LETTERS TO THE EDITOR

Mindset adjustment

Jian-Ye Wang and Abdoulaye Bio-Tchané's "Africa's Burgeoning Ties with China" (March 2008) provides a commendable summary of the economic relationships between China and Africa. The authors make six recommendations for strengthening domestic policy areas, which, in theory, should allow Africa to derive the maximum benefit from its deepening economic engagement with China.

However, a focus on these policy areas must go hand-in-hand with a shift in mindset for Africa's leadership. For instance, your authors recommend "preventing the accumulation of unsustainable debt." Left unsaid is the fact that there are political and economic factors (less visible, yet more dangerous) underlying this debt accumulation.

Some politicians feel the need to take a percentage of project-related investments; others skim the top off loans. Domestic policies on demand management and export promotion suffer from shortcomings; governments borrow money without regard to the country's repayment capacity; and megaprojects lead to white elephants. These factors—all reflecting a sense of irresponsibility on the part of certain policymakers—make the paradox of Africa's overindebtedness and underdevelopment easier to understand.

African policymakers must remember that if they are to benefit from Sino-African engagement, they must have the right attitude. Just as the continent needs tetanus shots for its young, Africa is urgently in need of a "mindset adjustment program."

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Macroeconomists, you call them?

In recent years, I have sensed a perceptible shift in *F&D*'s relationship with its readers. You provide more accessible subject matter as well as additional material on the leading figures of contemporary economic thought. I have a special appreciation for the "People in Economics" section, which profiles living authors whose theoretical and empirical contributions to the development of contemporary economic thought have been significant, even profoundly innovative.

Your profiles have focused on theoretical macroeconomists and researchers, such as Amartya Sen, V. L. Smith, Robert Mundell, Martin Feldstein, Paul Krugman, John Taylor, and Robert Barro. The others have been economic policymakers. I am especially intrigued by this distinction between macroeconomists, policymakers (Otmar Issing, Haruhiko Kuroda, Alice Rivlin), and "practical" economists (Hernando de Soto). After a three-decade quest for convergence of the two branches of modern economic science—macroeconomics and microeconomics—spearheaded by major research programs, is it still meaningful to talk about "macroeconomists"?

Also, in his article on John Taylor (March 2008), Prakash Loungani informs us that A. W. Phillips posited a relationship between the *levels* of inflation and unemployment. To my knowledge, Phillips was instead positing a relationship between *relative changes* in inflation and unemployment (Phillips Curve).

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Taylor's success

The article on John Taylor was both interesting and instructive. The author presented Taylor's work as going beyond that of Friedman. But by proposing a systematic and constant reaction from the U.S. Federal Reserve, Taylor is, in fact, merely following the same structural logic as Friedman.

Taylor's advice to economics students seems to me so intuitive that, if such advice were proffered in the exceedingly overcrowded African lecture halls, it would go a long way toward not just enlightening students but also lightening up the formal atmosphere there.

Taylor's success as a macroeconomist would have been complete had he, in his attempts to guide IMF reform, looked explicitly at monetary policy implementation in Africa.

Brice Agonvonon
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Leveraged investing at root of crisis

The article "Subprime: Tentacles of a Crisis" (December 2007) clearly describes the truth about the current financial crisis, where people talk a lot about the mortgage problem and very little about credit default swaps, collateralized debt obligations, and other leveraged structures. Surely the reason for the scant attention to the latter structures is that they are difficult for nonspecialists to understand. (After all, even banks and other holders of these instruments have trouble with their valuation.) You are on target in reminding us that it was leverage and not necessarily the rising default rate in the subprime segment that fueled the current crisis. If we add to this excess liquidity and investors with a high risk appetite, there is bound to be a "fire."

Unfortunately, regulatory solutions to the problem, albeit useful, will be late in coming. By then, a new generation of financial instruments will be putting regulators to the test.

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