



Book Review of: *Foundations of real-world economics: What every economics student needs to know* (3rd ed.), by Komlos, John, New York and London: Routledge, 2023.

John Komlos' academic career is impressive. He received PhDs in both history and economics from the University of Chicago, and he has published in major journals in economics, history, statistics, statistical methodology, and mathematical population studies. He is also considered to be the founder of the field of Economics and Human Biology with the journal of the same name. Komlos is currently Professor Emeritus of Economics and of Economic History at the University of Munich, Germany. This is the 3rd augmented edition of John Komlos' book. Both of the previous editions (the first edition was published in 2015 and the 2nd in 2019), have received positive receptions (e.g. Coclans, 2015; Foster, 2019; Tomer, 2020). The current edition consists of 18 chapters with 3 new chapters compared to the previous edition.

The first two chapters describe Komlos' conceptual and methodological stance regarding the field of economics. They also outline what the author calls the paradigm of Humanistic Economics. Chapters 3 to 9 focus on microeconomics and more specifically on demand, Homo Economicus, consumption, oligopolies and imperfect competition, factors of production, regulation and management of markets, and microeconomic applications. Next, there are three chapters on macroeconomics (chapters 10 to 12), where he explains the fundamental macroeconomic concepts and policy tools in a Keynesian framework. Chapter 13 examines key economic issues (such as unemployment and trade deficits), associated with Globalization. Chapter 14 offers a Minskian view of the global financial crisis of 2008. The final three chapters discuss contemporary issues with special attention to the US experience. Chapter 15 has the indicative title *Economists Mistakes Lead to Right-wing Populism plus an Insurrection*, and Chapter 16 is titled *Hidden Racist Elements in Blackboard Economics*. Subsequently, Chapter 17 concentrates on the economic lessons from the COVID-19 pandemic. Chapters 15, 16, and 17 are also of special value to general audiences who are interested in contemporary politico-economic developments. The final Chapter 18 presents the author's viewpoint and proposals with the self-explanatory heading *Toward a Capitalism with a Human Face*.

The first basic observation regarding the book is that it is not a typical introductory economics textbook. The underlying spirit of the work is both a strong critique of mainstream economics and specific suggestions for a disciplinary change to "Real-world economics or Humanistic economics". As Komlos mentions in the introduction: "The Thesis of this volume is that the only way out of the West's current dilemma is a paradigm shift towards a Capitalism with a Human Face." (p. xxii). His strong criticism of mainstream economics and particularly, the almost blind faith in the efficiency of the free markets, are made explicit in the introductory two chapters. As he writes and as a sample of his tone:

"According to conventional wisdom, free markets are practically flawless, acquiring an almost divine aura. However, we ought to resist the temptation to ascribe supernatural powers to them for markets are created by human beings and not by a deity. They are not natural and

do not emerge spontaneously out of disorder. Rather they are man-made institutions and are only as good as the rules (moral and legal) that govern the behavior of market participants and the oversight of a higher authority that enforces the rules without which markets generally implode -as in 2008- by an authority that enforces these rules. They are not infallible and should not be idolized.” (Komlos 2023: 19).

Komlos continues his attack on the dominant model of perfect competition, and most of the theoretical predictions that are based on it, arguing that they are of limited relevance to the real world. He also maintains that the core notion of consumer sovereignty is a very limiting assumption, suggesting that the findings of modern behavioural economics challenge the way that constrained optimization is used to capture rational behaviour in standard theory. In the same vein, many standard macroeconomic concepts and tools are subjected to the same criticism. For instance, he maintains that the GDP is a misleading measure of welfare, and has serious reservations regarding the neoclassical construct of the natural rate of unemployment. Further, he brings research findings from the subfield of the economics of subjective well-being presenting empirical evidence that economic growth has not increased life satisfaction in the US.

The other characteristic of the book is the abundance of research ideas and findings that are more advanced than the type of material usually included in an introductory text. There are many examples but some indicative ones are: The primary role of interdependent utility functions over the standard use of independent utility functions. The cartel aspects of the American Medical Association. The trend of the growth in real wages in the U.S. to fallen significantly below the growth in productivity for many decades in contrast to what has occurred in other comparable countries. The countervailing power of unions. The positive effects of price controls. The need of regulation and control of markets. The decline of life expectancy and its relation to the quality of life in the US. The relation between exorbitant incomes and the rise of income inequality. It must be noted that although the above topics are extremely relevant to modern advanced economies, unfortunately, they are hardly addressed even in standard higher level textbooks.

Much of the criticism that Komlos applies to mainstream economic theory is based on well-known contributions from heterodox schools of economic thought such as Behavioural economics and Post Keynesian economics (for reviews, see Earl, 2022; Lavoie, 2022). However, the criticism does not only arise from heterodoxy. As Komlos mentions, there are now an impressive number of distinguished economists, some with Nobel Prizes, saying that economics should be done differently (see for instance the very critical assessment of mainstream macroeconomics by Joseph Stiglitz, 2018). The critical stance is not confined to mainstream theory but it includes the dominant aspects of mainstream economic methodology. One such example is the relationship of economics to other social sciences and especially to psychology. Komlos elaborates on this important issue and contrary to most orthodox economists, he supports interdisciplinary exchange: “Neglecting sister social sciences is a recipe for failure.” (p.35). I cannot think of many influential behavioral economists who would not endorse his arguments on this issue (see also Drakopoulos and Katselidis, 2024). Further, the distinction between normative and positive economics is seen as a false dichotomy. Consequently, he convincingly argues about the unavoidable presence of ideology in economic discourse and its implications for the policy advice that politicians receive from economists.

In my opinion, Komlos' latest book is an excellent guide to how introductory economics can be modified and improved. Although it might not be appropriate as a stand-alone text in an introductory economics course, it certainly can be very beneficial to more advanced

undergraduate and even graduate classes. However, the book deserves to be read not only by students but also by academic economists. It is very well-written and each chapter is backed up by several references and footnotes. It also provides a wealth of ideas and excellent summaries of the main criticisms and shortcomings of the standard economic theory. More importantly, the book does not confine itself to criticism, but it also offers a credible alternative which Komlos calls *Humanistic economics*. Further and given its rigorous but largely non-technical nature, it is accessible to members of the general public who are willing to learn more about the serious imperfections of the prevailing economic theory and its alarming political repercussions.

Stavros Drakopoulos

*Department of History and Philosophy of Science,
National and Kapodistrian University of Athens, Greece.
Email: sdrakop@phs.uoa.gr*

References

- Coclanis, P. 2015. "Comeuppance Time?" *Challenge: The Magazine of Economic Affairs* 58(2):168–174.
- Drakopoulos, S. and Katselidis, I. 2024. *Economics and Psychology: An Uneasy History*, London: Routledge.
- Earl, P. 2022. *Principles of Behavioral Economics: Bringing Together Old, New and Evolutionary Approaches*. Cambridge: Cambridge University Press.
- Foster, J. 2019. "Book review of 'Foundations of Real-World Economics: What Every Economics Student Needs to Know'", *Economic Record*, 95(311): 514-516,
- Lavoie, M. 2022. *Post Keynesian Economics: New Foundations*. Cheltenham: Edward Elgar.
- Stiglitz, J. 2018. "Where Modern Macroeconomics went Wrong", *Oxford Review of Economic Policy*, 34 (1–2): 70–106.
- Tomer, J. 2020. "Book review of 'Foundations of Real-World Economics: What Every Economics Student Needs to Know'", *Society and Economy*, vol.42(1): 98-104.