economic philosophy. A few essays are selected for commentary here.

On the theme "The Folly of Unsolicited Interest Free Loans", the author points out how decision-makers get carried away by the prima facie attractiveness of an interest free loan. All that the lender needs is a letter to the effect that the country needs the money to grant such a loan. This is a way of bringing ill-gotten money to the normal system says the author, and the letter provides the required guarantee, and thereafter the generous lender vanishes from the scene! In the essay on "Should the Middleman be Eliminated ?" the author explains the burden of heaping the transaction costs on the farmer and consumer by explaining each item that the farmer and consumer will have to do in the absence of a middleman in order to finally sell the output and finalize the purchase, respectively.

The story that accompanies these essays makes them an interesting read. The case is the same with other essays. The virtues of efficient allocation of resources and comparative advantage are demonstrated by narrating a dispute between a husband and wife (Chapter 7). The over-exaggeration of adverse terms of trade for Sri Lankan exports with conspiracy theories is illustrated with a simple example of Sri Lankan traditional exports to the world, where value added forms are slow to emerge (Chapter 5). The need for private sector participation in higher education is lucidly illustrated by the monopoly buyer position of the government which our neighboring countries have long abandoned but Sri Lanka still retains, and as a result have led to many Sri Lankan students going to these countries to seek higher education (Chapter 15). The cost of pollution is lucidly narrated by treating environment as a factor of production (Chapter 8).

Two essays that attracted the reviewer's attention were the one on the proposed India-Sri Lanka CEPA (Comprehensive Economic Partnership Agreement) and the one on Fertilizer Subsidy. In regard to the former, the author points out that during the era of the Silk Route we lived in a deeply integrated region where trade in goods and services (like sculptors, artisans, pearl divers, elephant tamers, etc.) took place very liberally and CEPA attempts a similar scenario, and is nothing new. The author also points out very correctly that in economic relations it is not the size that matters and if that was the case, Singapore should not have an FTA with USA. Trade in services is an area that should be gradually opened and the author questions whether we should prevent English teachers from Colombo going to Mahiyangana in order to facilitate a Mahiyangana villager being trained to take over such a task? In fact, a Colombo teacher going to Mahiyangana will facilitate people of that town looking into the English teaching profession more positively. And it is a similar scenario that is looked forward to when the CEPA advances from its small beginnings.

The author questions whether the fertilizer subsidy helps to increase the agriculture output. He points out that the subsidy amounts to only 5 % of the farmer's cost of production (rest is accounted for by labour, tractors, harvesting, threshing, etc.) when many believe it is the main cost to the farmers. Thus, it has an insignificant role in reducing the farmer's cost of production. At the beginning, the fertilizer subsidy amounted to Rs. 4 billion but with the oil price hike the fertilizer subsidy cost has increased to Rs. 25 bn (at the time of writing). The author recommends that the government should work on giving a good price to the farmer than concentrating on a costly subsidy that has a marginal impact. A notable weakness in the book is that the dates of publication of articles in The Sunday Times are not mentioned. This is important to keep the reader informed of the time of writing.

This shortcoming should not however divert the attention from the excellent story-telling explanation of economic concepts. We are living at a time when the quality of debates in Parliament on economic issues has gone down and at a time when some journalists misinterpret economic arguments with little understanding of the basics.

Bringing out this volume at this juncture is therefore timely. Each essay stands on its own and the reader can select what to read and the book can be read over a period of time than in one go or a short period. At a time when mathematics and statistics have made serious inroads to the teaching of economics, the author has made a useful attempt to explain economic concepts in a very simple comprehensible language.

The author has a knack of selecting a story to explain simple economic concepts and demystifying unfounded claims. The author should be congratulated for the book. He has proved that an economist too can be a creative writer.